

EUROPEAN UNION (EU) FUNDS ABSORPTION – ROMANIA

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Abstract: *This paper is about European Union funds in Romania and tries to give relevant information on this aspect. The paper is addressed to all persons interested in this domain, especially for those that work in this sector (non-governmental sector, public institutions, etc) and that need to have a better perspective on the situation. The methodology was based on self-documentation which involved a wide range of materials: reports, case studies, paper works, articles, specific sites, European Union guides. This paper underlines the importance of European Union funds and how they differ from one country to another, the situation of absorption in Romania with dates regarding the level of absorption. My research includes both quantitative and qualitative dates; the ideas are embraced by my own opinions on the topic and expresses also my beliefs on the matter. The added value of the paper is provided by the elements brought together: the situation of European Union absorption in Eastern European countries and in Romania, the rage of absorption for each Operational Program and relevant conclusions. The paper starts with an introduction that offers general information about the topic, a short background on the next headlines. As follows, each headline surprises with punctual elements of European Union funds and absorption: determinant causes, solutions found, institutions involved, conclusions. The results of the paper shows that in the next period there are big chances for absorption to growth due to the identified problems. Lack of experience and non-qualified persons, low quality management lead to unsatisfactory results. Institutions in Romania are concerned about this situation and fight to bring out the best solutions. This paper should be read and acknowledged as a study for the European Union funds' absorption and it aims to create an interest for more persons in contributing to the strategic growth of the country by implementing co-financed projects.*

Keywords: *European Union; funds absorption; structural funds; sustainable development*

JEL classification: *Z13, F15, F36*

1. Introduction

January 1, 2007 is an important date for Romania: it become a member state of the European Union and the beneficiary of substantial non-reimbursable financial transfers, offered by the European community to support its development.

These amounts are specially channeled through the cohesion policy. The European Commission, through the Comprehensive Monitoring Report on Romania, issued on 25 October 2005, explains the state of the administrative capacity of our country in

the field of regional policy and of Structural Instruments coordination, formulating the following main idea: "There are serious concerns in relation to the administrative capacity of the institutional structures, and in the area of financial management and control. Immediate action is required to strengthen administrative capacity across all concerned bodies at national, regional and local level". During the four years since the integration, Romania has proved to be able to create institutional structures, some of them with good results in terms of absorption.

Romania's integration into the European Union (EU) was regarded as offering a historic chance for economic and social development and for improvement of the living standards and quality of life. 'Without a satisfactory degree of absorption, Romania could become a net contributor to the European budget. Thus, there is a risk while waiting for a successful integration that would bring additional financial resources and thereby lead to a development process to reduce the gap compared to Western Europe, a cruel reality would unfold, in which payments from Romania to Brussels exceed the financial support of the Union to Romania.'(Da Browski, 2008). The discussion about the EU funds absorption requires establishing a distinction between contracting and absorption. Contracting represents the moment of signing the financing contract and the financial allocation by authorities.

Besides contracting, absorption concerns the whole process of the project, meaning not only winning the initial funding, but carrying until its end. A high contracting rate is dependent on the contracting parties, the one which manages the funding and the other, the organization requesting the funds through a project.

EU structural funds require national co-financing to strengthen project ownership and sound management. The EU co-financing rates in the Structural and Cohesion Funds are modulated on the basis of the relative level of development of the Member State supported, on the basis of the cohesion policy objective and the fund under which the support is provided. For Member States whose GDP (gross domestic product) was below 85 per cent of the EU average over the period 2001-2003, the grant financing is at a maximum of 85 per cent of the eligible investment costs of a project. For more developed Member States, the EU co-financing rates mostly vary in the range of 50 to 85 per cent.

The results of the current on-going negotiations over the EU's 2014-2020 budget are bound to be shaped to a great extent by the existing fiscal constraints of the EU member states. The negotiating position of Romanian authorities favors an increase in the size of the EU budget. But, it may look contradictory in the light of the country's poor track record of EU funds absorption. At the end of March 2012, after more than five years into the current fiscal exercise, Romania's certified absorption rate, including pre-financing, stood at 17.8% compared to an EU-average of above 33%. Excluding pre-financing the absorption rate was much lower, at 6.6%. Systematic irregularities in the public acquisitions processes have led to a suspension of payments from the Regional Operational Program.

Obviously, higher effective absorption rate alone, even if achieved eventually, it is not sufficient to ensure higher economic growth. The key questions are if EU funds are used for the appropriate projects and if they are successful in meeting the objectives for which they have been conceived. It is well acknowledged the fact that Romania's strategic objectives, laid out in the National Development Plan 2007-2013, failed to match the objectives set in the Operational Programs. This resulted

in a funds allocation mismatch which led to negotiations between Romania and the EC for a EU funds reallocation among operational programs.

2. Romania EU Funds as part of Eastern European Countries (CEE)

In the period 2007-2013, the Romanian National Development Plan is implemented through five sectorial, one regional and one for technical assistance Operational Program (OP).

In the framework of the National Development Plan Romania is scheduled to access EUR 19.2 billion from the European funds. In addition to national public contribution, the entire amount available to beneficiaries totals EUR 23.3 billion. The available budget per capita figure is EUR 1,083, which is significantly below the average figure for CEE.

By the end of 2010, EUR 10.3 billion in grants had been contracted within the Romanian Operational Programs. In a breakdown according to OP, except for the Transport OP and Increase of Economic Competitiveness OP all the programs with higher available budgets had contracted more than 40% of their budget.

After four years of implementation the best performer was the Human Resources development OP with almost EUR 3 billion in contracted grants accounting for 72% of the available budget per OP. However, only nearly one-fifth of this amount (i.e. EUR 476 million) has been paid out to the beneficiaries.

The performance of classical Cohesion Fund co-financed OPs, namely the Transport and Environment OP exhibit a big difference by comparison: the Environment OP is performing better, with EUR 2.3 billion in contracted grants and contracted ratio of 43%, while the Transport OP is lagging behind, reaching only a 15% contracted ratio. Additionally the payments related to the Transport OP are significantly lower: out of EUR 836 million only EUR 47 million has been paid out to the beneficiaries. By the end of 2010, the contracted ratio was the highest for human resource development related operations and urban and rural development (infrastructure development in urban and rural areas). Both intervention types reached a contracted ratio of over 79%, which is also outstanding at the CEE level. Among the other intervention types, one well performing area is R&D and innovation.

Regarding the disbursement the payment ratios are very low, ranging between 1% and 18%. However, for weaker performing energy operations almost one quarter of the contracted grants have been paid to the beneficiaries.

3. Romania and the European Social Fund (ESF)

Romania is deploying ESF funds to give its people the jobs and skills they need to benefit from the modernization of its economy and convergence to EU living standards. Projects are addressing a wide range of activities, from education and training to helping the young, older workers and women gain access to work and careers. And Romania is building a fairer society with focused efforts to help poor, rural populations and its Roma citizens to have the same opportunities for education and jobs as everyone else.

3.1 Investing in People and Jobs: The Opportunities for Romania

The Romanian economy is forecast to see accelerating economic growth as it exits the crisis, and the government is using this opportunity to boost the 'catch-up' process with the more developed EU economies. In this effort, issues of employment

and social inclusion are playing a major role as, to ensure sustainable growth; Romania must help more of its citizens gain access to the labor market, and must equip them with the skills they need to share in the benefits of a growing and modernizing economy. Furthermore, jobs and education are at the core of efforts to build a more inclusive society. Romania aims to reduce the number of people at risk of poverty and social inclusion by 580 000 by 2020. So it is creating more opportunities for the young, women and older people – who find it more difficult to find work – and also for disadvantaged groups, in particular the Roma and rural populations who need substantial support if they are not to miss out on the benefits of growth and convergence towards EU living standards. These efforts involve using active employment and promoting jobs in the developing tourism sectors in rural areas. In addition, Romania is taking steps to improve the performance of its public administration – which is vital for the effective implementation of its investment programs for jobs and growth.

3.2 ESF spending in Romania

For 2007-2013, Romania is receiving EUR 3.68 billion in ESF funding. With national co-funding, this brings the total ESF spending on jobs and social inclusion to over EUR 4.3 billion. Spending priorities are focused on a wide range of activities to boost employment, offer fairer access to employment, education and training, social inclusion and the quality of public services.

- **Romania's ESF Priorities - Boosting employment**

Romania is using ESF funds to provide a broad range of active employment projects using vocational training and other measures to help more people get work and develop careers. These projects are reaching around 900 000 people a year – many of them young people, women, the long-term unemployed and older workers – and of these, each year, over one-third are finding work.

For example, new childcare facilities for 1 000 children in Bucharest allow young parents and women to find work while providing skilled jobs for careers. Likewise, the Olt County employment agency provided training for 1 500 job-seekers in fields such as health-spa, sport and agro-tourism.

- **Better jobs**

Other projects are building skills, such as a qualification and training program for 1 900 railway employees giving them the skills to improve service quality and reliability, to help interoperability with the EU rail system, and to encourage a culture of lifelong learning. And there is help for workers in declining industrial sectors, such as that offered by several companies in southern Romania to retrain 100 recently unemployed energy-sector workers by giving new skills to work in the growing renewable energy sector. Nationwide, Romania has launched an awareness-raising campaign on television and radio accompanied by a travelling road-show to encourage people to take up vocational training opportunities to improve their employability – over 5 million people have been reached so far.

- **Promoting inclusion**

Many projects are addressing the challenges facing precarious rural populations who have few opportunities, including many Roma groups who also face discrimination. For example, a project

which established three regional entrepreneurship centers offered training and guidance to rural inhabitants in order to encourage new businesses. Projects helping

the Roma concentrate on the multiple challenges facing this group. The National Roma Agency is running ESF projects to help over 20 000 Roma fight social exclusion and find work.

For example, they are providing scholarships for Roma medical students and support for 500 Roma schoolchildren considering a medical career. Other projects are encouraging Roma children to complete school education – for example, by including Roma-specific courses on language and history.

- **Better public services**

ESF projects are helping public servants improve their skills and competences to achieve a switch from passive functions – such as registration and payments – towards active involvement in employment measures and initiatives to better serve the wider public. Examples include a project that implemented a certified quality management system in eight municipalities in Brasov and Covasna counties. Over 380 staff received training with the aim of improving the services on offer to the public. Likewise, in Caras-Severin county a one-stop shop for a range of public services covering 75 villages was set up to provide a flexible and efficient contact point for local citizens.

4. The ESF In Romania

4.1 Quality and equality in education

In their fight against discrimination and social exclusion, education is a powerful weapon for the Roma – empowering people to take part in normal working life by giving them the skills and qualifications to do so and ensuring the Roma community has the successful role models it needs for the future. The 'Quality in education – a step to equality' project applied an intercultural curriculum in 40 kindergartens covering 800 children. For the youngest Roma children from more traditional communities who only speak Romani, the project offered help to ease the transition into kindergarten and avoid them dropping out later. Pre-school attendance of Roma children is very low and dropout rates from primary and secondary schools are very high. With ESF help, the Amare Rromentza NGO (non-governmental organization) helped change this situation and encourage young Roma to gain a complete education

4.2 Creating chances for women, changing attitudes to women

Romanian women living in rural, agricultural communities often face limited job opportunities, a situation made worse by traditional attitudes to gender role models and poverty rates three times higher than in urban areas. To improve this situation, the 'Better Future for Women' project promoted a more active role for disadvantaged women in their local economies by helping them set up and manage their own businesses and associations – an approach guided by similar projects in Spain. Around 700 potential female entrepreneurs received counseling and training in business, finance, entrepreneurship, project management and community-work skills. The project encouraged them to establish community organizations which can act as catalysts to change attitudes to women and work and help raise living standards and female employment in these rural areas.

4.3 Lack of absorption of the EU funds

While considerable funds are available for the Member States – and particularly for those of Central and Eastern Europe – absorption has been disappointingly slow in most countries. The lack of absorption has been a particular problem in Romania and Bulgaria, where only 13 per cent and 15 per cent, respectively, of the funding available under the ERDF, ESF and CF in the Financial Perspectives 2007-2013 has been mobilized. Once payments of cash advances are subtracted, the absorption rate drops to 3 per cent and 5 per cent, respectively. These figures reflect better progress in project implementation as cash advances disbursed in 2007-2009 were unconditional and unrelated to the progress with the implementation of individual projects.

For 2007-2013, a common reason for the delayed absorption in the EU27 is the late agreement on the multi-annual financial framework, which has caused consequent delays in the negotiations of the National Strategic Reference Frameworks and of the Operational Programs. Most programs were adopted in 2007, some only at the end of 2007. Moreover, given the nature of the policy, slow absorption in the first year of the programming period after the adoption of the programs is expected. However, in 2007- 2013, the late start of programs was coupled with the subsequent economic and financial crisis.

'The absorption rates continued to be low despite the changes introduced in the approval process in 2008 to speed up disbursement in the wake of the financial crisis. These changes in essence introduced greater flexibility in allocating funding under different programs, and reduced the administrative burden. Moreover, some flexibility in co-financing rates was introduced, allowing full grant financing under some programs' (World Bank (2010): EU-10 regional study, July)

Part of the explanation for the low absorption rate Bulgaria and Romania is their relatively recent accession to the EU in 2007, prior to which there was little time to become familiar with the relevant procedures. The new Member States as a whole, however, perform only marginally worse than the rest of the EU, as the absorption rate excluding advances is roughly 9 per cent versus 11 per cent for the old Member States.

Romania is on all scores a poor performer and has difficulties at all levels of program implementation, starting with the evaluation and selection of the projects. Usually, the lack of administrative capacity has been the main reason for the poor EU funds absorption, and, Romania is not an exception. In order to improve the administrative capacity there is a specially designed Operational Program with an EU allocation of EUR 0.2 billion, where the absorption is somewhat better.

Banks seem to have a comparative advantage especially for projects involving SMEs. For illustrative purposes a closer look at Romania reveals that the Operational Program for Economic Competitiveness has an annual allocation of EUR 430 million of which 85 per cent is co-financed by EU funds. If these resources are made available to the economy, there could be lending opportunities for the banks. Assuming that the non-eligible part is equal to the part eligible for EU funding and a 25 per cent co-financing ratio, EUR 107.5 million in loans could be granted leading to an additional credit expansion of 0.25 per cent per year.

5. Obstacles to the EU Funds Absorption Process

Although the absorption of EU funds has improved gradually over the last year, the certified absorption rate by the EC continues to remain weak. In September 2011 the Romanian Parliament approved the creation of the Ministry of European Affairs (MEA), with the aim of accelerating the absorption of EU funds. This decision highlighted the dire state of affairs in the EU funds absorption process and the urgent necessity to address the existing flaws, which hampered the increase in Romania's effective absorption rate. However, the existing structural deficiencies in the institutional architecture of EU management funds rendered MEA's role to one in which it exerted an influence focused more on control and coordination. A measure which could have had a positive impact on the absorption rate was the centralization of activities from the existing seven management authorities. The main obstacle in achieving this objective however, was the requirement to obtain new accreditation from the EU for the newly set-up authorities. Such an option was not feasible due to the length of time required to obtain new EU accreditation. Nevertheless this option should be seriously considered as a structural measure to improve EU funds absorption during the EU's next financial exercise 2014-2020.

- Poor strategic planning and uncorrelated objectives;
- Insufficient administrative capacity;
- Limited expertise capacity at central and local administration;
- Limited accountability of public procurement agencies in the tendering process;
- The lack of project experience of both management authorities and beneficiaries;
- Financing constraints;
- Long periods of time for project evaluation, selection and contracting processes
- Project evaluation and prioritization;
- A relatively poor level of qualification from the part of the consultants involved in preparing projects;
- Funds misallocation and procedural irregularities.

Addressing the issues that constrain the pace of EU funds adoption is paramount not only for the current EU fiscal exercise, where the risk of funds being lost increases, but also for the 2014-2020 programming exercise, in which the management of the EU funds would need to be much better managed.

6. The Impact of EU Funds on Romania's Economic Growth and Employment

The assessment of the impact of EU funds on economic growth would depend to a great extent on the actual flows to the economy as a whole, the efficiency to which these funds are employed and the methodology employed to analyse their impact on the economy. Although the overall impact of EU funds in the economy should be positive, since, these represent a net inflow of capital into the economy, there are a number of factors to be considered. For certain funds such as those aimed at building both human as well as physical capital, like enhancing infrastructure; there is a spillover effect in the economy which would be felt over time. This is an important consideration for policy analysis as, at the aggregate level of the economy, the net and redistribution effects would matter. The implications of increased spending sometimes overlook the effect of the economy once this spending ceases. Thus,

while the EU funds could provide a small stimulus to the economy in the short term, their medium and long term effects on the economy, from the point of view of the efficient allocation of resources, could be doubtful.

The current EU budget negotiations for the 2014-2020 period are of great importance as they set political priorities for future years. As it often happened during past negotiations, each EU member country will very likely attempt to pursue its own interests as much as it can. In these times of fiscal austerity net contributor countries tend to support a freeze in the EU budget rather than an increase. The former stance is more consistent to the general direction followed by fiscal policies in the EU member countries that pursued fiscal stabilization program. It may appear inconsequential that countries which adopted austerity policies in order to reduce their budget deficits would support an increase in the EU budget. One line of argument in favor of this approach could stress the importance of EU Funds in supporting economic growth. However, this may work for countries which have exceptionally high absorption rates and face serious financing constraints.

Table 1: The absorption rate to 31 of December 2012:

Operational program	Submitted projects	Approved projects	Contractes/ finance decisions	Payments made (total bil. Lei)
OP Transport	154	93	87	1884.76
OP Environment	634	363	346	4041.26
OP Regional	8221	3690	3319	6490.57
OP Human Resources Development	10375	3016	2449	5485.53
OP Competitive Growth	15184	3664	2449	2692.84
OP Administrative Capacity	1371	420	416	232.45
OP Technical Assistance	130	114	106	144.95
Total	36069	11360	9172	20972.36

Source: Structural Funds Newsletter, no 4, January 2013

The Prime Minister Victor Ponta said in an interview that, in his opinion 'For 2014-2020, Romania asked for more, a higher amount than the European Commission's proposal. The budget proposal of the European Commission, having the support of the European Parliament, is fair and addresses Romania's needs and expectations to a great extent. An irresponsible argument as to why we should not be allotted EU funds is that we did not spend the current allocation. The argument was provided by a former female minister who had good results with respect to EU funds absorption.' (Agerpress, November 2012). This states that our rate of funds absorption is low. Still, with the second framework we hope things will improve and we will learn how to absorb more structural funds.

7. Conclusions

The EU structural funds constitute significant resources available to EU Member States. These funds are particularly important for the new Member States, for which the funds yet to be disbursed could amount to up to 2 per cent of Gross Domestic Power per year for the remainder of the current financial perspective. While absorption rates have been also low in the old Member States, the lack of capacity to better absorb EU funds has been particularly acute in the new Member States. The latter have been lately confronted with subdued economic growth, constraints in bank funding to the private sector as well as budgetary constraints on public investment.

Some of the main conclusions are as follows:

- measures are needed in order to strengthen the administrative capacity across all main ministries and the other relevant bodies;
- the number of employees and the pace of employment should be increased, in order to recover the backwardness;
- the cooperation between the central and local administration should be substantially strengthened;
- the co-financing mechanisms, especially at local level, should be established and clarified;
- for the programming activity, the partnership principle should be effectively implemented;
- the financial management and the control are still characterized by structural weaknesses and should be considerably strengthen in order to avoid the future irregularities

Structural Funds are the key that lead to sustainable development. Each finance line was thought according to our country's needs. Indicators show that the lack of experience, first coming from the institutions involved and second of the beneficiary are causing difficulties in the rate absorption. Romania is still learning, catching experience, but has good potential in making progress. Next framework will be significant for our sustainable development.

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