

Romania's absorption of European funds. Diagnosis and solutions

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Abstract: - Since 2007, Romania is a member of the European Union, thus making part of a redistributive model, using the cohesion policy in order to decrease the gaps among the EU areas and to contribute to obtaining a high economic growth, to creating new jobs and to providing democratic stability. This paper brings arguments for the fact that Romania does not use the opportunity of highly using the European funds granted from EU so that it could step on the way of a sustainable economic growth and it could increase the real convergence with the EU member countries. This paper identifies the main causes for the low absorption of the structural and cohesion funds from EU and makes a diagnosis of this process of attracting funds for the real economy. Finally, we propose solutions for making the mechanisms through which Romania could reach a high capacity to absorb these funds efficient.

Key words: structural and cohesion funds, regional policy, real convergence

JEL Classification: F15, F36

1. Introduction

Theoretically, Romania's integration in the European Union supposes the membership to a redistributive, ambivalent, economic and social model. In other words, it is a membership to a social finality model, in which the market failures are solved by using the public policies. A model with a regulation strategy, which spreads prosperity from centre to periphery through the granted structural and cohesion funds. And this is to help the real convergence process of the poorer countries from the European Union which have a hard nucleus, comprising the highly developed countries. One of the main ways to finance the investment projects in these fields, under the terms of the public budget restrictions, is constituted by the structural and cohesion funds, which are granted by the European Union.

Practically, Romania failed the objective of increasing the real convergence by using the structural and cohesion funds from the European Union. Even though, according to the EU's financial perspective, during the period between 2007 and 2013, Romania was granted 19 billions EURO and other 12 billions EURO from other European programs as structural funds (8 billions EURO for agriculture, rural development and fishing), and the real absorption rate (excluding pre-financing) is the lowest in the countries benefiting from such funds. Currently, Romania has a 3.5% real absorption rate only of the total granted amount, thus being deprived of the cheapest financing source, especially during the financial crisis the nowadays world experiences.

2. Causes of Romania's low absorption of the European funds

Romania has a few types of vulnerabilities regarding the European fund absorption

process: a) Vulnerabilities in the Structural Assistance Programming process; b) Vulnerabilities in the Institutional Training process and c) Vulnerabilities in the Funds Implementation process (according to Table 1).

Table 1 Vulnerabilities in the European Funds absorption process. Romania's case

<p>a) Vulnerabilities in the <i>Structural Assistance Programming</i> process</p> <ul style="list-style-type: none"> - There were no clear political decisions regarding the choice of strategic development directions, the establishing of clear quantitative targets and long-term objectives. - The short-term approach and the simplistic view were preferred in opposition to the complex approach, with objectives overlapping. For example, granting direct assistance to the enterprises was preferred to creating a services support for business 	<p>b) Vulnerabilities in the <i>Institutional Training</i> process</p> <ul style="list-style-type: none"> - The ministries' reserve in working with each other - The lack of qualified personnel and the low stimulation of the existing one - Confusion regarding ascribing responsibilities - Low governmental coordination capacity - Very low complementarity with other national policies - Inefficient public-private partnerships
<p>c) Vulnerabilities in the <i>Funds Implementation</i> process</p> <ul style="list-style-type: none"> - Co-financing problems because of the low fiscal space - The VAT increase emphasized the projects co-financing difficulties of the private agents - The funds financial management was not efficient: great differences between the committed funds, the payments made to the beneficiaries and of the funds which were available for the implementing authorities - Several bureaucratic certifying and payment procedures - The administration was adverse to risks, preferring the over-protection towards flexibility - The high temporal gap between the moment of submitting the financing application and the moment of receiving the answer; - The long duration of the contracting procedures; very long delays in reimbursing the money installments spent by those who develop the projects - Low communication between the management authorities and the intermediate authorities, on the one hand, and the applicants of financing from the structural instruments 	

All these vulnerabilities lead to a low structural and cohesion funds absorption of Romania.

Figure 1 Situation of the structural and cohesion funds absorption of Romania (31 Dec 2010)

	Grants total 2007-2013 (mil euro)	Payments in December 2010			Absorption rate	Absorption excluding pre-financing
		Total, out of which:	Pre-financing:	EU reimbursements		
Regional development	3726	554.9	381.4	173.5	14.9%	4.7%
Environment	4512	318.5	266.2	52.3	7.1%	1.2%
Transport	4565	47.2	0.0	47.2	1.0%	1.0%

Competition	2554	251.2	106.3	144.8	9.8%	5.7%
Human Resources	3476	464.2	416.6	47.6	13.4%	1.4%
Administrative capacity development	208	10.2	4.1	6.1	4.9%	2.9%
Technical assistance	170	9	1.2	7.8	5.3%	4.6%
Total	19211	1655.3	1175.8	479.5	8.6%	2.5%

Source: Authority for the Coordination of the Structural Instruments, www.acis.ro, 2011

On March 31st 2011, the absorption rate increased by 1.5 – 2 percents for each program. Totally, the absorption rate increased from 8.6% at the end of 2010 to 11.06% at the end of the first quarter of 2011. If we exclude the pre-financing, the indicator related to the real absorption is approximately 5% of the total grants from EU for Romania, which are related to the period between 2007 and 2013.

Romania has a totally unsatisfying absorption rate. We have an absorption rate which is 2 percents lower than Bulgaria, 4 percents lower than the Czech Republic, two times lower than Poland and three times lower than Estonia and Latvia.

3. Solutions for increasing the European funds absorption by Romania

If Romania continues with the current institutional model for the European funds' absorption, it will face two major risks. The first one refers to losing some important amounts from the funds granted by the European Union for the period of financial programming, i.e. 2007-2013. The second risk concerns the potential decrease of the structural and cohesion funds granted to Romania during the following period of financial programming, i.e. 2014-2020, due to the low absorption capacity. The proposed solutions are divided in two levels: one of the good practices concerning the increase of the European funds' absorption in EU member countries, and the second level refers to the complete reform of the absorption process, by means of the partial supra-national transfer of decision – that of EU.

a) Good practices used to increase the European funds' absorption rate

- A political Strategic Pact, which provides the increase of the European funds' absorption capacity as a main objective.
- Outsourcing the management of the Management Authorities, which are responsible with the European funds' absorption
 - A system of online submitting and assessing of projects
 - A single management authority to manage the European money
 - A partnership between the public administrations and consultancy companies, so that the first ones could access to the European funds.
 - Creating public-private partnerships in order to increase the European funds' absorption rate.
 - Using the expertise of the commercial banks in order to access to the European funds.
 - Reimbursing VAT for the projects financed from European funds subsequent to each reimbursement application, not at the termination of the project;
 - Unfavorable differences of the rate of exchange, in the case of the projects which have been financed from European funds, they should be considered returnable expenses;
 - Setting up a counter-guarantee line dedicated to investment projects which aim to accessing to European funds, in order to reduce the enterprises' risk rate;
 - Introducing possibilities to guarantee with the purchased goods, in order to facilitate the bank co-financing of the projects financed from European goods;
 - Granting additional discounts to the public employees who are involved in attracting big projects;
 - Conditioning the financing from the public budget of the public institutions which are involved in attracting the structural funds, depending on their performances;

b) Radical reform of the Romania's absorption of the European funds

- Negotiating the re-graduation of the EU funds which are destined for Romania (maintaining the total amount granted to Romania, and also changing their structure predominantly towards programs which solve the structural deficiencies and bring more competition).
- Romania will propose the creation of an Economic Relaunch Fund for the cohesion countries. The fund will consist of the commitments which are outstanding on December 31st 2011, and which are related to the total amounts granted during the period 2007-2013, for certain types of projects (for example, those concerning the infra-structure and environment and also for the human resources development) (a solution which is compatible with the proposal made by B Marzinotto, 2011).
- For such projects, Romania will have the initiative that the cohesion countries to temporarily authorize the European Commission to make decisions in the management of the EU funds. There will be a proposal to create an agency which is similar to Trans-European Transport Networks Executive Agency, which should provide technical assistance for EC in this process. Simultaneously, the co-financing

of such projects from the national budgets will be eliminated (In case EC refuses the proposal referring to co-financing elimination, an alternative solution will be applied: EC and the member states will negotiate with EIB with reference to granting loans with low interest for the co-financing of the inter-regional European projects – the co-financing could be up to 50%). However, the idea to maintain the co-financing principle as a means to keep the good quality of the projects would become fragile in the case of centralizing the decision at EC level. EIB and the newly created agency will also provide the technical assistance during the entire period of projects development.

The advantages of such radical reforms could occur immediately and they would consist of: almost entirely spending of the structural and cohesion funds granted to Romania; Romania's connecting to the European transport networks, to the European research and development network; the obligation to give priority to the infrastructure projects which will be developed by Romania, by negotiating with EC; the elimination of co-financing will allow the complementary granting of some amounts from the national budget for the same strategic projects; the decrease of the risk of fraud with the European money and great multiplication effects, rhythms of economic growth which are 1-2 percents higher than the currently forecasts.

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