BEST PRACTICES IDENTIFIED IN THE MANAGEMENT OF EU FUNDS IN CROATIA AND THE POSSIBILITY OF INTEGRATION INTO ROMANIAN SYSTEM

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Abstract

Romania has received in 2007-2013 an allocation of approximately 20 billion euros for the EU cohesion policy implementation. According to the n + 2 rule, in December 2015, it is estimated that Romania will achieve an absorption rate of about 80-82%, which means that 4 billion euro risk to remain unused.

Causes that determined low absorption capacity are analysed by the author in the implementation phase of the management cycle. Based on the issues identified in funds management in Croatia, this study aims to create a matrix of instruments / measures that may be used by competent authorities (central management) in this area to solve problems/eliminate delays, so that the Multiannual Financial Framework 2014-2020 to register better results.

Keywords: Project Management Cycle, Management Authorities (MA) and Intermediate Bodies (IB)

JEL Classification: M40, M41

1. Introduction and context of the study

The purpose of this presentation is to present a model of central management of EU funds for Romania, proposed in order to solve the existing problems/eliminate delays.

Research methodology: in order to identify an improved model for central management of Structural and Cohesion funds, this paper has been divided into three areas: the first part covers issues existing in the literature on the subject under review and an empirical research to identify the main problems faced by beneficiaries of European funds, the second part presents proposals for instruments/measures that can be implemented in the central management, identified as good practice, and the third part expound the possibility to integrate interventions/proposals in the funds management system.

2. Issues existing in the literature on the subject under review and an empirical research to identify the main problems faced by beneficiaries of Structural and Cohesion Funds

There is a broad horizon of interpretations of project management concept. Webster's Online Dictionary consider that "project management is the set of activities related to the successful achievement of a group of objects. This includes planning, programming and support their activities in the project". In Oxford English Dictionary it is formulated the following description: "a plan or scheme". DIN Norms 69 901 standardizes a concise definition "project management is the complete set of tasks, techniques, tools applied during project execution". Romanian Standard SR 13465: 2007 contains a comprehensive definition: "project management is the planning, organizing, monitoring and controlling all aspects of the project and the management and leadership of all involved to achieve the project objectives within agreed criteria time, cost, scope and performance/quality."

Kerzner in 1979 gives the following definition of project management "planning, organizing, directing and controlling a company's short-term resources to achieve predetermined goals and objectives". In another opinion (Havranek, 1999), project management was defined as "the art and science of planning, organizing, integrating, directing and controlling all resources entrusted". In a later acception (Newton, 2006) project management is a "particular developed formal methodology for management."

The purpose of project management is to prevent or predict as many of the hazards and problems that arise and plan, organize and control activities so that the project can be completed as soon as possible, despite all existing risks. This process starts before being allocated resources and continue until all work is completed. A complete definition is given by Lock in 2007: project management is "a tool for planning, coordination and control of complex activities."

Absorption capacity at central level is influenced by real capacity of beneficiaries to implement funding applications which are the subject to contracts/financial decisions.
Studies made by Cace et al in 2009 have identified the following main issues:

- **Financial absorption capacity**, is defined by the planning capacity of national contributions in multi-annual budgets at central and co-financing projects submitted and approved, for public and private beneficiaries (Fig. 1 and Fig. 2);
- **Administrative absorption capacity**, which lies in the proper preparation of payments/reimbursement requests and their actual support rapid and effective measures in order to comply with legislative and reporting demands.

![Figure 1](image1.png)

**Contracting stage of EU projects for Romania in December 2014 (amounts for Structural and Cohesion Funds)**

It can be seen that the total value of the projects submitted by December 2014 exceeded about three times the 2007-2013 allocation for Romania. However, the total value of projects receiving contracts/financing decisions is less than the total of the approved projects, which directly reflects the need for investment and project financing in Romania.
Figure 2
Contracting stage of EU projects for Romania in December 2014 (Structural and Cohesion Funds)

<table>
<thead>
<tr>
<th>OP Technical Assistance</th>
<th>Number of contracts/financing decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>OP Administrative Capacity</td>
<td>Number of projects approved</td>
</tr>
<tr>
<td>SOP Human Resources</td>
<td>Number of projects submitted</td>
</tr>
<tr>
<td>SOP Competitiveness</td>
<td></td>
</tr>
<tr>
<td>OP Transport</td>
<td></td>
</tr>
<tr>
<td>SOP Environment</td>
<td></td>
</tr>
<tr>
<td>ROP</td>
<td></td>
</tr>
</tbody>
</table>

Data sources: Stage absorption of Structural and Cohesion Funds on each Operational Programme, Ministry of European Funds, December 2014

It can be seen that the total number of projects submitted by December 2014 exceeded about three or four times the number of contracts/financing decisions. Number of contracts/financing decisions relate to the number of projects approved, influenced by capcitarea monitoring and use their savings resulting from implementation of other projects, completed late by the IB/MAs.

Financial absorption capacity (Fig. 3) is related to financial management and administrative capacity is related to public procurement management and information management.

Figure 3
Evolution of absorption rate in 2014 for European Union countries

Data sources: European Commision - Regional Policy, Absorption rate in European Union countries

Estonia and Lithuania ranks the first two positions regarding utiliziation of EU funds with a rate of absorption more than 90% at the end of 2014. So far as concerns last two positions, those are occupied by Romania, with an absorption rate over 50% and Croatia, with a rate of absorption of over 40%, with the mention that the latter joined the European Union in 2013, benefiting from a reduced period from 2007 to 2013 Financial Allocation.
3. Relationship between project management and central management. Parallel between Croatian and Romanian system

**Figure 4**

Relationship between project management and central management

Data sources: made by author on the basis of project management cycle presented in literature

Given the fact that MAs are organized as structures in ministries, project management has been adapted to public management. The central government is responsible for management regarding the programming of EU funds (development programs and funding guidelines, operational textbook and instructions), and recipients must complete other stages of project management, namely the identification, formulation, implementation, evaluation and monitoring.

**Parallel between Croatian and Romanian system - management model**

**Croatian management model**: the institutional structure designed to perform system management and control of Structural and Cohesion Funds include: Coordinating Authority, Audit Authority, Certifying Authority, Management Authorities (MA) and Intermediate Bodies (IB) of Level 1 or 2.

**Romanian management model**: the institutional structure designed to perform system management and control of Structural and Cohesion Funds include the same institutions: Coordinating Authority, Audit Authority, Certifying Authority, Management Authorities (MA) and Intermediate Bodies (IB). The difference is that intermediary bodies occupy one level, situated between beneficiaries and managing authorities.

Croatia used Structural and Cohesion Funds (Fig. 5) through four programs (Operational Programme for Transport, Operational Programme Regional Competitiveness, Operational Programme for Environment and Operational Programme for Human Resources Development) and in the current framework proposed two programs: Operational Programme Regional Competitiveness and Cohesion, Operational Programme Efficient Human Resources.

Romania used Structural and Cohesion Funds (Fig. 5) through seven programs (Regional OP, SOP Environment, OP Transport, SOP Increase of Economic Competitiveness, SOP Human Resources Development, OP Administrative Capacity Development and OP Technical Assistance) and in the current framework proposed six programs: Regional OP, OP for Big Infrastructure, SOP for Competititity, SOP for Human Capital, OP for Technical Assistance and PO for helping disadvantaged people.
4. Best practice in Croatian financial management model. Transfer of funds, Public procurement and Informational management

A. Transfer of funds

**Croatian transfer of funds**: effective financial flow (transfer from the EU assistance and national contribution) is transferred from a single account, opened at the Croatian National Bank (State Treasury account) directly to beneficiaries. Funds are transferred to beneficiaries through Financial Information System of State Treasury (STFIS), which is designed to process all transactions relating to all phases of the budget cycle.

**Romanian transfer of funds**: transfer of funds (EU assistance and national contribution) is made from the State Treasury in management authorities accountes and from there to the beneficiaries account.

B. Public procurement

**Aspects in Croatian legislation**

a) For proving financial capacity of tenders, the contracting authority may require insurance/warranty hedging/professional liability to cover any potential damage that may arise in connection with the exercise of specific activities;
b) Any changes in the documentation are made at least 15 days, or 10 days for procedures with low estimated value, before the submission of tenders;
c) The contracting authority shall provide a period of at least 5 days and 10 days tenders to respond at requests for clarification;
d) If the subcontractor is changed during the course of the public procurement contract after obtaining prior approval from the contracting authority, the purchaser must submit within 5 days from the date of the agreement, information about the new subcontractor.

**Aspects in Romanian legislation**: Primary legislation (Government Emergency Ordinance no 34 from 2006) on public procurement in Romania has been the subject of multiple and substantial changes. It was amended 14 times so far; Secondary legislation (Government Decision) also suffered six important changes. Since July 2014 complaints submitted/sent to the National Council for Solving Complaints has to be accompanied by proof of guarantee for good conduct. In January 2015 the Romanian Constitutional Court declared unconstitutional this stipulation. Best practices identified in public procurement management which could be transposed into Romanian legislation:
a) One specific regulations for Croatian public procurement system refers at reconciling the opposing (bidder who challenged a decision of the contracting authority) and the contracting authority. The parties and the State Commission for Supervision of Public Procurement Procedures shall endeavor to resolve amicably disputes occurred;
b) In the case of appeals, all submitted forms are standardized;
c) If the appeal is withdrawn or rejected appellant has to bear all costs. The appellant will pay out the administrative fee and a fee for leading the procedure;
d) Cases concerning public procurement procedures are treated urgently at Administrative Court;
e) If part of the public procurement contract is subcontracted, the contracting authority will make payments directly to the subcontractor.

C. Informational management

Flow of information in Croatia: all budget users are connected to a single information system which performs all transactions (STFIS). Intermediate Bodies at level 1 and 2 and the Management Authorities is involved only in managing the flow of information generated by the refund application and supporting documents analysis.

Flow of information in Romania: There is a SMIS used only by IB, MA, CA. Actually, beneficiaries do not have real time information on the authorization of payment/reimbursement applications. These best practices identified can be implemented as proposed matrix (Fig. 6) and measures to improve the management of Structural and Cohesion Funds can be integrated in the following model (Fig. 7).

Matrix of interventions/tools

<table>
<thead>
<tr>
<th>Identified problems</th>
<th>Interventions/proposals</th>
<th>Tools/ measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financiar management</td>
<td>Financiar absorption capacity</td>
<td>Change financiar flow</td>
</tr>
<tr>
<td>Public procurement management</td>
<td>Administrative absorption capacity</td>
<td>Modify public procurement legislation</td>
</tr>
<tr>
<td>Informational management</td>
<td>Administrative absorption capacity</td>
<td>Improve information flow</td>
</tr>
</tbody>
</table>

Data sources: made by author

Beneficiaries shall submit the application for payment to the Intermediate Body that verifies the eligibility of expenditure incurred, based on the procedures established with the common rules adopted by the Coordinating Authority and relevant instructions issued by the Management Authority. After determining the amounts eligible, IB prepares payment request by the State Treasury. A small number of programs (according to recommendations of EU authorities) can lead to a better coordination at the central management system for Structural and Cohesion Funds. Also, using the Regional Development Agencies, with adequate and proven administrative capacity by the performance achieved, as Intermediate Bodies for different programs can raise the efficiency of using EU funds.

Improving informational management by implementing a system of information with different user rights for all those involved in using Structural and Cohesion Funds may lead to simplification of existing procedures, also ensuring transparency of using EU funds. Changing financial management will lead to the reduction of time between the submission of the refund application by the request and the actual receipt of the eligible amounts eligible, creating premises for a constant rotation of money in the economy.

Modifying public procurement legislation, in particular those relating to appeals, will provide the conditions for eliminate delays in projects implementation. For projects implemented by public beneficiaries, delays in project implementation have been reported in percentage of about 80% as determined by the appeals formulated in procurement procedures.
Model of central Structural and Cohesion Funds management system

Data sources: made by author

Administrative structure

Coordinating Authority: Ministry of European Funds, which will provide central public management, organized specifically for this purpose.

Management Authorities: functioning as separate structures in Ministry of European Funds (four MA) and Ministry of Regional Development and Public Administration (two MA).

Audit Authority: Audit Authority from the Court of Accounts, having the control role and the interface between the Coordinating Authority and the European Commission.

Certifying Authority: Department of the Ministry of Finance, having the role in payments mechanism and the interface between the Coordinating Authority and State Treasury.


5. Conclusions

A small number of programs can lead to a better coordination at the central management system for Structural and Cohesion Funds. Also, using the Regional Development Agencies, with adequate and proven administrative capacity by the performance achieved, as Intermediate Bodies for different programs can raise the efficiency of using EU funds.

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