CONSIDERATIONS REGARDING THE EVOLUTION OF EUROPEAN FUNDS ABSORPTION IN ROMANIA

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Abstract
This paper analyzes the evolution of the absorption of European funds in Romania reported to the closure period of the operational programmes related to the European Union cohesion policy during the years 2007 – 2013. This programming period officially concluded only at the end of year 2015. Considering the financial aspects of the 2007-2013 programming period for European funds the analysis focuses exclusively on the Structural and Cohesion Funds and the absorption rate of these funds in Romania, namely 90.44%, recorded in March 2017. Nearly 3 years from the start of the new programming period 2014-2020 related to the European Union’s cohesion policy, there is a direct link between the quality of public administration’s activity and the application of the principle of investment programming. Despite a slow and difficult start, we can observe an accelerated trend over the last few hundred meters. Identifying priority projects at national and regional level, followed by a alteration and adaptation of strategic documents such as National Reform Programs, could be a solution for Romania to gain a more rigorous planning that leads to a higher and faster absorption of European funds in the current programming period 2014-2020.

Key words: European structural funds, cohesion funds and investment funds; the rate of absorption; financial programming period; financial year.

Classification JEL: A10, A30

1. INTRODUCTION

The question we are addressing when planning the future is where we can have more impact, and consequently build something in that place. Taking into account the national legislation related to project financing by European funds, sometimes heavy and dissipated in various legislative acts, the actions undertaken by the Romanian state in different strategic documents elaborated as a member state of the European Union with the aim of a harmonious development of Romania, and the real situation of public governance regarding its prerogatives and powers of action, we consider it appropriate to our approach to carry out an analysis of the rate of absorption of EU-funded projects over the last 3 years of the closure period for cohesion policy 2007-2013.

Within the literature in the field highly relevant are the studies conducted under the aegis of the European Institute in Romania (EIR), which customizes the funding policies and strategies concerning structural funds from European funds with with some extremely detailed analyses at the level of implementation of these programmes in Romania (Lianu, 2004).

According to the latest EIR report “in this decade, the 2007-2017, the balance of financial flows with the Union was one eminently positive”. This represents approximately 27 billion euro,
resulting in revenues worth approximately 41 billion euro, mainly in the form of cohesion funds and the funds dedicated to agriculture (2007-2013 and 2014-2020 periods) and outflows/exits worth around 14 billion euro as payments to the EU budget (EIR, 2017).

The European Union's cohesion policy also bears the name of regional policy. Through specific financial instruments known as Structural and Cohesion Funds, the policy advocates the elimination of economic and social disparities between regions, supports the convergence of the member countries and the increase of competitiveness and employment. The Cohesion Policy covers all programs funded from specific funds such as the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the Cohesion Fund (CF).

Despite the efforts made both at European and national level, the recovery of the European economy is slower than expected in 2014.

2. TRENDS IN THE ABSORPTION PROCESS OF EUROPEAN FUNDS IN ROMANIA

Each UE country must contribute in order to achieve the objectives of the Europe 2020 Strategy. Thus a National Reform Program (NRP) is issued every year, the document that transpose the EU's overall objectives into national targets and also it guides the evolution of Romania until 2020. The NRP is the framework platform to define structural reforms and to develop the priorities for a 12-month period, which is integrated into national budget plans for the next three years. Each country faces different economic circumstances and take over the EU's overall objectives into national targets through their National Reform Programs, a comprehensive document of policies and measures taken to support smart, sustainable and generally favourable to integration/inclusion, to support high level of workforce employment and to achieve the targets set by the Europe 2020 strategy.

In response to the latest economic developments, the European Commission recommends three major action priorities for the European Union's economic and social policy in 2015: to stimulate investment, to renew commitment to structural reforms and to ensure fiscal responsibility.

According to NRP 2016, Romania aims to implement mechanisms in order to prove the transparent manner of action and the efficiency of use for public expenditures, for the growth of investments field and also to improve the sustainability of public finances in medium and long term, to increase the capacity for absorption rate of European funds and to increase the predictability of the long-term budgetary policies. As a result, the National Reform Program for 2016, submitted by Romania to the European Commission in April 2016, defines reforms and development targets taking into consideration the priorities set out in specific documents such as: the Annual Growth Analysis in 2016, the national specific recommendations in 2015 and the Report of Romania for the year 2016 and also considering the measures taken in the context of the Europe 2020 Strategy.

The National Reform Program issued during 2017 aims to ensure the continuity of reforms in order to achieve the national targets assumed through the Europe 2020 Strategy and the implementation of specific recommendations for our country. New actions are added, defined on the basis of the priorities established both at the level of the European Union as well as those included in the Governance Program 2017-2020 or in other national strategic documents. The measures provided in the program are mainly focused on fiscal-budgetary policy, public administration, business and competitiveness, employment, research and innovation, the environment, energy, education, combating poverty and social inclusion.

During the 2007-2013 programming period, Romania received structural and cohesion funds in total amount of 19.06 billion Euro, to which it is added the 13.8 billion Euro of the Common Agricultural Policy. According to public informations published by the Ministry of European Funds in April 2017, the allocation of the Sectorial Operational Program Human
Resources Development 2007-2013 (POSDRU) has been reduced, thus reducing the total amount to 18.78 billion Euro.

For the completion of operational programs 2007 - 2013, Romania, through the European Funds Ministry, must send to the European Commission and to the Auditors Authority the last interim payment application and the final balance payment application together with the final statement of expenditures, documents containing the eligible expenditures made by beneficiaries until the end of 2015. The date of 31 March 2017 was the last deadline for Romania to receive eligible European funds for the 2007-2013 programming period.

Figure 1: Closing calendar of operational programs 2007 - 2013 for Romania
Source: Authors' processing after legislation in force.

The absorption rate increased in October 2016 compared to the same month of the previous year, from 58.6% to 80.16%. Regarding the actual absorption rate, it increased by 1.15 percentage points, representing 79.23% at the end of January. Although Romania risked losing about 2 billion euro from the funds for the 2007-2013 programming period, more than 1 billion euro was recovered through retrospective projects. Another 2 billion euro has been transferred for the financial year 2014-2020 through the phasing of some delayed projects.

The low level of absorption rate in previous years is also explained by the blockages in attracting European funds over the period 2011-2013. In order to minimize the risk of loss of these funds, Romania received additional time to attract European funds for the financial year 2007-2013, respectively by the end of 2015.

Figure 2: Absorption of structural funds under operational programs for the 2007-2013 programming period in Romania
Sursa: Authors' processing after the Fiscal Council's Report.

According to the official data provided by the Romanian officials on 31 March 2017, the absorption rate for Operational Programs 2007 - 2013 reaches the 90.44%. Given that the date of 31 March 2017 which represents the final deadline for submitting to the European Commission a request for payment of a final balance and a final statement of expenditures (through SFC 2007),
automatically becomes the last stage to determine the final absorption rate of the 2007-2013 Structural and Investment Funding Program.

**Figure 3: Absorption rate in Romania regarding European Structural and Investment Funds for 2007-2013**

Source: Authors' processing after the Sixth report on economic, social and territorial cohesion.

The financial allocation for 2007 - 2013 in total amount of 19.06 billion euro consists of 11.21% advances, 79.23% interim payments and a reimbursement difference of 9.56%. Total payments made by the European Commission at the end of the programming period are in amount of 16,986,617,591.36 euro out of which the advances add up to 2,105,874,014.77 euro, the rest representing interim payments.
For the financial framework 2014 – 2020, Romania has been allocated about 33 billion euro, as follows:

- FEDR – 11.2 billion euro
- FC – 8.1 billion euro
- FSE – 4.7 billion euro
- Common agricultural policy – 8,127 billion euro - pillar II, plus 12,529 billion euro pillar I (direct payments)
- European Fund for Fisheries and Maritime Affairs – 0.17 billion euro
- European Fund for the Disadvantaged people – 0.41 billion euro

The amounts already transferred by the European Commission, as Pre-financing, are about 958.60 million euro.

Regarding the 2014-2020 programming period, the absorption rate of European funds assigned for this financial year has not reached at least 1% in the current financial calendar nearly three years after the beginning of the new financial cycle, in which Romania has near 30 billion euro. According to the latest information provided by the officials of the Ministry of European Funds, in the current programming period, the average absorption rate at European level was 2.6%, while Romania had only 0.98%.

3. HIGHLIGHTS REGARDING THE ABSORPTION RATE OF STRUCTURAL AND INVESTMENT FUNDS IN THE EUROPEAN UNION

Cohesion policy contributes to achieving the objectives of the co-financing programs but at the same time, it aims general policy objectives such as strengthening the capacity of national and regional economies or promoting sustainable development, economic, social and territorial cohesion.

Regional economic growth in European Union is influenced by the investments made by the EU in the development of regions and the quality of government’s actions. Taking into consideration the significant threshold level of expenditure, the quality of government is the key factor determining the returns of public investment. In many regions that receive a great amount of structural funds, greater levels of cohesion expenditure would, in the best case scenario, only lead to a marginal improvement in economic growth, unless the quality of government is significantly enhanced (Rodriguez-Pose, Garcilazo, 2013)

Regarding the impact of cohesion policy on the objectives of the co-financing programs, the assessment of the impact of this policy is most easily observed by constantly monitoring the process / degree of absorption of EU funds in the European Union. The absorption rate generally shows tangible and actual benefits that cohesion policy has produced and continues to produce in EU Member States.

In 2016, at the end of the 2007-2013 programming period, only Greece managed to absorb 100% of the funds allocated, which is quite surprising given the difficult period faced by the state since 2009 and by 2015 when the crisis peaked. Croatia made the slightest progress in this respect, attracting only 81.07% of the earmarked funds, while the absorption rate of the EU-28 countries was 94.48%.
Figure 5: Absorption rate in the European Union registered in 2016 for 2007-2013 European Funds
Source: Authors’ processing after EUROSTAT.

Under the European Structural and Investment Funds (ESIF) 2014-2020, the Total EU National Budget for the period mentioned above is 638,161,790,114 euro. The European Union throws in 454,458,508,605 euro while all member states are obliged to put up with the total national co-finance part of 183,703,281,509 euro.

Regarding the cumulative EU payments made up to date to the Member States and Interreg programmes from European Structural and Investment Funds (ESIF) for the 2014-2020 period, an overview of the period up to 30th of June 2017 related to the implementation achieved by Romania as Member State in EU indicates a planned 37,519,135,468 euro from which Romania decided to spend financial resources allocated to selected projects in the amount of 5,216,476,881 euro (13.9%) but actually spent only 1.1% as expenditure reported by the selected projects, in the amount of 400,453,929 euro. The financial data is expressed only as total costs, including both the EU and national share.

CONCLUSION

The absorption rate of EU funds managed to reach the threshold of 90.44% by March 2017 around three years after the start of the new programming period 2014-2020. In this respect, related to the rate of absorption of the EU28 countries, we can affirm that Romania failed to perform in this chapter, just passing the 90% threshold, following only Croatia.

With regard to increasing the capacity of absorption of the European Structural and Investment Funds (ESIF) and to improving the management of project financing, there are some developments regarding the measures foreseen in 2016, measures aimed at accelerating the implementation of the operational programs financed by the ESI Funds available for 2014-2020, fulfilling ex-ante conditionalities, ensuring full transparency of the implementation of European programs and projects, and supporting project beneficiaries. However the absorption rate of new 2014-2020 European funds recorded approximately 1% three years after its debut. In Romania, the beginnings of financing programmes of the cohesion policy of the European Union pose specific stretches of similar developments in the sense that they are slow and ineffective, with dynamism by the end of the period. In Romania, the beginnings of the European Union’s cohesion policy funding
programs show similar evolving paths, in the sense that they are slow and deficient, registering dynamism towards the end of the period.

Romania is also next to last place with the absorption of ESI Funds during the 2014-2020 programming period, and we risk losing a substantial amount of funds due to poor management registered in early years. In despite of the predictable administrative incompetence that could lead to the loss of optimal absorption, the potential of European Funds remains a high stake that Romania should gain by speeding up the process of projects’ implementation.

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