

PLACE AND ROLE OF THE STRUCTURAL FUNDS IN THE LOCAL BUDGET REVENUES

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Summary:

In this study we aim to analyse the place and role manifested within local budgets of Romania by a new category of revenues available to local authorities namely those from the Structural and Cohesion Funds of the EU. At the beginning of our scientific approach we have outlined the scope of local government revenues highlighting that in the section development of local budgets are also set off funds from the European Union.

The research continues with a characterization of the structural funds in which, on the one hand, we have emphasized their importance to the development of territorial administrative units in Romania and on the other hand we showed some difficulties arising in the process of absorption of European funds. The analysis of financial resources from the EU funds within the local budgets from Romania is the last part of the article and is based on the quantitative analysis of the budget indicator, "amounts of the EU in the payments made and pre-financing" from existing data in the Statistical Yearbook of Romania, and highlights the place occupied by such income within local public revenues.

This analysis shows that local public authorities from Romania have made significant progress in terms of accessing European funds, their share in total revenues of local budgets increased during 2008-2014.

Keywords: revenues, local budget, structural funds, development, operational programs

JEL classification: F 36, H 71

Introduction

Becoming a Member State of the European Union gave Romania a number of benefits and development opportunities. The most important of these is the Structural Funds available to Member States in order to help create an economic simulative system, stable and uniform within the European Union Member States and their regions.

The Structural Funds are the most important measure of economic policy adopted by the European Commission to stimulate the economic development of the states that are part of the European Union. The main goal pursued by the European Union by granting these funds is the harmonization of economic development levels between countries, leading to the stop of economic decline of Europe and reducing disparities between advanced regions and those lagging behind. The way these funds are managed relies on Member States, who are responsible both to determine in which areas will be allocated these resources and to attract and actually spend this money.

The importance and the high part of these funds in the develeopment of a country, have peaked the interest of various authour that in their papers (Voinea, 2011), (Florescu, Gibescu, 2009), (Roman, 2010) have studied and revealed the various problems that the financial resources brought by the European Union, rise in the process of their accesion and implementation.

In the context of our paper, the oppinion that must be noted is the one that states, that the financial recources from the structctural funds of the European Union are ment to supplement the revenues of local budgets and transfers from the state budget to them in order to support local investments, „without leading to increased resources ordinary budget without adversely affect the general governeemt balance. "(Cigu, 2011) Unlike loans from local public resources they are not refundable and have no interest charges.

The main objective of the above mentioned study is to analyze the place and the role that revenues from structural funds and the cohesion of the European Union have within local authority budgets in Romania. We also intend to study the dynamics of revenue in local budgets in Romania during 2008-2014.

1. Coverage and classification of local budget revenues

The local revenues represent the total financial resources that local authorities perceive and/or receive directly, either from government or other resources, to fulfil their duties in delivering public services. To establish the 'local' feature of a source of income, the main determinant is the fact that the authority has full power to set conditions for the mobilization of that income or has the power to decide on its use.

The local revenues express the financial resources acquired in administrative territorial units which are mobilized for local executive authorities to carry out activities within their jurisdiction. The local budget revenues are financial resources for local budgets based on legal provisions, they consist of revenues, income from amounts deducted from certain state income taxes, subsidies received from the state budget and other budgets, donations and sponsorships, and other financial operations¹.

In addition to the revenues collected in local budgets, local authorities have also at their disposal other extra budgetary funds (cash contributions, income for self-financed actions or income from special funds). Local revenues are broader in scope than the revenues of local budgets as they include other revenues that are mobilized and redistributed locally. There are mutual influences between local revenues and the economy of the local administrations, meaning that local revenues depend on the level of development of the local economy, and these revenues influence the local economy by ensuring the achievement of some economic and social activities.

Local revenues have a complex structure. According to the Government Emergency Ordinance no. 63/2010², revenues are presented in the section operating income and revenue development section of local budgets.

Revenues of local budgets from operating section include: a) own revenues excluding income from the capitalization of goods; b) revenues of local public institutions wholly or partly funded from own revenues; c) grants to finance current expenditures; d) amounts from certain revenues of the state budget to finance current expenditures; e) income from loans granted to institutions and local public services or activities entirely financed from own revenues; f) contributions from the operating section to finance development section, which are reflected of negative value.

Revenues of local budgets from development section include: a) contributions from the operating section; b) proceeds from the capitalization of goods; c) grants for capital expenditures; d) amounts from certain revenues of the state budget to finance capital expenditures; e) amounts received from the European Union and / or other donors in the payments made and pre-financing.

This classification of revenues followed grouping them by destination and to finance certain operating costs or capital expenses. In our opinion, grouping local budget revenues in operating revenues and incomes of the development section is open to criticism because it does not take into account the specific investment projects which also involve operating costs throughout the length of time of the objective achieved. The rule that should be applied is that of current revenues to cover current expenditure and capital expenditure to be financed by capital income. This division of revenues is complex and confusing regarding the mechanism of mutual transfers of incomes.

2. Financial resources from structural funds and cohesion funds of the European Union

The European Union supports the economic progress of the member countries after accession through programs financed from structural funds aimed at removing regional disparities, harmonious and sustainable development of member countries in order to strengthen economic and social cohesion.

As EU financial mechanisms to promote harmonious and sustainable development of member countries, the Structural Funds are distinguished by the following features: (Voinea, 2011)

- projects / programs proposed for funding from the Structural Funds are based on the multi-annual development plans of member countries;
- financial resources from the Structural Funds are allocated to priority objectives from the development plans of member countries;
- national authorities are responsible for selecting projects of proposed programs to be financed by the Structural Funds;
- grants from Structural Funds meet beneficiaries' own resources to enhance their accountability programs in implementing programs and in managing financial resources;
- The European Commission and national authorities collaborate in national development plans, formulating and supporting the programs, in monitoring and evaluation of project impact on the economy of the member countries;
- financial resources from the Structural Funds and Cohesion Fund are meant to complement the efforts of programs' beneficiaries in member countries;
- The European Commission presents every three years a report to the European Parliament, the European Economic and Social Committee on the progress in achieving economic and social cohesion;
- The Council acts on The European Commission's proposal after the European Parliament's opinion and after consulting the Economic and Social Committee on the objectives and administration of structural funds. European Council governs on the principles that are the basis for using the Structural Funds, to ensure their efficiency of use and the joint of their action with other financial instruments;
- transparency set at the base of administration of structural funds is designed to ensure the knowledge of development strategies, programs embodying objectives from national development plans, of the performance in implementing the program and their impact on the economic development of member countries;

- The management of the financial resources from the Structural Funds takes place within an institutional framework through procedures designed to follow allocation and use of financial resources for programs.

European Commission and Member States negotiate the National Strategic Reference Framework (NSRF) from which community priorities and connections between national and regional priorities from Member States are identified.

National Strategic Reference includes: National Development Strategy, National targets, the list of Operational Programmes (OPs) that are priorities and financial planning on operational programs.

The National Development Plan reflects the objectives of the socio-economic development of the member countries under EU cohesion policy and structural funds intervention areas. On the basis of the National Development Plan is elaborated the National Strategic Reference which becomes the strategy agreed by the European Union for using the Structural Funds.

Romania's national development priorities for the period 2007-2013 were represented by:

- economic competitiveness and development of the economy based on knowledge;
- development and modernization of transport infrastructure;
- protect and improve the environment quality ;
- human resource development, promotion of employment and social inclusion and strengthening of administrative capacity;
- rural economic development and labour productivity growth in the agricultural sector;
- reducing development disparities between the regions.

The fundamental policy of the European Union is Economic and Social Cohesion Policy, whose transposition into practice is achieved via three instruments, namely the European Regional Development Fund, European Social Fund and the Cohesion Fund.

For the period 2014-2020 the following Operational Programmes are financed:

- Human Capital Operational Programme (POCU) establishes investment priorities, specific objectives and actions undertaken by Romania in the field of human resources, thus continuing investments made under the European Social Fund during 2007-2013 and also contributing to the overall objective of the Agreement Partnership (AP 2014-2020) and hence the European Structural Funds and Investment in Romania, namely, to reduce economic and social development disparities between Romania and EU Member States.

- Operational Programme Competitiveness (POC) supports investments aimed at meeting the needs and challenges of the low level of economic competitiveness, particularly regarding insufficient support for research, development and innovation (RDI) and underdeveloped infrastructure of ICT and default services underdeveloped thus positioning itself as a generator factor of horizontal interventions in the economy and society, able to stimulate growth and sustainability.

- Operational Programme Large Infrastructure (POIM) was developed to meet the development needs identified in the Partnership Romania from 2014 to 2020 and in accordance with the Common Strategic Framework and the Position Paper of the European Commission services. POIM strategy is geared towards the Europe 2020 objectives, in conjunction with the National Programme for Reform and country specific recommendations, focusing on sustainable growth by promoting an economy based on low carbon, through energy efficiency measures and promoting green energy and by promoting environmentally friendly means of transport and more efficient use of resources. Financing priorities established by POIM contribute to the overall objective of the Partnership by directly targeting two of the five challenges identified in national development: infrastructure and resources. POIM finances activities in four sectors: transport infrastructure, environmental protection, risk management and adaptation to climate change, energy and energy efficiency, contributing to the European Union strategy for smart, sustainable and inclusive growth.

- Operational Programme Technical Assistance (OPTA) aims at ensuring that the efficient and effective implementation of European Structural Funds and Investment in Romania in accordance with the principles and rules on partnership, programming, evaluation, communication, management, including financial management, monitoring and control based on shared responsibilities between Member States and the European Commission.

The overall objective of OPTA 2014-2020 is to ensure the capacity and tools necessary for effective coordination, management and control of the interventions of the European Structural Funds and Investment and effective implementation, but also targeted and fair Operational Programme Technical Assistance (OPTA), Operational Programme Infrastructure Mare (POIM) and Competitiveness Operational Programme (POC). The program is based on the general framework described by the provisions of the Agreement Partnership and the strategic approach of OPTA is linked to relevant strategic documents at European and national level, respectively specific provisions arising from the AT domain of the Europe 2020 Strategy, the National Reform Plan 2013-2014 as well as the strategy for public administration capacity building in Romania 2014-2020.

- Regional Operational Programme (ROP) is the successor of the Regional Operational Programme 2007-2013 and one of the programs through which Romania will be able to access EU structural funds and investment from the European Regional Development Fund (ERDF) 2014-2020. ROP 2014-2020 aims the overall objective of economic competitiveness and improving the living conditions of local and regional communities by supporting business

development, infrastructure and services for sustainable development of regions, so that they can effectively manage their resources and their potential for innovation and assimilation of technological progress.

These objectives are translated into 11 priority axes (plus technical assistance axis), which have a total estimated allocation of 8.25 billion euros, of which 6.7 billion euros is supported by the EU through the European Regional Development Fund (ERDF) and 1.5 billion euros - national contribution.

- Operational Programme Administrative Capacity (PO CA) will promote the creation of modern public administration, able to facilitate socio-economic development through competitive public services, investment and quality regulations, thereby contributing to the objectives of Europe 2020. To fulfil this role the public administration needs competent human resources and well-managed, efficient and transparent management of resource use, institutional and adequate administrative structure, as well as clear, simple and predictable operation. Such an administration should be able to provide policy makers the necessary tools to support and implement public policies in the interest of citizens. Optimizing administration is an important condition for the implementation of any structural changes towards smart, sustainable and inclusive growth.

POCA 2014-2020 addresses all 8 regions of Romania. The Program will be able to obtain financing following beneficiaries: authorities and public central institutions, autonomous administrative authorities, NGOs, social partners, accredited higher education and research institutions, Romanian Academy, authorities and local institutions at county level and municipalities, local authorities and public institutions benefiting ITI, judiciary institutions. The financial allocation of the European Social Fund program for 2014-2020 is 553.19 million EUR.

- Helping disadvantaged Operational Programme (OP AD) ensures through the entire period 2014-2020 free distribution of food aid in all localities in the country in favour of disadvantaged people. POAD is a continuation of the European program of aid to underprivileged (REAP) undertaken between 2007 -2013. The program is funded at 85% of European aid fund for the most deprived people and 15% of the national budget.

3. Difficulties in absorbing EU funds

Especially among new EU member states, although the volume of structural and cohesion commitments is considerable, an important issue is their low absorption capacity due to difficulties arising in complex management of European funds.

Firstly, it is known that substantial documentation with a strong bureaucratic component is likely to discourage potential beneficiaries in the effort to attract grants. We emphasize that this large number of permits and authorizations are not an imposition of the managing authorities, but they reflect the requirements of Romanian legislation, harmonized with the European legislation. Most private firms and especially local government carry out poor management of documents.

Secondly low expertise of beneficiaries in writing projects is an obstacle to accessing European funds. There are very rare cases where those who want to access grants have specialized staff responsible for carrying out bureaucratic steps and even technical steps required. Of course, there is the solution of outsourcing these efforts to specialized consulting firms -but small amounts that circulate within projects make difficult hiring competitive consulting firms.

Thirdly, another problem is the lack of capacity of the beneficiaries to finance or co-finance projects. In what concerns us this obstacle is more difficult to remove because administrative units do not have the revenues to provide co-financing, but especially full funding to repayment.

The large number of taxes (Florescu, Gibescu, 2009) payable in process of preparing the dossier for financing, but also during project implementation, each notice or authorization having a corresponding fee is a deterrent to those who wish to invest. Moreover, fees and costs related to bank loans, interest and costs of administration of the bank account are considered ineligible costs, thus increasing considerably the beneficiary's contribution to financing the project.

Among other obstacles arising in the process of accessing European funds can be listed: lack of transparency in project evaluation and selection, poor information on funding opportunities, cumbersome procurement procedure. We believe that in the forthcoming period, the authorities must find solutions to these problems so that the procedures for accessing European funds become simpler and more effective.

4. Analysis of financial resources from the EU funds within local budgets in Romania

To highlight the influence of financial resources from the EU funds in Romania on local budgets we will make an analysis of the evolution of receipts and the weights these resources occupy within the centralized budget of the territorial administrative units in Romania. This scientific approach will be done based on data available in the Statistical Yearbook of Romania, which are presented in the table below.

Table no. 1 - The evolution of receipts and the share of financial resources from EU funds in local budgets during 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Total Revenues	43629,1	43526,1	43922,2	44803,9	45419,3	48092,6	53666,2
Amounts from EU in the payments made and pre-financing	0	708,2	2245,1	3600,2	3490,4	4227,3	3366,1
Weight of EU amounts in total revenues of local budgets (%)	-	1,62	5,11	8,03	7,68	8,78	6,27

Source: Own elaboration using data contained in *The Statistical Yearbook of Romania 2010-2015*

The data in the table shows an upward trend of revenues to local budgets from Romania to financial resources from EU funds in 2008-2013 but for 2014 it registers a setback

In the graphical representation of this evolution a clear upward trend is observed in the first four years of the interval to be analysed. So if in 2009 708.2 million lei were collected, in 2010 local authorities in Romania have benefited from 2.2451 billion lei, which means progress but timid compared with the opportunities offered by the European Union. In 2011 it was recorded a significant increase of these revenues amounted to 3.6002 billion lei.

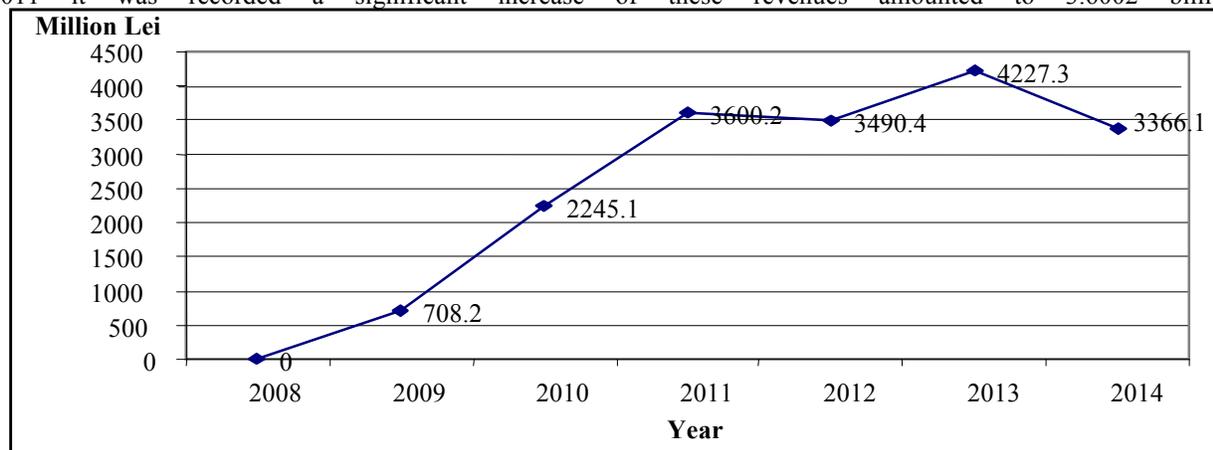


Figure no. 1. The evolution of receipts from the EU in the payments made and pre-financing from local budgets in Romania during 2008-2014

The graph shows that in 2012 there is a slight decrease in revenues from the EU Structural Funds, but in 2013 is registered a tip of 4.2273 billion lei. The period under review ends with a decrease in receipts from this category of revenues to local budgets, due to the end of the implementation of Multiannual Financial Framework 2007-2013.

We notice that in 2008 there were not collected such amounts since launching programs was realized only in the second half of 2007, which led to the entry of the first European money in the accounts of local administrations only at the beginning of 2009 and for certain financing components, even later.

In terms of share of financial resources from EU funds in the total local budget revenues in Romania we can say that the situation is similar to that shown above.

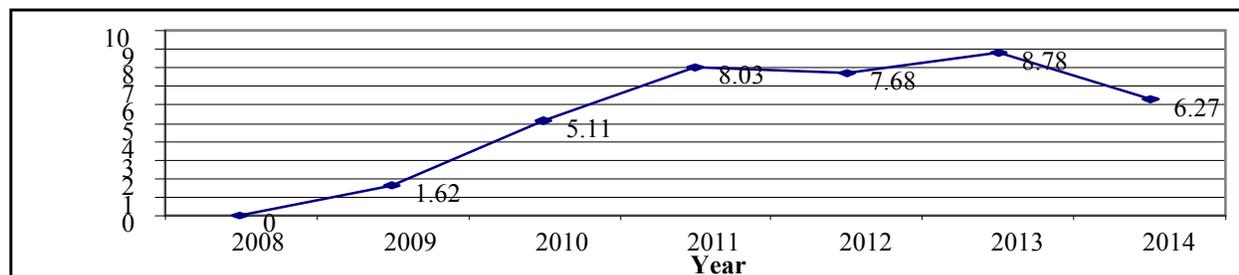


Figure no. 2 - The weight of financial resources from EU funds in the total of local budgets revenues of Romania during 2008-2014

The figure above shows that the weight of financial resources from EU funds in the total of local budget revenues increased steeply from 2008 until 2011 when it recorded a rate of 8.03%. In the next period the trend followed by this proportion is tortuous since in 2012 decreased (7.68%) and in 2014 rose to 8, 78% for 2014 to fall to 6.27%.

From this analysis results that the public local authorities in Romania have made exquisite progress when it comes to accessing European funds, but the downside is that they did so, but in a manner that does not meet with the needs of the community. On the other hand we can state that given the experience acquired by the public administration, the local government budgets will benefit from more consistent revenue from the Structural Funds during the implementation of the 2014-2020 Multiannual Financial Framework.

5. Conclusions

By accessing structural and cohesion funds of the European Union local communities can solve a large part of public needs, develop their infrastructure achieving investments that will later attract investors, thus increasing local incomes. For our country, the structural funds are a way to economic recovery, continuing change and accelerate reform, to achieve the degree of development of other European countries. The absorption of these funds allocated from the EU budget represents a challenge, but mostly a big responsibility for local authorities.

Reality shows that especially among new EU member states, although the volume of structural and cohesion commitments is considerable, an important issue is their low absorption capacity due to complex challenges that arise in managing European funds, such as unruly documentation with a strong bureaucratic component; low expertise of beneficiaries in writing projects; lack of beneficiaries' capacity to finance or co-finance projects; lack of transparency in the evaluation and selection of projects; poor information on funding opportunities, cumbersome procurement procedure.

The analysis carried out within this paper shows that local authorities in Romania have made significant progress in terms of European funds but not in a satisfactory manner. Thus the weight of financial resources from EU funds in the total of local budget revenues occupies a proportion revolving around 8%. We are able to say that, taking into account the experience, local authorities in Romania will register higher receipts from the Structural Funds during the implementation of the Multiannual Financial Framework 2014-2020.

We conclude by emphasizing that the financial resources from the EU funds constitute the tools for the implementation and strengthening of the local autonomy, with effects on improving the local budget process.

Endnotes

- (1) Law no. 273/2006 on local public finances, published in Of. M, Part I, no. 618 of July 18, 2006, annex 1
- (2) G.E.O. no. 63/2010 amending and supplementing Law no. 273/2006 on local public finances, and establishing financial measures, published in Of. M. no. 450 of July 2, 2010, art. I, para. 6, approved with amendments by Law no. 13/2011 published in Of. M. no. 179 of March 14, 2011
- (3) <http://www.fonduri-ue.ro>

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