

THE WEAK ABSORPTION OF THE EUROPEAN FUNDS, ONE OF THE CAUSES OF ROMANIA'S DOWNSHIFT IN COMPARISON WITH THE OTHER STATES OF THE EUROPEAN UNION

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Abstract:

The passage from a centralized system to a competitive market economy as well as Romania's adherence to the European Union have lead to significant changes for the Romanian economy on the political, economic and social levels. The lack of an entrepreneurial culture, low financial capital and the lack of decisive government measures have prevented the rise of both the public and private investments which would have been so necessary for Romania's development. In the past few years Romania ranked last place among others due to a weak absorption of the European funds whose role is to reduce the downshifts among the member states of the European Union.

Key words: *the Absorption of the European Funds, causes, measures*

JEL Classification: M16, E52, G28

1. Introduction

As a member state of the European Union (EU), Romania benefits from constant support in its development process by means of the European funds. Things like the development of a viable transport infrastructure or the qualification of the work force to standards comparable with those of the other member states can be accomplished by means of the European funds. Thus, the European funds represent Romania's chance to make up for the social and economic development downshifts and to become competitive in comparison with the other EU member states.

The present paper aims at analysing the evolution of these European funds, the causes which generated this situation and the measures which are meant to unblock these funds, using the research methods content analysis, scientific observation, deduction, induction, synthesis.

2. The Characteristics of the Romanian Economy

The market economy is conceived as an extremely dynamic system which passes through a continuous process of restructuring determined by the technical, economical, social and institutional changes. Looking at the evolution of the Romanian economy in the past 23 years one can notice that its structure has changed, influenced by a series of factors starting from the planned economy to the market economy, the adherence to the European Union – which has led to institutional changes and the gradual adoption of the European legislation generating new new changes at the social level as well as changes of the financial system at a global level (including the financial crisis). The structural changes reveal the weak economic capacity to answer the new demands of the markets, the new tendencies and opportunities.

Romania's economy continues to be affected by the global financial and economic crisis which has been propagated through more channels and manifests itself in the following fields:

- the channel of the institutional consumption / public acquisitions – due to both the lack of efficiency in attracting the European resources at Romania's disposal and the reduction of the access to financing from banking sources as a consequence of the restriction of the external private crediting lines from the mother-banks with an impact upon the whole evolution of the non-governmental credit. The first and the second levels of manifestation are interconnected taking into account the cash

on delivery principle governing the project-based access to European funds and implicitly the necessity to activate financing from the attracted sources;

- the channel of direct foreign investments – the ending or restriction of the major investment projects as a consequence of the interruption of financing from a banking source as well as a manifestation of a prudence and even aversion of the foreign investors towards the risks of continuing the project development in Romania;
- the channel of the foreign trade – the diminishing of the exports as a consequence of the restriction of the demand on the traditional export markets and the reduction of the imports as a consequence of the diminishing of the internal consumption demand;
- the channel of the population's buying power – the gradual but significant reduction of the consumption of the population and the organizations firstly as a result of the adjusting processes in the private firms and in a future stage of the introduction of the governmental austerity programs in the budget sector. At the same time the diminishing of the population's buying demand has taken place as an effect of the dramatic restriction of the offer of the crediting banking system for consumption;
- the channel of the national wealth – through the substantial reduction of the value of many categories of assets, especially the immovable ones, dominant among the assets used as banking guarantees as well as through the growth of the weight of the non-performing credits in the assets of the credit institutions.

One of the major causes contributing to the recession of the country's economy could be the situation of the high foreign deficits accumulated by Romania's economy. Some of the internal causes which have propagated the crisis from the financial zone in that of the real economy are:

- ❖ the accumulation of big payment delays among the economic agents with negative repercussions upon the contractual discipline as a whole;
- ❖ the fiscal instability as a result of the urgent need to collect income to the state budget through the policy of raising the taxing basis;
- ❖ the policy of the commercial banks to raise the interests for the credits in progress and to reduce the offer for the new credits;
- ❖ the massive state loans from the internal banking market which have diminished the interest of the banks for the financing of the corporate sector and the sector of the small and medium-sized enterprises;
- ❖ big delays to the payment of the state debts towards the private suppliers and the duty to return the fees and taxes to the economic agents under the conditions stipulated by the law.

The encountered problems have affected the entire economy, all categories of commercial companies suddenly confronted with the delay of payments from the clients (in their turn confronted with cash flow problems), the diminishing of the turnover as a result of a decrease of demand for their products and services, the raising of costs for the reimbursement of the credits in foreign currency as a result of the depreciation of the national currency, the flow difficulties of financial availabilities, the lack of working and development capital; the work force by the increase of the unemployment rate; the public budget; the payment balance and the commercial balance through the deficit increase.

3. The Role of the Structural European Funds

The goal of the cohesion policy and implicitly of the implementation of the structural funds is to transform and modernize the economies of the regions of the underdeveloped countries of the European Union in order to prepare them for the competition on a single market and for the entrance in the Euro zone. With a budget of 347.41 billion Euros

(35.5% of the total budget of the EU) for the interval 2007-2013, the economic and social cohesion policy aimed at three major objectives: convergence, regional competitiveness and the engagement of the manpower as well as the European territorial cooperation.

The methodology of allocating the European funds has introduced a new concept, that of the absorption capacity limiting thus the transfer of the EU funds to a maximum of 4% from the gross domestic product of each country. In compensation, in order to facilitate the absorption of the funds by the new member states, the maximum co-financing rate out of the structural funds has grown from 80% to 85%. The absorption capacity is given by the competence of a member state to spend the financial resources allocated efficiently out of the structural funds and targeting three aspects:

- ✓ the macro-economic absorption capacity, defined and measures in terms of limited Gross Domestic Product (GDP) (to 4%);
- ✓ the financial absorption capacity defined as the ability to co-finance the programs and projects supported by the EU, to plan and guarantee these contributions in the multi-annual national budgets and to collect contributions from the partners involved in various programs and projects;
- ✓ the administrative capacity representing the capacity and competence of the central and local authorities to prepare adequate programs and projects in time and to assure the coordination with the partners involved, the conformity with the administrative and reporting demands, the financing and monitoring of the implementation of the programs and projects as well as the avoidance of the appearance of irregularities.

The National Development Plan (NDP) has been created in order to adjust the national development policy to the European development priorities to be found in the Union's Cohesion Policy. More precisely, the public investments are prioritized through NDP since they are in line with the intervention domains of the Structural and Cohesion Plans. The NDP represents the basis of the Operational Programs (OP) meant to administer and implement the community funds through Sectorial Operational Programs (SOP) and the Regional Operational Program (ROP).

4. The Absorption of the European Funds in Romania

For all the 7 sectorial programs for structural and cohesion funds in the interval 1 January 2007 – 30 September 2013, Romania has received reimbursements of 4.066 billion Euros, the absorption rate rising to 21.17% from 30 September 2013.

The operational program POS The Raise of the Economic Competitiveness managed by the Management Authority (MA) from the Ministry of Economy primarily aims at increasing the productivity of the Romanian enterprises for the reduction of the downshifts towards the average productivity at the Union's level. By 2015 the undertaken measures are meant to generate an average increase of productivity of approximately 5.5% annually allowing Romania to reach a level of approximately 55% from the EU average. This program had an absorption rate of 6.77% (172.9 million Euros) in the interval January 2007 – September 2013.

POS Transport, managed by the MA of the Ministry of Transport consists in the promotion of a stable transport system allowing the rapid, efficient and safe transport of persons and goods, with a level of services in accordance with the European standards. This program has reached a total absorption rate of 15.85% in the interval January 2007 – September 2013.

POS Development of the Human Resources managed by the MA from the Ministry of Labor has had a total absorption rate of 19.33%. The goal of the program is represented by the development of the human capital and the increase of competitiveness by means of correlating life-long education and learning with the labor market and by providing more opportunities for the future participation on a modern, flexible and inclusive labor market of 1.650.000 persons.

The Regional Operational Program (ROP) managed by the MA from the Ministry of Regional Development primarily aims at supporting a well-balanced long-lasting economic and social development of Romania's Regions corresponding to their needs and specific resources by concentrating the increasing urban factors through the improvement of the infrastructural conditions and those of the business environment in order to turn Romania's regions, especially those lagging behind into more attractive places to live, to visit, to invest and to work. This program has reached an absorption rate of 40.06% in the interval January 2007 – September 2013.

- ✓ The Average ROP managed by the MA of the Ministry of the Environment had a total absorption rate of 20%. The objective consists in the reduction of the downshift between the UE and Romania with respect to the environment infrastructure from both a quantitative and a qualitative point of view through efficient public services while taking into consideration the principle of durable development and the polluter pays principle.
- ✓ The Development of the Administrative Capacity managed by the MA from the Ministry of Regional Development and Public Administration has the role of contributing to the development of a more efficient and effectual administration to the socio-economic benefit of the Romanian society. The Program had an absorption rate of 33.35% in the interval January 2007 – September 2013.
- ✓ The Technical Assistance OP managed by the MA from the Ministry of the European Funds assures the support necessary for the process of coordination and healthy, efficient, effectual and transparent implementation of the structural instruments in Romania. The program had an absorption rate of 19.56% for the same period. According to the data provided by the Payment Agency for Rural and Fishing Development (PARFD) Romania has attracted approximately 5 billion Euros of the European funds for rural development at the end of September 2013, a thing which represents a degree of absorption of approximately 58% of the total sum allocated through the National Program of Rural Development (NPRD) 2007-2013.

5. The factors which influenced the weak absorption of the European structural funds by Romania include:

- ❖ long periods (in some cases even over 12 months) between the moment of filing the financing applications and receiving the answers;
- ❖ the lack of uniformity and coherence in the evaluation process (unclear grids);
- ❖ long periods between the moment of the approval of the financing applications and the effective signing of the contract;
- ❖ very big delays (even more than 12 months) in reimbursing the money which have been spent and leading to the postponement of the planned activities and the blockage of the ulterior reimbursing applications;
- ❖ the impossibility of recovering the GDP by some categories of beneficiaries, thus leading to supplementary expenses of the contractors;
- ❖ the inefficient communication of the Management Authorities and the Intermediary Organisms with the applicants and the fund beneficiaries;
- ❖ the change of the contractual clauses through successive modifications imposed by the Management Authority;
- ❖ the financing of the projects has not been continuous since the state budget has not supported them and, as a consequence, there has not been a fluency of the activities;
- ❖ the inefficient initial checking by the Management Authorities of the procedures of public acquisitions and the adverse surveillance of the activity of the

Intermediary Organisms leading to the pre-suspension of three operational programs (ROP, PARFD, POS The Raise of the Economic Competitiveness, OSP Transport) in October 2012;

- ❖ the reduced degree of knowledge in the field of project management for both the public and the private institutions;
- ❖ the reticence of the beneficiaries generated by the reduced level of pre-financing awarded by the operational programs and the high level of private co-financing;
- ❖ certain misunderstandings between the already existing organisms and the newly founded ones involved in the management of the structural funds and an insufficient level of training and qualification of the personnel from certain intermediary organisms;
- ❖ the absence of the financial availabilities and the existence of certain difficult and restrictive conditions of bank crediting of the private sector (both the economic one and that of the non-governmental organizations) which made many potential applicants not to apply and many applicants to have to drop the financing (at the proposed projects), even if many projects have been viable and they could have brought added value to the national economy;
- ❖ not allocating the necessary sums for the financing of the national projects which should have been of approximately 3% of the annual Gross Domestic Product;

The main reasons for the low absorption at the administration level include:

- ❖ excessive bureaucratic procedures which have to be taken by the beneficiaries, but especially by the Management Authorities and the Intermediary Organisms throughout the entire absorption process which leads to big delays;
- ❖ less human resources in comparison with the needs of the institutions; the low transfer of experience in the management of the pre-adherence funds at the level of the institutions managing structural funds; the personnel and remuneration policy practised by the Government which is non-motivating;
- ❖ the lack of clear rules for a series of procedures such as the recovery of the added-value tax;
- ❖ the decisional centralization regarding the operational programs implemented at regional level which has made the accomplishment of the NDP objectives more difficult; in addition to the low administrative capacity at both the regional and central level one can add the problem of the low capacity of the Intermediary Organisms (IO) at the regional level to evaluate, select and prioritize the projects in accordance with the needs of the areas where they act.

For the integral absorption of the European Funds, Romania should have allocated approximately 10% of the GDP for each of the following 2 financial years enabling the financing of the national projects (pre-financings, reimbursements). The European Funds have been allocated to Romania in order to enable its technological level, competitiveness, transport infrastructure, environment conditions, training of the human resources and qualitative improvement of its administrative acts and decisions to reach the average European level. The European financial support is addressed to a poor and impoverished Romania, member state of the European Union, with low investments means from the economic and industrial private sector.

6. The effects of the low absorption of the European funds at the national level.

A. Impact at the economic level:

- The persistence of the marginal status of the Romanian economy in comparison with the rest of the member states – low GDP in Romania, the low absorption rate together with the diminishing of the volume of the foreign investments (from 8 billion Euros in

2008 to 1.9 billion Euros in 2012) make the real economy lack financing resources. Thus, the estimate that the European funds could have raised the GDP with 3.8% if they had been used according to the expectations until 2015 becomes even more important;

- Potential problems at the level of the control of the budgetary deficit: the suspension of the reimbursements by the European Commission leads to the financial support of the state budget (as it happened in the case of ORP and POSDRU) through loans from the international financial markets leading to the raise of the budgetary deficit;

- Net contribution to the EU budget higher than the benefits: between 2007-2012, Romania has contributed with 7.91 billion Euros to the Union's budget and the Commission has carried out payments of 7.81 billion Euros; this means that "practically we have taken our money back with the exception of 100 million Euros";

- Missing the objectives of economic competitiveness, the creation of working places and the efficient use of human resources: the partial and inefficient use of the funds for small and medium-sized enterprises (only 15% out of the total amount of structural funds) means maintaining the low economic competitiveness, the lack of the working places and the continuation of the emigration of the working force. The POSDRU beneficiaries have highlighted the fact that the interruption of all projects because of the irregularities in certain projects would lead to: 65 000 unemployed people, the blockage of 15 000 potential entrepreneurs and 830 potential social enterprises (which include persons with disabilities or disadvantaged groups on the labor market), stopping the development of 6 500 educational institutions from the point of view of human resources, 70 universities and 150 000 students.

B. Impact at the social level:

-In 2012, the total amount of funds absorbed by Romania was the lowest from all the 10 new members;

- Romania will continue to have a rural area disadvantaged because of the sub-development of the regional and local transport infrastructure (only 313 km of road built in the entire country) and the social infrastructure (the lack of modern, extended and well-equipped medical centers, of rehabilitated educational institutions and of centers of professional training);

- The cities will lose the opportunity to benefit from solid and integrated plans of developing the urban infrastructure and the services;

- The social integration on the labor market of the disadvantaged groups has been delayed and even stopped with the suspension of the POSDRU program.

C. Impact at the political level:

- The diminishing of the population's faith in the capacity of the institutions of the Romanian state to efficiently manage this type of programs.

7. Conclusions and proposals

A first conclusion is that the European financial help meant for Romania could only have been accessed by financially powerful organizations, societies and institutions which eliminated/reduced the access to financing of the micro-enterprises, small enterprises and non-governmental organizations (including associations and foundations) with low business turnover and a modest patrimony.

A second conclusion is that the banking system has not used the appropriate banking products to support these categories of organizations in competitions. The National Bank and Romania's Government should regulate "in three" the credit allocation by banks to the Government and the beneficiaries of European financing. The winning bank for loan allocation to the Government should also offer in "the same package" credit allocation in conditions which are advantageous for the beneficiaries of European financing.

The management deficiencies in state institutions with responsibilities in the field and the lack of motivation of the executive personnel are two other main causes of the low absorption rate of the European funds. Both causes have led to an excessive presence of bureaucracy and finally to the slowing down of the absorption process and even to the temporary blockage of certain European programs. According to the National Prognosis Commission, the government could analyze the possibility of founding a private council made up of a restricted number of Romanian and foreign consultants with proven business experience (managers in multinational companies uninvolved in the absorption of European funds but also bank managers or companies participating in the absorption process of the European funds) and seeking to attract European funds. Thus the reports of this council should be made public to increase the pressure upon the governmental decision factors. The costs related to the functioning of such a council are insignificant in comparison with the almost certain losses Romania will have in the absorption process of the structural European funds in the interval 2007-2013. The lack of motivation of the executive personnel could be approached through consistent salary bonuses in parallel with the establishment of ambitious but realistic targets of increasing the absorption rate of the European funds. According to the same report approximately 2/3-3/4 out of the total performance criteria for bonuses should be related to the actual rate of absorption of the European funds. At the same time, one should take into account the possibility of temporary hiring personnel in the institutions meant to attract European funds taking into consideration the fact that the absorption process is usually related to a limited multiannual European financial framework limited in time (2007-2013, 2014-2020 etc.). A first analysis shows that a supplementation with approximately 200 experts at the level of project monitors for all Operational Programs would have a stimulating effect for the increase of the evaluation and payment speed of the financing applications) with the ongoing periodic training of the experts and project monitors (especially of the new employees).

Another conclusion would be that the Agreements with IMF, the World Bank and EBRD introduce a clause stipulating that Romania's Government can partially use the received funds for financing the projects contracted during the national competitions for accessing European Funds. Both Romania and the foreign financial institutions will have something to gain by the increase of the flux of capital into the Romanian economy through the development of the production capacity and the growth of the number of jobs in Romania thus assuring the passage to a positive trend of economic growth within the limits of budget deficit and inflation.

For the period 2007-2013 Romania has been allocated a budget of 19.2 billion Euros out of which it has attracted only 4 billion Euros. Between 2014-2020 Romania will receive 21.82 billion Euros with 10% more than in the interval 2007-2013 and it is up to us to access these funds for an economy capable of developing and progressing.

To a great extent the attraction of the European funds depends upon the organization and simplification of the administration processes and the level of economic development and another important aspect is that Romania has too few entrepreneurs and small and medium-sized enterprises to apply for the funds.

The restriction of the fluxes of post-crisis capital involves the necessity of raising the compensation elements, the contribution of the European funds being essential. Money have become more expensive and more difficult to get and the international regulations will lead to a new foundation for the decisions of allocating capital and financing funds. The stake of the national economy is attracting European funds.

The calibration of the economic policies to support Romania's economy in the growth zone should follow the acceleration of the absorption of the European funds, the development of big infrastructure projects, the increase of competitiveness in certain

economic sectors and the stimulation of consume on solid grounds. Under the circumstances, the optimization of the process of attracting European funds meant to stimulate the economic translation becomes more and more imperious.

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