

ANALYSIS OF THE ABSORPTION CAPACITY OF STRUCTURAL FUNDS IN ROMANIA

BOLDEA BOGDAN ION
WEST UNIVERSITY OF TIMISOARA, ROMANIA
bogdan.boldea@feaa.uvt.ro

Abstract:

In this article, we intend to realize an analysis of the absorption capacity of the Structural Funds in Romania, which is a crucial issue in the context of the regional development and the discretionary fiscal policy. We consider that the Structural Funds are the only free resource that can develop the national economy of Romania and also the roumanian society..

Key words: structural funds, absorbtion, macroeconomy

JEL classification: E22, F21, F35, F53

Acknowledgements: This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/89/1.5/S/59184 „Performance and Excellence in Postdoctoral Research in Romanian Economics Science Domain”.

Each country needs dynamic and competitive regions to achieve economic and social objectives, established at the national level. In this context the regional development appears as an indispensable complement of macroeconomic and structural policies. The regional development policy is one of the most complex strategies of the European Community.

The objective of reducing economic and social disparities between the various regions of Europe has an impact on areas very important for the future like: education, health, rural development, technology transfer, employment, enterprise development, in order to achieve economic, legal and socio-cultural harmonization.¹

The complexity of the regional development policy can be analysed by how the main objectives of the EU are integrated: the sustainable development, the economic and social cohesion and the extension of the principle of subsidiarity. The objectives of the cohesion policy for the financial period 2007-2013 are: the convergence, the regional competitiveness and employment and the european territorial cooperation. The cohesion policy for 2007-2013 has a budget of 347 billion euro, divided: 81.5% for the convergence, 16 % for the the economic and social cohesion and 2.5% for the extension of the principle of subsidiarity.

The Structural Instruments: the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF) are the main EU financial mechanisms through which EU supports social and economic restructuring in Member States, promote economic and social cohesion, and solidarity. Although operating in a similar system as the structural funds, the European Agricuture Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF) are not part of this category. It is important to note that all of these tools finance development projects like

¹ Zaman Gh., Georgescu G., *Structural fund absorbtion: a new challenge for Romania?*, Romanian Journal of Economic Forecasting, 1/2009, page. 3

those funded pre-accession Phare, ISPA and SAPARD, but at a much higher financial level. The main difference we can see between the Structural Funds and pre-accession funds is the responsibility for their management, which is entirely Romanian authorities and not the European Commission. The distinction between the two types of funds is made through issues such as the allocation multiannual program, decentralized management, additionality principle, the principle of reimbursement, the partnership principle and the $n+3 / n+2$. In addition, to support cohesion policy for 2007-2013, the European Commission has developed a series of financial engineering initiatives: JEREMIE, JASPERS and JESSICA aimed at improving access to finance and risk capital include cooperation strengthened between the European Commission and the European Investment Bank (EIB). These are additional initiatives to financial instruments available to SMEs in EU regional policy programs, providing technical assistance capacity for major projects conceptualizing the principles of best practice, financial planning and strengthening financial reserves available to SME development sites.

An important tool in forming European identity is the regional policy which aims to promote economic and social progress and the gap between living standards in the regions and Member States. According to Eurostat, a good example is represented by the social and economical disparities in Europe: the most prosperous region is the residential area of London with 334% of the EU average GDP per capita, while the region less developed is the north-eastern of Romania with 29.5% of the EU average in terms of purchasing power parity.² Although GDP does not reflect a true, living standard because it is not a factor in the relative cost of living, it provides an important clue about the differences.

In this context, we consider that Romania's situation cannot be compared with that of England and the United Kingdom, because there are lot of differences of history, economic development, general welfare of the population, and status held by these countries in the EU Europe. Romania can be compared, however, with Poland because of similarities in history, geography and territorial administration. Although these similarities between these two countries, the impact of structural funds had a different effect: while Romania had an absorption rate of 7.4%, Poland managed almost entirely the structural funds allocated for 2007-2013 which is 18 billion.

In our opinion, a high level of structural funds absorption is due to the factors such as efficient infrastructure, centralizing absorption, investments in training institutional mechanisms, legislation and human resources. A particular attention is given to local and regional structures and transparency of the whole system.³

The relationship between the capacity of absorption of the structural funds and the regional economical situation is at least a paradox, showing that practice most disadvantaged the regions that are facing the greatest difficulties in absorbing these funds, although the need for financial support is essential.⁴

The main explanation for this phenomenon is given by the difficulties faced by regional authorities due to the lack of experience and qualifications. Other important factors are: the transparency in the allocation of Structural Funds and consistency in the use of funds. According to some studies, the Structural Funds could boost GDP growth in the countries of the European Economic Community (EEC) by 0.7% annually, while some econometric models indicate no more than 0.1%.⁵

² Eurostat, GDP per inhabitant ranged from 28% of the EU27 average in Severozapaden in Bulgaria to 343% in Inner London, 2011

³ EU10 Regular Economic Report, Mondial Bank, 2011

⁴ Opreșcu Gh. și alții, Analiza capacității de absorbție a fondurilor comunitare în România, Study no. 1, European Institute in Romania – Impact Studies III, page. 6

⁵ Dall'Erba Sandy, Guillain Rachel, *The local versus global dilemma of the effects of Structural Funds*, Grow and Change, vol. 42, no. 4, 2011, page. 466

In our opinion, the lack of consensus in this area is explained by the fact that the economical models that simulate the impact of the cohesion policy are not perfect and can not capture the full set of causes and conditions generated by the Structural Funds. We can see that the final results and the forecasts may differ and the validation of the expectations is not a foundation of the Structural Funds itself, but the processes they trigger or not.

Spulbar et al.⁶ consider that the international financial crisis had generated negative effects on the absorption of the Structural Funds. In this regard, we identify three of the factors which a significant impact on beneficiaries of EU funds: the domestic currency depreciation, the inflation growth and the evolution of the monetary policy rate.⁷

From our point of view, we can identify two main reasons that generate the inefficiency of the Structural Funds in recipient countries: firstly, a very high percentage of the Structural Funds is allocated for prosperous EU countries and secondly, the government policies lead to errors and unjustified gains. The quality of governance and the public administration generate a high efficiency of the Structural Funds, but their inability to eliminate or minimize corruption is that the economical and the social benefits that come from Structural Funds absorption is rather low.⁸

In order to ensure macroeconomic stability and sustainable economic growth is essential to stimulate the investments and to avoid the procyclical character of the macroeconomic policies. From this point of view, we believe that for increasing the investment in Romania we need an increased capacity to absorb EU funds, something that comes as a vital necessity given that our country can not benefit from private foreign capital or domestic savings.

In the new integration context, the question of increasing the absorption of the Structural Funds in Romania for 2007-2013 period, represents an essential condition for enhancing economic competitiveness and sustainable development of the country. Moreover, Mugur Isarescu, the central bank governor, argues that European Funds are the main problem in Romania because this issue "summarizes a series of failures".

Reality shows that in the first years of integration, the new European Union member states had a low rate of absorption of structural funds due to lack of experience, difficulty in the implementation of eligible projects, but also inadequacies of the European Union requirements related to funding procedures. Romania is no exception in this regard. Moreover, it may be noted that in the early years of integration, 2007 and 2008, Romania's absorption capacity was much lower compared with those of the new EU member states in the wave of 2004.

We can see from the table below, the contribution of Structural and Cohesion Funds to the objectives of EU cohesion policy through the implementation of Operational Programmes at national level.

⁶ Spulbar C. si altii, *Strengthening Romanian bank's role in the European funds absorbtion*, Finance – Challenges of the Future, vol. 1, no. 9, 2009, pag.174

⁷ Guvernul Romaniei, Ministerul Dezvoltarii, lucrarilor publice si locuintelor, *Programul Operational Regional 2007-2013*, Buc., 2007, pag. 7

⁸ Berica Corina, *Factors that influence the low rate of Structural Funds absorbtion in Romania*, CES Working Papers, II (4), 2010, pag. 3

Operational Programmes (OP) for Romania in the current period 2007-2013

Operational Programme (OP)	% Of total source	Fund which finances	Managing Authority of the Operational Programme (OP)
OP Sectorial Transport	23%	ERDF + CF	Ministry of Transportation and Infrastructure
OP Envoirement	23%	ERDF + CF	Ministry of Environment
OP Regional (POR)	19%	ERDF	Ministry of Regional Development and Housing
OP Development of Human Resources	18%	ESF	Ministry of Labour, Family and Social Protection
OP Economic Growth	13%	ERDF	Ministry of Economy
OP Admisitrative Development	1%	ESF	Ministry of Administration
OP Technical Assistance	1%	ERDF	Ministry of Finance
OP Territorial Cooperation	2%	ERDF	Ministry of Regional Development and Housing

Statistics Ministry of European Affairs are using two absorption rates: intermediare payments from the EU, which is the rate of reimbursement and "payments to beneficiary" of pre-financing granted by the Union or from the state budget.

The structural funds absorption rate of this segment is 15.6%, but Brussels considers that the true rate of absorption is the refund and in the case of Romania it is very low: 7.4%.

Highest absorption of all structural funds was recorded for the operational programme of regional development. Thus, it reached 11.73%, the amount of interim payments from the EC being 437.24 million euros, and the internal payment to the beneficiary of about 4.7 billion lei. The objective for 2012 is the degree of contraction of 100% on regional development funds and an absorption rate of 30%.

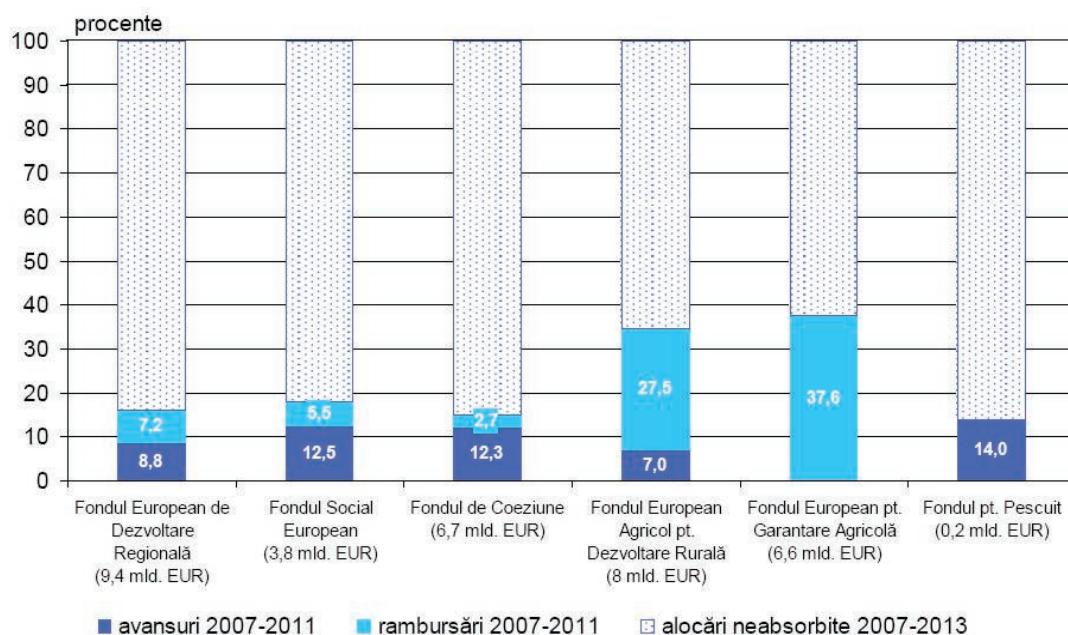
The lowest rate of absorption is registered by the programme for the environment. In this program, the amount of interim payments from the EC was 114.79 million euros, or 2.54% of the total of over 19.5 billion lei from EU allocations. In late November 2011, the EC interim payments were in the amount of 85.36 million euros, representing a low absorption rate of 1.89%. Interim payments from the EC for the programme: Increase of Economic Competitiveness was 152.81 million euros, the absorption rate being 5.98% of total allocations in this area.

Within the Operational Programme Administrative Capacity Development, total EU allocations are lower compared to other programs, only 902 million euros. From the EC interim payments were EUR 18.89 million, representing a rate of absorbing 9,08%.

A significant increase in the rate of absorption POS stands for Transport. We can see that the EC interim payments exceeded 279 million euros, or 6.13% of the total allocation. The increase is significant compared to November 2011 when the SOP

Transport interim payments made by the EC level was 113.69 million, representing an absorption rate of 2.49%.

Through the European Social Fund (ESF) and the Cohesion Fund (CF), the European Union promotes economic and social cohesion and increases employment. We can see that for our country has been allocated through ESF 12.661 billion euros, while for the CF the amount is 6.552 billion euros. Although the absorption rate of this funds was very low in Romania, were gradually implemented a series of projects that attempted retraining and preparing the human capital. At the macroeconomic level, expectations were to improve the labor market, but there was an opposite effect the increase unemployment and a lower level of security at work. All these effects were caused by the global economic crisis, and the inadequacy of human capital in the labor market.



Notă: Valorile între paranteze reprezintă alocațiile totale pentru perioada 2007-2013.

Fig.1 Absorption of European Funds
Source: Ministry of Finance

In conclusion, we can say that a key resource for development in the short, medium and long-Romanian economy is the highest possible level of absorption of structural and cohesion funds. In our opinion, substantial allocation of EU funds is a central element of fiscal sustainability in terms of investment strategy and to the grant of such funds. However, we can identify a strong impact generated by the absorption of European funds on economic growth.

In this direction, we believe that a higher absorption rate means an average economic growth of 4.4% in the period 2014 -2020. Moreover, significantly reducing development gaps, GDP per capita in 2020 is 65% of the EU 27 compared to 46% in 2010, which means a jump of nearly 20 percentage points.

Rate of absorbtion of European Funds	Potential GDP in Romania
40%	3,1%
60%	3,6%
80%	4,0%
100%	4,4%

Fig. 2 The relationship between the absorption and potential GDP

Source: NIS, European Commission documents

In terms of the human context, institutional and strategic, in Romania's case, the Structural Funds and the Cohesion represents both an opportunity and an obligation. In our opinion, this is not just contractual obligation, but also ethical. Therefore, we believe that real change is possible only if the values and socio-cultural space is reflected in all the aspects of a project, otherwise there will always be inefficient absorption capacity. Achieving the goal set by the National Strategic Reference Framework 2007-2013, namely absorption of at least 90% of the available allocation for Romania, require significant efforts ongoing, both in terms of financial and human resources and materials involved. It's practically the establishment of a new system: complex, modern and transparent, efficient use of public funds, which implies a process of adaptation to the legal, institutional and procedural terms and a profound change of mentality, to facilitate the integration of new rules that are required for a full absorption.

BIBLIOGRAPHY

1. BALEANU, Adelina, *Impactul fondurilor structurale – aspecte calitative*, Institutul European din Romania, Bucuresti, 2007
2. BERICA, Corina, *Factors that influence the low rate of Structural funds absorption in Romania*, CES Working Papers, II, (4), 2010
3. BOUVET, Florence, DALL'ERBA, Sandy, *European regional structural funds: How large is the influence of politics on the allocation process?*, JCMS, Vol. 48, No. 3, 2010
4. CACE Corina, CACE S., Iova Cristina, Nicolăescu V., *Absorption Capacity of Structural Funds: Integrating Perspectives*, Revista de Cercetare și Intervenție Socială, vol 27, Lumen Publishing House, Iași, 2009
5. CIUPAGEA, C., VOINESCU, R., *The assessment of the impact of structural funds in Romanin*, Quarterly Bulletin, National Commission for Prognosis, No 2, 2007
6. EUROSTAT: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home>
7. GHERGHINESCU, Oana, RINDERU, P., *Analysis of Structural and Cohesion Funds absorption in Romania*, Finance – Challenges of the Future, No.9/2009
8. GALLO, Julie, DALL'ERBA, Sandy, *The Local versus Global Dilemma of the Effects of Structural Funds*, Growth and Change, Vol. 42, No. 4 (Dec. 2011)
9. GUVERNUL ROMANIEI: <http://www.gov.ro/>

10. ISARESCU, M., *Attraction of European Funds in Romania*, Prezentare la Forumul National pentru dezvoltare sustenabila si protective a mediului, Bucuresti, NBR, 14 Martie 2008
11. MAHA, L.-G., *Managementul fondurilor structurale si de coeziune*, Iasi, 2010
12. MINISTERUL DEZVOLTARII REGIONALE SI TURISMULUI:
<http://www.mdrt.ro/>
13. MOHL, P., HAGEN T., *Do EU Structural Funds promote regional employment*, Working Paper series, No 1403, Banca Centrala Europeana, 2011
14. OPRESCU, Luminita, CONSTANTIN, Daniela, *Analiza capacitatii de absorbtie a fondurilor comunitare in Romania*, Studiul nr. 1, Institutul European din Romania
15. ***Planul Național de Dezvoltare 2007-2013