

THE ANALYSIS OF ABSORPTION RATE OF STRUCTURAL FUNDS FOR THE 2007-2013 PROGRAMMING PERIOD. THE CASE OF ROMANIA

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Abstract

This paper focuses on EU structural funds assistance to Romania during the 2007–2013 program period and provides an overview of Romania's absorption. The EU funds allocated to Romania under cohesion policy during the 2007-2013 programming period are significant, respectively around 19,23 billion Eur. The financial allocation of structural funds in Romania addresses both the Cohesion objective distributed among 7 Operational Programs and the European Territorial Cooperation objective - 4 Operational Programs of European territorial cooperation of which funds will be managed jointly with other Member States. Romania, like other countries, was severely affected by the global financial crisis and faster absorption of EU funds was seen as a factor for alleviating the negative effects of the financial crisis.

Keywords

absorption rate, convergence, operational programs, priority axes, structural funds

Introduction

European non-reimbursable funds continue to remain a real and effective support for both entrepreneurs and for regional economical and social development. (Florescu et al., 2013) The objective of reducing economic and social disparities between the various regions of Europe has a significant impact on various areas relevant for the future of any society, such as: education, health, rural development, technology transfer, employment, enterprise development, in order to achieve economic, legal and socio-cultural harmonization. (Zaman and Georgescu, 2009) The EU funds are a great opportunity also for central and local administration, in order to support the development of the communities from social and economic point of view (Bragaru, 2011). The main indicator for evaluation of the efficiency of the use of the EU funds is the absorption rate. The absorption capacity is generally defined as the capacity of the countries/regions with low incomes to absorb productively a large volume of foreign aid. The key factor underpinning increased capacity to make use of the non-reimbursable support is related to the capacity of the local/regional/central government to prioritize the areas/objectives for the granted aid. (Burguignon and Sundberg, 2006) Absorption capacity can be defined also as the extent to which a state is able to fully spend the allocated financial resources from the EU funds in an effective and efficient way. This capacity is necessary for obtaining a maximum contribution of the EU funds to the economic and social cohesion. (Vitek, 1999). The absorption capacity can be assessed along three components: macroeconomic capacity, financial capacity and administrative capacity of the member states to efficiently and effectively make use of the EU non reimbursable funding. The exclusive focus on nominal absorption rate, while neglecting the efficiency and effectiveness targets (in particular the "value for money" objectives) of the EU funds, could make possible that the fast absorption to have a detrimental effect on the quality of their projects, this being in particular the case of most EU member states from Central and Eastern Europe. (Tosun, 2014)

Results and discussions

The funds allocated to Romania under the Convergence Objective are used for achieving specific objectives of 7 operational programs. Each operational program funds are used for achievement of several priority axes, indicating the main areas of intervention under which projects are to be submitted and funded. The European Commission financial allocation for the Operational Programmes ensures a equitable coverage of several priority areas and sectors for sustainable and equilibrated economical development in Romania. There are 7 Operational Programs (OP) under Convergence objective: Human Resource Development OP; Administrative Capacity Development OP; Technical Assistance OP; Regional OP; Environment SOP; Increase of Economic Competitiveness SOP; Transport Infrastructure OP. The list of the OPs under Convergence objective is presented below:

1. The Human Resource Development OP – HRD – OP (PODCA) defines the priority axes and key areas of intervention of Romania in the field of human resources, as well as the tools and management issues to ensure a better use of financial assistance of the European Union (EU) through the European Social Fund (ESF) to support the interventions for increased competitiveness of human capital in Romania during 2007–2013 programming period.. HRD - OP is an important tool supporting investments in human capital as a key resource underpinning the economic development and structural changes. Moreover, investments in human capital will complete and will provide sustainable long term productivity growth. HRD - OP general objective is the development and increased competitiveness of the human capital, by linking education and lifelong learning with the labor market and ensuring increased opportunities for future participation on a modern, flexible and inclusive labor market for 1,650,000 persons.

Specific objectives of the HRD OP are:

- The promotion of quality initial and continuous education and training, including higher education and research?
- Promoting entrepreneurial culture and improving the quality and productivity at work?
- Facilitate the integration of young people, and the long-term unemployed into the labor market?
- Development of flexible, inclusive and modern labor market?
- Promotion of (re)insertion on the market work inactive persons, including in rural areas;
- Improving public employment services?
- Facilitating access to education and to the labor market of the vulnerable groups.

HRD - OP is addressing the following horizontal objectives: ICT and innovation, equal opportunities, sustainable development, transnational and inter-regional approach; projects promoting the horizontal objectives are particularly.

The HRD OP has 6 priority axes which address both system needs, as well as individual school/university and teachers training needs, namely:

-Priority axis 1 „Education and training in support to economic growth and development for the knowledge-based society” –which aims to support the modernization and increased quality and relevance of the initial and continuous education and vocational training as to the needs of the labor market;

-Priority axis 2 „Linking lifelong learning and labor markets” – which aims at ensuring equal access for all persons to learning, reducing early school leaving, facilitating transition from school to labor market and to equip the employees, through continuous vocational training, with the specific skills for sustainable integration in the labor market;

-Priority axis 3 „Increasing adaptability of workers and enterprises”;

-Priority axis 4 „Modernization of Public Employment Service” - promotes a systemic (national based) approach to support the diversification of the services provided by the Public Employment Service, as well as increased quality, visibility and access of these services, aiming to bring the public employment service closer to its final beneficiaries;

-Priority axis 5 „Promoting active employment measures”;

-Priority axis 6 „Promoting social inclusion” – is addressing the specific needs of the individuals from vulnerable groups to increase their adaptability and the capacity to get employed, by strengthening entrepreneurship and promoting the social inclusion and equal opportunities in education, training and employment;

-Priority axis 7 „Technical assistance” - which provides technical and financial assistance for the management and control systems, with a particular focus on increasing the managing authority and intermediate bodies capacity of planning, monitoring, evaluation and control of ESF funding granted under HRD OP.

The HRD OP total allocations were of 15,303 million Lei (exchange rate of 30.09.2014). Since the beginning of 2007-2013 programming period, there were 15,408 projects submitted, competing for the budget allocating. There were 4,178 projects approved, amounting for a total EU funding of 20.106 million lei. There were signed and implemented 3,605 projects which succeeded in absorbing 28.7 % of the EU allocation for the HRD OP for 2007 – 2013 programming period.

2. Administrative Capacity Development OP – ACD – OP (8) of which general objective is to contribute to the creation of a more efficient and effective public administration to socio-economic benefit of the Romanian society.

The priorities of ACD OP are addressing the specific objectives to support better and more effective public policies and governance:

-Priority axis 1 ”Structural and process improvements of the public policies cycle” – which contributes to the improvement and increased effectiveness of the decision making, accountability and public policy formulation with particular focus also on organizational effectiveness;

-Priority axis 2 ”Improved quality and efficiency of delivering of public services from a decentralized basis” aiming to support sectoral decentralization and delivery of public services and improve the quality and effectiveness of the services provided by the public administration (central and local);

-Priority axis 3 ”Technical Assistance” for the management and control system of ESF for ACD OP managing and intermediate bodies.

By objectives and the priority axes addressed, the ACD OP aims to address the weaknesses identified in policy formulation and management at all levels of the public administration (local and central) by focusing on key elements to strengthen administration accountability

and credibility, improve the decision-making process, better regulation, increased responsibility and organizational efficiency for the public administration, and support for effectiveness and improvement of decentralization for improving the quality and efficiency for delivery of public administration services in specific priority sectors (e.g. education, health etc.). This OP finances mainly: research and studies related to the public administration reform management of knowledge and use of innovative technologies in public administration; studies and research related to the best practices in EU of reforming public administration; training of the personnel and equipments for public administration to support reform of public administration and improvement of decision making and policy cycle management to support; support (studies, research and training) for the development of training plans, organizational and institutional strategies, including strategies for ICT use and digital competences, project management skills; support (training and technical assistance) for the transfer of good practice and to develop information systems to support activities of OP monitoring and evaluation.

The ACD OP total allocations were of 915 million Lei (exchange rate of 30.09.2014). Since the beginning of the 2007 -2013 programming period to 30 September 2014, there have been submitted about 1,371 projects of which value is estimated at 3,691 million lei. Only 456 projects had been approved with a value of EU funding of 1,184 million lei. There have been signed and implemented all the 456 projects approved, which succeeded to absorb 67.91 % of the EU allocation for the ACD OP for 2007 – 2013 programming period.

3. Technical Assistance OP – TA OP (14) it is a program with an open call for projects with continue submission from February 2008 to January 2015. The TA OP aims to ensure a continuous process of implementation of structural instruments in Romania accordance with the principles and rules of partnership, programming, impact assessment and progress evaluation, structural instruments information, publicity and communication, management, including sound financial management, monitoring and control, according to the principles of shared responsibilities between the Member States and the European Commission.

The general objective of TA – OP is to provide support to the coordination process and to contribute to the implementation and effective, efficient and transparent absorption of structural instruments in Romania. The TA OP has two specific objectives: 1) provision of support and adequate tools for the purpose of efficient and effective coordination and efficient and deployment of structural instruments for the 2007 – 2013 programming period and for the preparation for the next programming period and 2) ensuring coordinated communication and dissemination, at the national level, of the general messages concerning structural instruments and provision of specific support for the Authority for Coordination of Structural Instruments (ACSI for the the implementation of the communication action plan in line with the Structural Instruments National Communication Strategy.

The achievement of the TA OP objectives was aimed to be reflected in the increased absorption capacity and efficient use of structural instruments in Romania. For the fulfillment of the TA OP objectives, the funding was allocated for three priority axis:

-Priority axis 1”Support for implementing structural instruments and coordination of the operational programs”;

-Priority axis 2 "Further development and support for the Single Management Information implementing";

-Priority axis 3 "Dissemination of information and to promotion of structural instruments".

The TA OP total allocations were of 749 million Lei (exchange rate of 30.09.2014). Since the beginning of the 2007 -2013 programming period to 30 September 2014, there have been submitted about 188 projects of which value is estimated at 1,361 million lei; out of these, 164 projects have been approved and 155 of contracts were signed of a value of 718 million lei. For the contracted and implemented contracts, the absorption rate reached up to 39.49 %.

4. Regional OP – ROP (10) has the strategic objective of supporting the social and economic sustainable and, territorially balanced development of the regions of Romania, in accordance with the regional needs and resources. The ROP focuses in particular on the needs of lagging behind regions to make them more attractive regions for living, visiting, investing and working. The ROP is aiming to support the creation of 15,000 jobs and to prevent the increase of regional development disparities (quantified in terms of GDP/inh) by 2015. ROP has the following specific objectives:

- Increasing economic and social roles of urban poles to support more balanced regional development;
- Improving accessibility of the regions, in particular accessibility of urban centres and neighborhoods;
- Increasing the quality of social regional infrastructures with focus on education, health, social protection and emergency regional infrastructures;
- Increasing the regional competitiveness as locations for business;

Increasing tourism contribution to the regional development. Balanced development of all regions is expected to be achieved through an integrated approach, based on a combination of public investment in local infrastructure, active policies to stimulate the business activities and sustaining the capitalization of the local resources, structured on the following thematic priority axes:

-Priority axis 1 "Support for the sustainable development of cities - urban growth poles", which is aimed at improving the quality of life and the creation of new jobs by interventions targeting the rehabilitation of urban infrastructure and services and development of support infrastructures for business and entrepreneurship;

-Priority axis 2 "Improvement of local and regional transport infrastructure", aimed at increasing the accessibility of regions, mobility of population, goods and services in order to stimulate sustainable economic growth;

-Priority axis 3 "Improvement of social infrastructure", aimed at creating necessary conditions to provide to the population the basic services by improving the health, education, social public safety and emergency infrastructures;. Priority axis 4 "Support for the development of the local and regional business environment", which is aimed at setting up and developing relevant regional and local business infrastructures, rehabilitation industrial sites and supporting regional and local entrepreneurial initiatives, in order to facilitate the jobs creation and sustainable economic growth;

-Priority axis 5 “Sustainable development and promotion of tourism”, aimed at supporting the valorization and sustainable development and promotion of cultural heritage and natural resources with touristic potential, as well as at supporting the improvement of touristic infrastructures to increase the regions attractiveness, the local economic development and jobs creation;

-Priority axis 6 “Technical Assistance”, is aimed to support effective implementation ROP.

The ROP total allocations were of 15,460 million Lei (exchange rate of 30.09.2014). Since the beginning of the 2007-2013 programming period to 30 September 2014, there have been submitted about 9,850 projects, of which 4,875 projects have been approved. There were signed 4,286 contracts of a total of 19,266 million lei. The expenditures declared to the to the European Commission amounts up to 8,835 million lei, to which it corresponds an absorption rate of 50.61%.

5. Environment Sectoral Operational Program P —SOPENV aims at improving the living standards and environment, with a particular focus as supporting the capacity to meet the EU acquis. To this end, the SOP ENV aims at reducing existing gap between the EU and Romania from the point of view of the quality and territorial and sectoral coverage of environmental infrastructure. Specific objectives of SOPENV are:

- Improve of the quality and access to water and wastewater infrastructure;
- Development of sustainable waste management system;
- Reducing the negative environmental impact and mitigation of climate changes caused by the urban heating systems;
- Protection and improvement of biodiversity and natural heritage;
- Reducing the incidence of natural disasters affecting the population.

For the achievement of these specific objectives referred to above,, six priority axes were defined:

-Priority axis 1 „Extension and modernization of the water and wastewater systems”, to improve access to basic facilities of the water and sewerages systems, to provide quality water in urban areas and to protect and to rehabilitate water sources in Romania;

-Priority axis 2 “Developing integrated waste management systems and rehabilitation of historically contaminated sites”, aiming at improving the waste management systems in urban areas, reducing the number of historically contaminated sites, increasing the coverage of urban population having access to quality waste collection and management systems;

-Priority axis 3 „Reducing pollution and mitigation of climate change by restructuring and rehabilitation of the urban heating systems to achieve energy efficiency targets in identified local environmental hotspots”, aimed at reducing negative impact on the environment and human health in the most polluted areas of old urban heating systems, mitigating of the climate change, reducing pollutant emissions in the localities envisaged for SOP ENV interventions;

-Priority axis 4 “Implement appropriate Systems Management for Nature Protection” aiming to develop and implement efficient active management for protecting areas and to preserve biological diversity and natural habitats,, with an emphasis on strategic development in the long term;

-Priority axis 5 “Deployment of adequate infrastructure to the prevention of natural risk prevention in most vulnerable areas”, with an emphasis on investments that provide an

adequate level of protection against floods aiming to contribute to the improvement of economic, environmental, ecological conditions, to ensure protection and rehabilitation of Black Sea shores etc;

-Priority axis 6 „Technical Assistance”, which provides technical and financial support for the planning, monitoring, evaluation and control processes, with a view of effective implementation of SOPENV.

The SOP ENV total allocations were of 19,425 million lei (exchange rate of 30.09.2014). Since the beginning of the 2007-2013 programming period to 30 September 2014, there have been submitted about 694 projects, out of which 511 projects have been approved. There were signed 485 contracts of which value amounts 21,924 million lei. Expenditures declared to the to the European Commission amounts up to 7,173 million lei, to which it corresponds an absorption rate of 36.93%.

6. Increase of Economic Competitiveness Sectoral Operational Programme - IEC – SOP has as the general objective to increase productivity in Romanian companies, in accordance with the principles of sustainable development and to reduce compared to the average productivity of EU. The quantified target consists in reaching about 555 of the EU productivity average by 2015. For the achievement of the strategic objective, the following specific objectives were defined:

- Consolidation and environment friendly development of the production sector;
- Creation of a favorable environment for a sustainable development of enterprises;
- Increase in the research and development capacities, stimulating cooperation between the research, development and innovation institutions/centres and enterprises;
- Valorization of ICT use in both the public sector (government) and the private sector (citizens, firms);
- Increase the energy efficiency, including the use of renewable energy, and the increase of security of supply within the context of combating climate change.

In the conduct of IEC SOP there were defined 5 priority axes:

-Priority axis 1 “Innovative and eco-efficient production sector”, aiming to improve the access of SMEs to finance and sustainable development of an entrepreneurial activities;

-Priority axis 2 “Research, technological development and innovation for competitiveness”, aiming to support the development of RDI capacities/infrastructures and partnerships between universities/research institutes, RDI and enterprises, technological development and innovation;

-Priority axis 3 “ICT for private and public sectors”, which aims at extending and better exploiting the ICT use in both public and private sectors, including actions related to the development and increased efficiency of electronic services and support for e-economy;

-Priority axis 4 “Increase energy efficiency and security of supply, in the context of combating climate change”, which aims at obtaining an efficient and sustainable energy system, better valorization of renewable energy resources and supporting diversification and interconnection of various networks to increase the security of supply of energy;

-Priority axis 5 “Technical Assistance”, which has as objective of supporting the development of an effective OP management, implementation, impact assessment, progress evaluation and information technology development.

Since the beginning of the 2007 -2013 programming period to 30 September 2014, there have been submitted about 16,175 projects of a total value of 85,556 million lei. There were

7,201 projects approved, of a total value of 15,010 million lei. 5,514 contracts have been signed, of a total value of 13,177 million lei, to which it corresponds an absorption rate of 36.40 %.

7. Sectoral Operational Programme Transport – SOP - T (POR) has the global objective to promote a sustainable transport system in Romania, which facilitate the safe, fast and efficient mobility and movement for persons and goods with a level of service at European standards, nationally, Europe wide, between and within Romanian regions in Romania. The fulfillment of SOP T global objective is foreseen as the result of the achievement of the following specific objectives:

- Promoting in Romania of international and transit movements of people and goods;
- Promoting efficient movement of persons and goods between regions in Romania, as well as transferring from remote areas to the priority axes of transport by modernizing the TEN T and national networks;
- Promoting the development of a balanced transport system, by valorizing the competitive advantage of each transportation modes;
- Supporting the development of sustainable transport by minimizing adverse effects of the activity of transport on the environment and improving the safety traffic and public health.

Within the framework of the program SOP-T following priority axes are established:

-Priority axis 1 “Modernization and development of trans-European transport priority axes aiming to develop a sustainable transport system integrated in EU networks o” which has as objective in developing road, in particular motorways, rail, and inland water infrastructures to o increase interoperability ;

-Priority axis 2 “Modernization and development of the national transport infrastructure aiming to develop a sustainable national transport system”, which has as objective of modernizing and developing of the national road, rail water and air transport infrastructures to increase quality safety and speed of services for passengers; actions eligible for funding targets, Danube ports, sea and air transport, Bucharest underground system etc.;

-Priority axis 3 “Modernization of the transport sector aiming at increased environment, human health and passenger safety”, which has as of implementing the sustainable development principles in transport to minimize the adverse effects of transport sector on environment and to improve the traffic safety on all modes of transport;

-Priority axis 4 “Technical Assistance”, which has as objective in supporting efficient SOP T management, implementation, monitoring, and the activities of information and publicity measures on SOP-T.

Since the beginning of the 2007 -2013 programming period, to 30 September 2014, there have been submitted about 222 projects accounting for of 70,545 million lei. There were 118 projects approved of a total value of 17,693 million lei. There were signed 105 contracts of a total value of 13,686 million lei to which it corresponds an absorption rate of 34.33%.

The analysis of the evolution of the 7 OPs under the 2007-2013 Convergence objective indicates a high interest of Romanian potential beneficiaries to access the funding available under the structural instruments heading; the corresponding key indicators for the interest of potential eligible are the total number of applications submitted (43,908 applications) and the total value of the applications submitted (331,457 million lei) which exceeds by the EU allocations. Obviously not all of applications submitted could receive financing and

that not all of them have met all the eligibility and/or evaluation and selection criteria to receive funding from structural instruments. Of the total application submitted as referred to above, there have been approved only 17,503 (a 40.80% rate of success) of which for only 14,606 projects contracts were signed and activities implemented. Most of contracts signed were funded under were for the program IEC-SOP - 5,514 contracts (over 37.75% of the contracts signed), followed closely by R-OP - 4,286 contracts (29.35% of the contracts signed) and HRD-OP - 3,605 contracts (24.70% of all contracts signed).

The prioritization of key economic and social cohesion and development objectives and needs of the Romanian authorities for the 2007-2013 programming period is reflected in the financial breakdown of structural instruments by Operational Programs. Thus, the most significant allocations are specific to transportation and environment infrastructures, respectively to SOP-T (4,426 mil. Euro) and SOP ENV (4,413 mil. Euro), also regional development and human resources development objectives benefited of significant financial allocations - ROP with an amount of 3,966 mil. Euro and HRD - OP with an amount of 3,476 mil. Euro. The financial breakdown of structural instruments allocation by OPs was also dependent, at a lower extent, by the estimated absorption capacity, based on the pre-accession experience. The interest of potential beneficiaries of accessing funding under various OPs is not directly dependent on the OPs available budgets. Thus, the analysis of the projects submitted since the beginning of the 2007-2013 programming period to the end of September 2014 supports this conclusion. It is to be noticed a great interest for accessing IEC - SOP funds, with a total of 16,175 of projects submitted of which value is about 85,556 million lei, followed by projects submitted under HRD-OP - 15,408 applications of a total value of 69,854 million lei.

The absorption rate remains low. After a slower pace, significant increase in the absorption rate may be observed between September 2013 and September 2014.

The significant increase of the absorption rate of the structural funds during September 2013 and September 2014 may be explained by: 1) specific project cycles (most of the projects contracted between 2008 and 2013 have been implemented and completed and therefore the expenditures declared were reimbursed), 2) measures adopted by Romanian government to speed up the processing of reimbursement claims of beneficiaries and 3) impact of advance payments for the project contracted at the beginning of the 2014 (the increase number of contracts signed in 2014 is the result of the measures adopted by the government to reduce the disengagement risks of structural funds allocations under N+2/N+3 rule). The analysis indicate that the ACD - OP is the best performing OP, respectively it has the highest absorption rate - 67.91%; this is particular case, since all the 456 approved projects of 139 millions lei were contracted and implemented. Also, due to the measures undertaken by the Managing Authority, the R-OP had a positive ascending trend of absorption rate which raised from 16.62% in 2013 up to 50.61%, meaning a three time increase of the absorption rate in 12 months. It is to be noticed that, for the both best performing OPs it is the public administration as main beneficiaries of the projects funded. . On one hand the bureaucratic administrative procedures for processing the beneficiaries reimbursement claims undertaken by the managing authorities and intermediate bodies have generated a series of blocking problems that have led delays in processing the reimbursement request and submission of payment claims to the European Commission; also, non compliance of procedures with EU requirements led, in case of some OPs to the suspension of payments by the European Commission. Regular, regular legislative changes concerning, principally, the project implementing conditions, also explain low rates of absorption; this is the case for the HRD-OP which has at 30.09.2014 the lowest absorption

rate (the absorption rate remains at 28.75%), with a less spectacular evolution, we may say relatively constant from 16.94% in 2013 up to 28.75% in 2014.

Until 30 September 2014, payment claims have been transmitted to the EU statements of expenditure of a total value of approximately 33 million lei (for which have been deployed all the verification and validation procedures), with a result in overrunning the threshold of 35% (38.46%) for the current absorption rate, of the EU allocation funds rate in the period of programming 2007-2013.

Over-contracting is a common measure undertaken by all managing authorities as prerequisite for higher estimated absorption rate. Thus, the EU contribution to the projects contracted by amounts for 87,728 million lei (approximately 19,926 mil. euro), representing approximately 103% of the total EU funds allocated for the 2007 - 2013 programming period. Still, for the reasons presented above, the value of payments (advance payments and reimbursements) made by the European Commission, at 30.09.2014, do not exceed 38,850,463,474 lei and represent only 43.53% of the EU allocations for the 2007 – 2013 period.

Conclusions

The absorption capacity of the European funds is not yet at the sufficient level, with many and serious weaknesses which must be solved in order to prevent the occurrence during the 2014-2020 programming period of the further bottlenecks and the risks already encountered in the 2007–2013 programming period. Training institutions should become more active in training and retraining specialists for accessing and sound management of EU non-reimbursable funding, as prerequisites for effective and increased absorption and to support economic and social progress. Neither that accessing the European funds does not end with 2013, but once again begins with the start of the financing for a new 2014-2020 programming period. For this period - to become more profitable for our country – it is an important contribution to be made by the establishment of an appropriate development strategy aiming to make effective use of the EU money and to effectively integrate the lessons already learned from this 2007-2013 programming period. It is the responsibility of each country to match all directions of investment in a suitable policy to hasten the process of modernization through a strategy which gives a new horizon and a different perspective for the leverages of the European funds.

Complex issues concerning the use of the structural and cohesion funds, combined with the valorization of the lessons learned and integration of best EU practices, should be key issues underpinning a better management of funds for the 2014–2020 programming period. To this end, Romania needs to accelerate its absorption significantly to avoid losing funds from the next period, respectively 2014-2020.

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