Achievements and Prospects of the Absorption of Structural and Cohesion Funds under the Impact of Global Crises

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Abstract

Regional development and socio-economic cohesion is macro processes that are involved and engaged in all EU Member States. Romania, a full member on 1 January 2007, could not miss, but the degree of participation and profitability absorption of Structural Funds and Cohesion (FSC) - the main instruments for the implementation of cohesion policy in the Community - is different other countries because it raised the necessities and less possibilities, nor to be reformed so as to be a more active partner and valued in the struggle for development and intra-community cohesion. Romania has the lowest uptake of FSC in the EU at a rate of reimbursement requests in Brussels at the end of March 2016, only 61.57%. In this article we try to disseminate the causes of this low absorption, taking account of experience to date and the imperative for Romania to improve its absorption in 2014-2020.

Keywords: Regional development, social cohesion, structural funds and cohesion, low absorption, regional disparities.

1. Introduction

The EU is approaching the 28th anniversary of the first reform of the Structural Funds agreed upon in 1988. Three generations of cohesion policy

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programmes have been implemented and completed since then. During the three periods of structural funding programming – 1989-1993 (Delors I Package), 1994-1999 (Delors II Package) and 2000-2006 (Agenda 2000) – the EU allocated around EUR 500 billion to foster regional convergence and development at European and national level, especially in the less developed countries in the EU. A further EUR 347.4 billion (at 2008 prices) were planned for the 2007-2013 period, while for the 2014-2020 programming period funding amounts to about EUR 351.8 billion (at 2012 prices), with an increasing share allotted to the new Member States [1].

2. Theoretical Background

If we traced the evolution of Cohesion Policy, one can observe that a policy recast has accompanied almost every wave of EU enlargement and that disparities have increased within the EU [2]. The most recent enlargement waves (10 new Member States in 2004, two others in 2007 and Croatia in 2013) triggered major challenges for cohesion policy: the population and area of the EU have increased by more than a third, a new group of states has emerged, with a GNI below 90% of the EU average, the centre of gravity of Cohesion Policy has shifted to Eastern Europe and the existing problems in Western Europe have not disappeared overnight, rather they have exacerbated amid the global crisis and thus still demand significant financial contributions [10].

The current reform of SCFs (Structural and Cohesion Funds) has indeed emerged in answer to these challenges: there has been a reform of Cohesion Policy, with more than 75% of SCFs being allocated to those Member States and regions lagging behind in terms of their level of development.

In total, for the 2007-2013 programming period, there have been 455 OPs and approximately 900 major projects that should be completed by June this year. Most of the programmes part of this financial period were adopted before the end of 2007, making it the fastest programming exercise so far. Many analysts viewed the good pace of the preparation of programmes as indicative of optimum coordination and as a promise for the future; however, the global economic crisis, fuelled and triggered across the ocean, would give to major challenges and reorder priorities for the EU [7]. Consequently, at the end of 2008, the European Council agreed on a European Economic Recovery Plan, which called for launching priority actions to enable the EU countries and regions to adjust more quickly to the new challenges. Under these circumstances, ensuring the proper
implementation of cohesion programmes remains highly important. Through its total financial resources, the SCF can provide real support for both fiscal stability and public investment in EU Member States [6].

In spite of the progress achieved prior to the accession – on January 1st, 2007 - and following this date, at both the regional and national level, the Romanian economy ranks well below the standard levels of EU economies [10].

Intra-regional disparities (between the counties making up each region) are major, and there are also important inter-regional inequalities. The most developed region, Bucharest-Ilfov, has a GDP per capita (PPS) barely over 75% of the EU average, while the North-East region has remained one of the poorest in the EU. Moreover, the capital region has remained, for the 2014-2020 financial period, the only region in the country falling under the “more developed regions” category, with average income exceeding 90% of the EU average. All these inequalities reflect important regional imbalances (6), which have been exacerbated both during the transition to the market economy and as the economic and financial crisis unfolded beginning in the second half of 2008.

3. Argument of the paper

The policy areas covered by SF are vast and encompass investments that help the less developed regions to restructure their economy in the increasingly competitive context created by the single market. Interventions financed under the Cohesion Policy are currently supported by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). The latter remains focused on actions in the field of trans-European transport networks, especially priority projects of European interest as defined by the EU, and on financing environmental projects in the less developed Member States (whose gross national income is below 90% of the EU average). The ERDF also finances infrastructure projects, in particular in trans-European networks, in addition to providing new production capacity and funding research and development. The ESF supports investment in human capital, the development and professional training of human resources, in agreement with the Europe 2020 strategy.

Since its accession to the EU, Romania has participated as a full member in the Cohesion Policy, being able to benefit for the first time from the SCFs that finance the policy. For the 2007-2013 period, the entire territory of Romania was eligible under two cohesion policy objectives: the Convergence Objective (CONV) and the European Territorial Cooperation
(ETC) Objective. As for the Regional Competitiveness and Employment Objective (RCE), Romania did not receive funding since the eligibility of regions under the CONV Objective excluded Structural Fund allocations under the RCE Objective [3].

Due to the fact that in all the development regions in Romania GDP per capita (PPS) was below 75% of the EU-25 average, the entire territory was eligible under the CONV Objective. Furthermore, Romania was allocated regional funding under the ETC Objective, for cross-border, transnational and interregional cooperation actions. As a result, the development priorities defined by the 2007-2013 National Strategic Reference Framework (NSRF) were divided among 18 Sectoral Operational Programmes (SOPs) and Operational Programmes (OPs), with 11 of the programmes under the European Territorial Cooperation Objective and 7 under the Convergence Objective, each aiming to achieve certain specific objectives:

- **SOP Transport** (POS-T) – promoting a transport system that facilitates safe, fast and efficient movement of people and goods, at national and international level, in compliance with European standards.
- **SOP Environment** (POS-M) – improving living conditions and the environment, aiming in particular to achieve EU environmental standards.
- **SOP Increasing the Economic Competitiveness** (POS CCE) – increasing the productivity of Romanian companies and reducing disparities in relation to the average productivity at EU level.
- **SOP Development of Human Resources** (POS DRU) – increasing the labour market participation of a highly skilled labour force, with a greater capacity to adapt.
- **OP Administrative Capacity Development** (PO DCA) – sustainable improvement in certain sectors and the management activities of public administration.
- **OP Technical Assistance** (PO AT) – providing the necessary support for the coordination and implementation of SCF in Romania.
- **OP Regional** (POR) – complementary to the other 6 OPs - supporting the economic, social and territorial development of the regions, in a sustainable and balanced manner, according to their specific needs and resources.

The EU non-reimbursable funding allocated to Romania during the 2007-13 programming period, through the SCFs, under the CONV objective amounted to about EUR 19.2 billion, plus around EUR 454 million under
the ETC objective [4]. More specifically, under the CONV Objective, three programmes are funded by the ERDF: POR, POS CCE and PO AT, while two programmes are funded through the ESF, focusing on human resource development (POS DRU) and administrative capacity (POS DCA). Two infrastructure programs - environment and transport - are funded by both ERDF and CF.

The programs with the highest EU financial allocation were SOP Transport (EUR 4.56 billion - 23.80%), SOP Environment (EUR 4.51 billion - 23.50%) and POR (EUR 3.72 billion - 19.40%). At the opposite end, the lowest EU allocations were granted to PO DCA (EUR 208 million) and PO AT (EUR 170 million). Therefore, out of the EUR 19.2 billion (excluding the domestic public contribution) allocated to Romania through the SCFs, almost half were channelled towards physical infrastructure (for good reasons). This highlights the objective complexity of the path that Romania must take towards development, in addition to a decoupling from current trends at European and especially global level.

4. Arguments to support the thesis

Although Romania was very well positioned in terms of the approval by the EC of its OPs (ranked second after Austria) and major projects, these results did not reflect in the implementation process, as the actual start of the implementation of the NSRF strategy was much delayed. In other words, as expected, 2007 was the year of negotiations with the EC in view of the approval of the NSRF and OPs, as well as the first calls for proposals. The 2007-2013 NSRF was approved by the EC on 25 June 2007. Five of the seven Ops were approved in July 2007 (i.e. POR, SOP Environment, SOP Transport, POS CCE and OP Technical Assistance), while the remaining OP, financed under the ESF (POS DRU and PO DCA), received the EC approval only in November 2007.

As a result, the actual implementation rate was extremely low in the first post-accession year and rather different from one OP to another. This is supported by the fact that, by the end of 2007, only eleven funding lines had been opened, of which six for the environmental programme and four for regional one. Moreover, for the two OPs approved in November 2007 (POS DRU and PO DCA), the first calls for projects were launched only one year later in February and May 2008, respectively.

Under these circumstances, as regards the SCFs, Romania did not have the capacity to attract almost any kind of funding during 2007. The few million Euros that entered the country as European financing that year came
only from pre-accession funds and, most certainly, did not meet the domestic needs or the expectations of potential beneficiaries [2]. Although it was known that community bureaucracy involves a number of objective difficulties in accessing non-reimbursable funding, the necessary administrative measures to enable the absorption of such funds was near the bottom of the national and local policy agendas. Whereas for countries that had joined the EU in 2004, projects applications were submitted for 12% to 30% of the funding [2], in the case of Romania, the Government needed the first year after accession to fully set up the administrative infrastructure 3.

Based on the research we have conducted, we can argue that only by 2008 and 2009 did the large-scale launch of calls for projects begin, and by the end of 2009, almost all the operations foreseen in the seven OPs under the CONV Objectives (about 90%) were open to potential beneficiaries; furthermore, we can label the year 2010 as “the contracting year”, given the rapid increase in the number of contracts awarded/financing decisions concluded with the beneficiaries - about 40% of the total allocation had been contracted (out of ca. EUR 8 billion). However, at the end of that year, there was already a significant gap between the submission rate (24 967 projects) and the approval and contracting rate (5 012 projects). The very large number of projects rejected over that period, over 10 800, was indicative of the deficiencies in drafting projects according to the requirements established through the OP. Moreover, it needs to be stressed that the amount of payments to beneficiaries had reached only 1.75 billion euro, while reimbursements from the EC totalled only 365 million euro, for an absorption rate of 1.90% (Table 1), which placed Romania on the last spot among the EU-27 Member States.

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3 This was the case too for the National Rural Development Plan, approved by the EC only at the end of February 2008.
Table 1 – Evolution of the effective absorption rate, for each OP, for the 2009-2016 period

<table>
<thead>
<tr>
<th>OP</th>
<th>Allocations 2007-2013 (mil. EUR)</th>
<th>Absorption rate (reimbursements from the EC - %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>POR</td>
<td>3,966</td>
<td>0.23</td>
</tr>
<tr>
<td>POS DRU</td>
<td>3,476</td>
<td>0.04</td>
</tr>
<tr>
<td>POS CCE</td>
<td>2,554</td>
<td>3.41</td>
</tr>
<tr>
<td>POS – Environment</td>
<td>4,512</td>
<td>0.26</td>
</tr>
<tr>
<td>POS – Transport</td>
<td>4,288</td>
<td>0.68</td>
</tr>
<tr>
<td>PO DCA</td>
<td>208</td>
<td>0.02</td>
</tr>
<tr>
<td>PO AT</td>
<td>170</td>
<td>0.23</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19,057</td>
<td>0.73</td>
</tr>
</tbody>
</table>

*Note: Data available at 31 March 2016;
Source: Authors’ calculations based on the data from the Romanian Authority for Coordination of Structural Instruments (ACIS).

During 2010, amid the economic and financial crisis and in addition to the many legislative, procedural and institutional problems identified in the functioning of the OP implementation system, beneficiaries of EU financed projects faced increasing difficulties in ensuring their projects’ co-financing and timely completion. They were significantly affected by high financing costs, banks’ prudent lending policy and collateral requirements. Moreover, the crisis impacted many beneficiaries, especially in the private sector, who had used the EUR/RON exchange rate in the projects they submitted, as the rate subsequently depreciated, generating significant changes in the estimated economic and financial parameters. This resulted in the abandoning of certain ongoing projects, the submission of new project proposals or difficulties in completing project activities as established and agreed originally with the funding parties.

Although in 2011 there was a minimal risk of losing funding as a consequence of automatic decommitment by the EC, based on the n+3 rule, it became obvious that maintaining the earlier implementation rate would lead to massive funding losses as from 2012 [6]. We also consider the fact that in July-December 2011 Commission fund payments were temporarily suspended due to the major problems identified in the area of public procurement. Payments resumed based on commitments made by the Romanian authorities (aimed, in particular, at improving the management and control systems) and on certain conditionalities imposed by the EC (e.g.,...
applying financial corrections of 10% to 25%). Under the circumstances, the absorption rate had reached 5.55% at the end of 2011.

The subsequent years proved extremely difficult in terms of the process of managing community funds. The frequent government reshuffles, the failure to solve on time certain chronic systemic problems, the interruption of payments for five of the seven OPs (POS DRU, POR, POS T, POS M and POS CCE) during 2012 and 2013, the financial corrections applied, in addition to the increased strictness of the EC in relation to the efficiency of management and control systems, all contributed to low SCF absorption. Thus, as can be seen in Table 1, POS DRU and the OPs targeting the building of basic infrastructure, such as the Environment and Transport programmes, steadily recorded lower absorption rates than the national average throughout the period under examination. In addition, the use of other sources of funding remained limited [1].

In this respect, it is worth recalling that in 2015 the EC set up a task force whose role was to remedy the difficulties in implementing the cohesion policy, reduce the risk of decommitment of its funds and maximise absorption capacity. The creation of this structure permitted the implementation of major projects at risk, mainly by applying the phasing procedures. In other words, Romania was given the opportunity to benefit from European funding over the 2014-2020 programming period for a number of projects started, but not completed during the 2007-2013 period.

Despite the multiple efforts and the significant progress made in recent years, Romania continues to record low SCF absorption rates in relation to the EU average. In the European Commission statistics (see Figure 1), Romania also ranks last in terms of the absorption of structural instruments, except for Croatia, which has joined the EU rather recently (July 2013). On the contrary, Bulgaria, which had been ranked last in SCF absorption (including for regional funds targeting the ETC objective), has surpassed the Czech Republic, Spain, Malta, Italy and Romania, with a current absorption rate of ca. 90% (including pre-financing), 17 percentage points ahead of Romania. The average EU absorption rate on March 31, 2016 stood at 90.1%, while for Romania the figure was only 72.6%. This summary also includes the advance payments received from the EC, which means that Romania’s effective absorption rate (reimbursements from the Commission) is only 61.57%, much too little if compared with the rate of any other EU Member State. According to EC regulations, there are two more months left until the end of the 2007-2013 financial period, while the unspent EU funds total about EUR 7 billion [3].
Nevertheless, despite the difficulties encountered, visible progress was made in streamlining the operation of management and control systems, both from the legislative and institutional perspective. Consequently, by the end of 2015, the Ministry for European Funds reported the creation of over 41,100 jobs, with more than 600 in research. At the same time, transport infrastructure and accessibility had been improved, as 124 km of motorway had been built and 9,000 km of national roads rehabilitated, while more than 5,000 Romanian companies had been supported to develop. SCFs had also been invested in refurbishing more than 400 medical centres, schools and other social infrastructure and in providing services in these areas to European standards.

5. Arguments to argue the thesis

The analysis framework outlined above highlights a series of issues in the evolution of financial implementation during the 2007-13 programming period. We believe that, based on all of the above, we can state with quite a high degree of confidence that the examination of the SCF implementation system exposes the persistence of horizontal bottlenecks and problems, which hinder the growth potential in the absorption of structural instruments. The main problems identified relate, firstly, to the limits of the institutional framework and to the constantly deficient coordination of the SCF management system. These have reflected in the failure to deploy measures with a major impact on absorption and exerting decisive influence on other structures, operating within various ministries.

Figure 1 Cohesion policy in EU - 2007-2013 Funds Absorption Rate (March 2016 - %)

Indeed, only in September 2011 was a functional structure - the Ministry for European Affairs (from December 2012 to the present, the Ministry for European Funds) – finally established to coordinate politically, not only technically, the process of implementing and managing EU funds [8].

The factors that determine the low absorption of EU funding are well known (although not fully taken into account): the excessive bureaucracy that accompanies SCF management, the difficulties in providing co-financing or the advance financial resources required to implement a project [9], the limited ability of local and central public authorities to identify priorities and to design projects of special interest and attractive in terms of their impact and quality [3]. Although the development and strengthening of administrative capacity (by extensive and intensive means) has been on the agenda of the Government of Romania ever since the pre-accession period, it seems that solutions have remained largely formal.

On the other hand, a further reason for the low absorption is constituted by the difficulties that public beneficiaries, at both central and local level, encounter in the implementation of projects, the main motives being the lack of experience and expertise of public beneficiaries in carrying out projects with European financing, coupled with frequent changes in guidelines/instructions for beneficiaries, the limited number of staff and the low pay of experts in the responsible ministries, regional development agencies or local councils. Moreover, the numerous political disputes surrounding the process of project approval have delayed decision-making essential for the promotion of projects (as in the case of the Community Development Associations).

The cases of excessive corruption related to European funds use and the conflicts of interest, both in the management and control bodies and among beneficiaries, have led to a public perception of endemic corruption in the EU funds implementation system in Romania. There were 1 495 criminal cases dealing with EU funds pending at the National Anticorruption Directorate in 2014 alone, a 43% increase compared to the previous year. This situation affects relations with the EU institutions, causing delays and complications in the overall process of project evaluation and control required to determine conflict of interests both ex ante, before the start of the public procurement procedures, and ex-post, when verifying the repayment request. In addition, the absence of real development indicators and the incoherent objectives set in the strategic documents, in conjunction with the lack of local and regional development strategies to be implemented, have led to a very low absorption rate so far.

At the same time, we ought to mention that, last but not least, an additional factor is that the national and regional/local authorities faced
certain difficulties in managing two overlapping programming periods, as they needed to adapt the administrative structures to the new cohesion policy regulations and rules, while seeking to ensure the management of the pre-accession period, relying largely on the same administrative and human resources. As previously noted, the process was further aggravated by the relatively short and insufficient experience in managing EU funds, the weak administrative absorption capacity and the internal reorganisation processes of the authorities, which all undermined administrative continuity. There is no doubt that, as with any other EU Member State experiencing investment through the SCFs for the first time, Romania needed time to adapt to the challenges [11].

Given these realities, we must emphasise that the economic downturn has triggered budgetary constraints that have had at least two effects on the implementation of cohesion policy. Firstly, the budgetary consolidation strategies that were initiated have created challenges in terms of co-financing (especially for large-scale projects funded through the ERDF and CF). Secondly, the crisis has attracted and redirected the attention of decision-makers to alternative counter-cyclical policies at national level, with less restrictive rules and conditions. Consequently, this explains why the EC, aware of this problem, countered it by launching the EERP and accelerating the pace of pre-financing during the 2009-2012 period (from 15% to 30%) [5].

In the case of Romania, with the support of EC experts, the government undertook a range of measures to improve administrative capacity, whose results are yet to be assessed - at least until the end of June 2016, when the last intermediate payment request will be submitted to the EC, for which an ambitious absorption target (70-80%) has been set compared to the level achieved so far. It appears that the most recent plan aiming to accelerate the absorption of SCFs is the one launched by the Commission's Task Force for Better Implementation, set up by the EC in 2015, which lays out concrete action measures for the Environment, Transport, Competitiveness and the regional programmes. Mention must be made of the Priority Action Plan, which includes both horizontal measures and measures specific for each PO. The plan is coordinated by the ACIS and was approved at the end of 2011, yet its impact has not been felt significantly.

6. Conclusions

More than nine years after joining the EU, Romania has effectively absorbed EUR 11.7 billion out of the approximately EUR 19.7 billion available for the 2007-2013 period, with an interim payment rate of only
61.57%, ranking last by far in the EU. The in-depth analysis of the SCF implementation system reveals the persistence of horizontal blockages and problems in the absorption of structural instruments in Romania, including: poor intra and inter-institutional coordination at the central level of the SCF management and control system; the lack of correlation between the public procurement regulatory framework and the need to streamline the absorption of European funding; corruption acts and conflicts of interest; limited administrative capacity at all levels involved in SCF management and implementation; poor capacity of all types of beneficiaries, whether public or private, central or local, in designing and implementing projects; breakdowns in the financial flow required for the smooth running of EU-funded projects, stemming from the lack of funds needed to provide pre-financing and repayments, the high level of pre-suspended payments, interrupted payments and financial corrections, etc.

Although the development and consolidation of administrative capacity (by extensive and intensive means) has been on the agenda of the Government of Romania since the pre-accession period, it appears that the solutions have remained largely formal [12]. The absorption of EU funds has been hampered by insufficient administrative capacity to manage programs and projects, and the fact that 2016 is an electoral year only extends this agony of administrative incompetence that the country has experienced over the last 26 years. Moreover, we can conclude that administrative capacity rather than economic crisis has been the most serious impediment to accelerating and improving the absorption process, while the success of non-reimbursable structural assistance is a matter of reforming bureaucracy.

Finally, it must be underlined that, once identified, the various impediments and difficulties encountered in the SCF implementation system should be tackled with the utmost commitment by the competent authorities in order to identify and apply reasonable solutions, from the legal, institutional, procedural or financial perspective. Ultimately, achieving a high degree of absorption of all European funds depends to a large extent on the effectiveness, efficiency and speed with which the barriers to the process are removed.

References


