

## **Absorption capacity of Structural Funds in Romania**

Popa Florina, The Institute of National Economy

### **Abstract**

*The ability to finance and absorb more efficiently European Union Funds has an important role in the process of real convergence of Romania, reported to the European Union, and recovery of gaps to other Member States. The study reveals both the essential elements of the absorption capacity and co-financing, as well as the challenges related to structural funds absorption. Finally, we try a case study on Romania, with regard to the degree of European Funds absorption, made on the basis of statistics, in development (2007-2011).*

### **Keywords**

*Structural funds, degree of absorption, co-financing.*

**JEL Codes:** R0, R38, R58

### **General approach**

The absorption of European Union funds, sensitive issue for the current stage of development of Romania, is an important process for the real convergence that Romania must meet in relation to European Union, recovering the gaps from other Member States.

Absorption capacity expresses the degree to which a country is able to spend effectively and efficiently, the financial resources allocated through the Structural Funds. Achieving this objective depends on the one hand, on the ability of the institutional system established by that State to administer the funds in question, and on the other hand, on the beneficiaries potential to whom they are addressed, to create projects and to co-finance.

To be eligible for assistance from structural instruments of the European Union, does not necessarily guarantee the success of Romania, but the key is represented by its capacity to fund and to absorb funds in an effective manner, respecting all the conditions laid down in regulations on structural instruments.

At a country level there are three aspects of capacity: macroeconomic, administrative, financial.

### **Macroeconomic absorption capacity**

Is defined in relation to Gross Domestic Product, which involves:

- limiting the yearly Structural and Cohesion Funds amount of which a member state may benefit at 4% of GDP<sup>1</sup>;
- the need to increase budget expenditures as a result of accession; since 2007 Romania have had to ensure the budget expenditures to 2% of GDP higher than the previous period<sup>2</sup>,

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<sup>1</sup> **Coord. Gheorghe Opreșcu Institutul European din România – Studiile de Impact III Analiza capacității de absorbție a fondurilor europene în România** - citează „Regulamentul Consiliului nr.1260/1999”, [www.ier.ro](http://www.ier.ro)

<sup>2</sup> Idem 1

determined strictly by the obligations undertaken in the context of European integration, respectively: the contribution of Romania to the European Union budget, the amounts allocated from the national budget for co-financing of some measures and priorities financed by European Union funds.

### **Administrative absorption capacity**

It refers to the ability of central and local authorities to prepare plans, projects and programs in a timely manner, to organize an effective partnership, to meet the administrative obligations, to finance and supervise the implementation process, avoiding irregularities.

To strengthen the administrative capacity, there are necessary investments to help improve the policy and decision-making process, at the level of public management, create the performance of the institutional system, competence and motivation of human resources, improvement of quality standards in the provision of public services. Fulfilling these elements can make the public central and local authorities, important players in the process of funds absorption. This implies:

- **institutional development.** It is needed an institutional convergence able to absorb European Union funds and to ensure good governance at all levels, to interact effectively with governance at European Union level, which means strengthening the administrative capacity to ensure the necessary co-financing by local authorities. For Romania, there has been created a number of appropriate institutional structures; the coordinator of management authorities which manages the Structural Funds is the Ministry of Economy and Finance. For each operational programme there are management organizations, represented by ministries.

- **qualification and motivation of human resources** refers to the ability to estimate and recruitment of necessary personnel, his qualification, providing in advance, an experienced and motivated personal being one of the determining factors for successful funds management.

- **transparency in the management of European funds.** Without the existence of a system for monitoring the European Union financed projects, can not be made effective coordination of them. This includes: responsibilities and tasks sharing to institutions or to their units and departments, taking into account the phases related with the stages of the Structural Funds running: management, programming, implementation, monitoring and evaluation.

Each country organizes its institutional structure according to the local specific; the purpose is the efficient use of Community Funds.

One of the new changes emerging in the public administration principles is the intercommunality concept. The measure consists in cities and regions joining for the purpose of necessary budgetary resources establishing, to support major infrastructure projects. Cooperation of local authorities makes it possible to run large projects, at European standards, where each, severally, would not have the necessary resources.

### **Financial absorption capacity**

It expresses the central and local authorities opportunities to co-finance programs and projects supported by the European Union, to plan and ensure such internal contributions in annual budgets, to collect them from the partners involved in a project or programme.

Co-financing, a factor of influence of absorption capacity, constitutes a basic principle of cohesion policy and it considers the supplementing of the Community assistance grants, by the financial contribution of Member States. The beneficiaries of Structural Funds must support some of the costs of drawing up and implementing the proposed projects, and funds may come from government resources of public central and local authorities, other state resources, or private funds.

● **Romanian ability of co-financing** involves government responsibility to ensure the co-financing of costs with implementation of cohesion policy; this commitment of both technical and political kind, is to identify co-financing problems that beneficiaries encounter and to take necessary measures. The aim is both to find solutions for ensuring the necessary funding, and to create conditions to attract private investment.

● **Public co-financing** is ensured from the central or local budgets of state, by other public institutions or associations of public institutions. If the budgetary resources are insufficient, may resort to borrowing from the domestic or foreign bank market.

As regards the effort to co-finance of the public local authorities and of the Local Council (as a regulator) and Hall (as executive), there are a noticeable number of issues that characterize the possibilities of absorption in this sector.

a) **The need for increased resources for funding** generated by several factors:

- increased responsibilities without a corresponding allocation of resources. The promoted decentralization by the process of integration requirements, as well as the local political imperatives brought to public authorities, more delegated powers, not always accompanied by appropriate resources allocated;

- massive investment requirements resulted from the accession to the European Union, in particular, in the environment and infrastructure area, where local public administrations will have to contribute through necessary co-financing, to obtain Community Funds.

b) **Main sources of co-financing** which may be considered by local governments, consist of:

- increasing the amount of own resources from tax incomes, based on the increase of local taxation base, which means the local economic power growth;

- raising loans.

c) **Banks** have an important role in providing funds for applicants who need them, to supplement their own sources while financial institutions offer is materialized into the loan and bank letters guarantee.

d) **The conditions for loans obtaining** by local authorities, as well as their capacity of loans repayment, involve take into consideration several issues:

- the level of local authorities indebtedness is limited, so that they can not trust credits or letters of bank guarantee if the annual debt service for the whole portfolio, is achieving a rate of 20% of the own revenues<sup>3</sup>;

- the loans repayment source is from their own revenues, rates, interests and commissions and it must be reflected in the structure of local budgets expenditures, throughout the loan.

### **Case study. The degree of European Union Funds absorption in Romania**

Romania's capacity to absorb European Funds, has proved to be reduced, and the comparison with other Member States at a similar moment, draw a warning, regarding the modest place occupied by Romania, in comparison with other European countries. Thus, in the first year of accession, according to analysis made by the Romanian National Bank, the rate of absorption was only 21,7%, while other admitted countries in 2004, like the Czech Republic, Poland, Slovakia, Hungary, recorded a nearly double, around 42% in the year in question.

In that Romania managed to draw only 0,440 billion Euros in 2007, in the allocated amount of 2,0 billion Euros, while the contribution to the European Union budget was 1,2 billion Euros, put our country in a situation of net contributor; also, it is the only Member State that found in this situation<sup>4</sup>.

Data below, shows the years staggering of Romania's contribution to the European Union budget, compared with the allocated amounts.

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<sup>3</sup> Idem 1

<sup>4</sup>Isărescu Mugur (2008), *Atragerea fondurilor europene în România și perspectiva economico-financiară în 2008*, Banca Națională a României, [www.bnr.ro](http://www.bnr.ro);

**Table nr.1 Total allocated European Union Funds and the contribution of Romania to the European Union budget 2007-2011**

	2007		2008		2009		2010		2011	
	mld.	% în								
	EUR	PIB								
<b>1 Total allocated European Union Funds</b>	2,0	1,7	2,9	2,2	3,9	2,5	4,3	2,5	4,5	2,4
<b>2 The contribution of Romania to the European Union budget</b>	1,2	1,0	1,4	1,0	1,2	0,8	1,3	0,8	1,3	0,7

Sursa: **Mugur Isărescu(2008)**– “Atragerea fondurilor europene în România și perspectiva economico – financiară în 2008”, **Banca Națională a României**, Ministerul Economiei și Finanțelor, Institutul Național de Statistică, Comisia Națională de Prognoză, [www.bnr.ro](http://www.bnr.ro)

In graphical below representations, the purpose is to strive for the change of net absorption ("+") and, respectively, net contribution ("-"), depending on the drawn funds, considered both at the actual amount (in 2007) and at virtual values, per year.

Notice: FA – funds wich are allocated to Romania

CR – Romanian contribution

FT – drawn funds

$AN/CN = FT - CR$ , in which:

AN = net absorption, if  $FT - CR > 0$  ( $FT > CR$ )

CN = net contribution, if  $FT - CR < 0$  ( $FT < CR$ )

**Year - 2007**

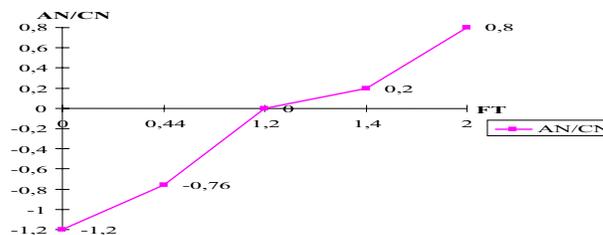
FA = 2,0 billion €

CR = 1,2 billion €

It is considered  $f_{FT}$  function, defined on the  $[0, 2]$  interval, representing all the possible values of FT, with values in the  $[-1,2, 0,8]$  interval, representing all the possible values of AN / CN.

$f_{FT}: [0, 2] \rightarrow [-1,2, 0,8]$

$f(FT) = AN/CN = FT - CR$ .



**Fig. 1 Net contribution (-), neutral position, net absorbtion (+), for 2007**

Own chart. Data from: Mugur Isărescu (2008)– “Atragerea fondurilor europene în România și perspectiva economico – financiară în 2008”, Banca Națională a României, Ministerul Economiei și Finanțelor, Institutul Național de Statistică, Comisia Națională de Prognoză, www.bnr.ro and virtual data.

**Notice:**

FT = 0,44 billion € - effectively drawn amount in 2007,  
 CN = -0,76 billion € – net contribution in 2007.

If FT takes values in the range [0, 1,2) ⇒ **net contribution**

If FT = 1,2 ⇒ **neutral position**;

If FT takes values in the range (1,2, 2] ⇒ **net absorption**.

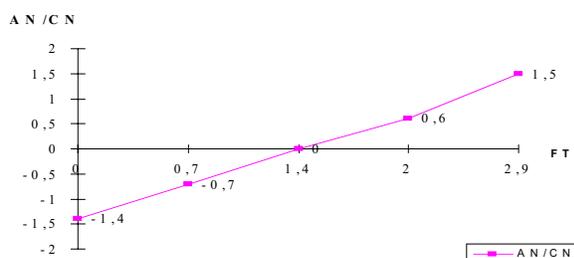
**Year - 2008**

FA = 2,9 billion €

CR = 1,4 billion €

$f_{FT}: [0, 2,9] \rightarrow [-1,4, 1,5]$

$f(FT) = AN/CN = FT - CR$ .



**Fig.2 Net contribution (-), neutral position, net absorption (+), for 2008**

Own chart.. Data from : Mugur Isărescu (2008)– “Atragerea fondurilor europene în România și perspectiva economico – financiară în 2008”, Banca Națională a României, , Ministerul Economiei și Finanțelor, Institutul Național de Statistică, Comisia Națională de Prognoză, www.bnr.ro and virtual data.

**Notice:**

If FT takes values in the range [0, 1,4) ⇒ **net contribution**

If FT = 1,4 ⇒ **neutral position**;

If FT takes values in the range (1,4, 2,9] ⇒ **net absorption**.

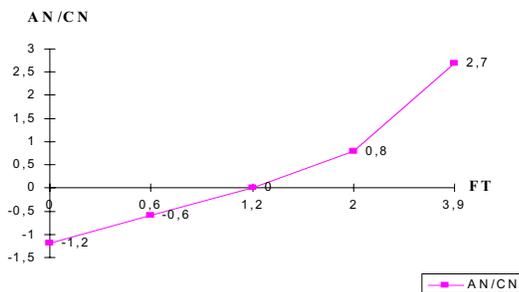
**Year - 2009**

FA = 3,9 billion €

CR = 1,2 billion €

$f_{FT}: [0, 3,9] \rightarrow [-1,2, 2,7]$

$f(FT) = AN/CN = FT - CR$ .



**Fig. 3 Net contribution (-), neutral position, net absorption (+), for 2009**

Own chart.. Data from: Mugur Isărescu (2008)–“Atragerea fondurilor europene în România și perspectiva economico – financiară în 2008”, Banca Națională a României, Ministerul Economiei și Finanțelor, Institutul Național de Statistică, Comisia Națională de Prognoză, www.bnr.ro and virtual data.

**Notice:**

If FT takes values in the range  $[0, 1,2) \Rightarrow$  **net contribution**

If FT = 1,2  $\Rightarrow$  **neutral position;**

If FT takes values in the range  $(1,2, 3,9] \Rightarrow$  **net absorption.**

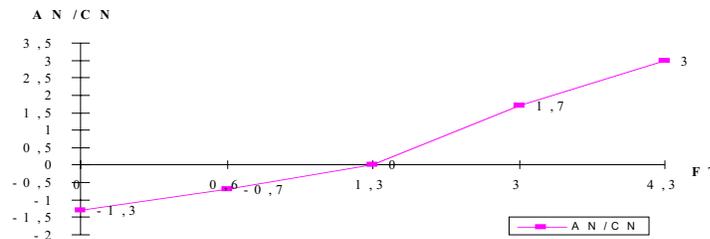
**Year - 2010**

FA = 4,3 billion €

CR = 1,3 billion €

$f_{FT}: [0, 4,3] \rightarrow [-1,3, 3]$

$f(FT) = AN/CN = FT - CR$



**Fig. 4 Net contribution (-), neutral position, net absorption (+), for 2010**

Own chart.. Data from: Mugur Isărescu (2008)–“Atragerea fondurilor europene în România și perspectiva economico – financiară în 2008”, Banca Națională a României, Ministerul Economiei și Finanțelor, Institutul Național de Statistică, Comisia Națională de Prognoză, www.bnr.ro and virtual data.

**Notice:**

If FT takes values in the range  $[0, 1,3) \Rightarrow$  **net contribution**

If FT = 1,3  $\Rightarrow$  **neutral position;**

If FT takes values in the range  $(1,3, 4,3] \Rightarrow$  **net absorption.**

In the above examples we have imagined theoretical situations, where, in the the given interval of drawn values, the absorbed amounts would be equal to "0"; equal to the payable sum as the contribution to European Union Funds; equal to the sum allocated to Romania; as well as two other intermediate values. Favorable situation, that is **net absorption**, appears only when **the drawn amounts** are greater than **the contribution to European Funds**.

**Conclusions**

One of the challenges of governance is to ensure maximum efficiency in linking policy, by the minimum intervention of state in the economy, in particular, paying attention to the regional and national level specific, seeking an efficient allocation of resources and priorities establishing.

To overcome obstacles and, ultimately, to meet the post-accession challenges is required the fulfil of purposes, such as:

- Regional development by creating the conditions necessary to stimulate economic growth of less developed regions, the promotion of sustainable economic and social development. There is requirement of necessary investments in infrastructure, transport, energy, social

investment (health, education), environment, tourism investments. In fulfilling of these objectives, there is ROP (Regional Operational Programme) with any destinations on the priority axes. Government must find solutions to ensure the level of public co-financing and to create conditions to attract private capital investment.

- Romania has the opportunity to decide the rate of funding per project taking into account the balance of the all operational program in question; therefore, authorities should decide the extent of supporting projects, at 100% of Community assistance, to be taken on the sectors which have real value added in the process of economic development, or in the sectors where the potential beneficiaries have difficulty in providing their share of co-financing.

- It is essential the training and developing of professional stable civil servants, to contribute to a more efficient administrative system and to the improving of relations between the administration and civil society. Values that the public function and civil servants management must take into account are the professionalism, performance of civil servants, administrative transparency, and neutrality in political, team spirit.

- Given the difficulties of local governments to ensure necessary co-financing resources, the easiness for local governments access to financing, by taking the measure to increase the debt ceiling, would mean a concrete granted support for them, conditional on the existence of guarantees property insurance; these measure should be taken with caution, so as not to reach the situation where the government is obliged to support the effort for repayment of loans.

In essence, one can say that the use of European Union Funds is an opportunity for economic development of Romania, in the context in which their use would mean an annual influx of capital with a significant share in the Gross Domestic Product.

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