STRUCTURAL AND COHESION FUNDS: THEORETICAL AND STATISTICAL ASPECTS IN ROMANIA AND EU*

Iulian Viorel BRAŞOVEANU
Ionuț Cătălin SILVESTRU
Alexandru PAVEL
Daniela ONICA

Iulian Viorel BRAŞOVEANU
Professor, Department of Finance,
Faculty of Finance, Insurance, Markets and Stock Exchange,
Academy of Economic Studies, Bucharest, Romania
Tel.: 0040-213-191.900
E-mail: viorel_brasoveanu@yahoo.com

Ionuț Cătălin SILVESTRU
Assistant Professor, Department of Economic Informatics,
Faculty of Cybernetics, Statistics and Economic Informatics,
Academy of Economic Studies, Bucharest, Romania
Tel.: 0040-213-191.900
E-mail: catalin@ase.ro

Alexandru PAVEL
PhD Candidate, Department of Economic Informatics,
Faculty of Economic Studies and Business Administration,
Babeş-Bolyai University, Cluj-Napoca, Romania
Tel.: 0040-264-431.361
E-mail: alexp@polito.ubbcluj.ro

Daniela ONICA
PhD Candidate, Academy of Economic Studies, Bucharest, Romania
Tel.: 0040-213-191.900
E-mail: doct_daniela@yahoo.com

* This work was supported by CNCSIS - UEFISCDI, project number PN II – RU PD 650 (postdoctoral program), contract number 74/2010.

Abstract

The paper approaches structural and cohesion funds for the financial perspective 2007-2013. The article describes briefly the evolution of regional development policy, the financial allocations, the impact of EU funds within cohesion policy, legal and institutional framework in Romania, and the institutions which are responsible for the management of EU funds.

In Romania, the absorption of structural and cohesion funds is still a problem due to high rejection rate and the existing problems in procuring their own funds by the beneficiaries, such as beneficiary's contribution, starting the project and covering the non-eligible expenditures. Romanian authorities should increase the absorption rate on transport sector and other sectors where absorption is a problem. Access to Social and Cohesion Funds represents for Romania an opportunity to develop balanced regions, to modernize transportation and environmental infrastructure to support rural development, employment opportunities for labor market, and to promote social policies to increase living standards. Romania has to consider "Life Long Learning" as a priority in the development of the human resources.

Less bureaucracy is necessary for a normal development of procedures for refund claims. Also, it is necessary to shorten the time for reimbursement and to simplify related procedures. By increasing the amounts reimbursed, the authorities would increase the possibility to use EU funds more quickly. Preventive control can eliminate situations of default of non-eligible expenditure.

Transylvanian Review of Administrative Sciences,
No. 33 E/2011, pp. 30-48

1. Introduction

The development of European regional policy has been supported by structural and cohesion funds with impact on the development on regions from EU member states. The aim of the European regional policy is to materialize the European Union solidarity through economic, social and territorial cohesion, reducing the disparities between the level of development of different regions by efficient use of structural and cohesion funds. In this respect, they have at their disposal almost a third of the EU budget. While also providing an overview on aspects related to structural and cohesion funds, we intend to analyze the absorption levels in Romania and discuss about possible reasons for slow rate of absorption, based on data provided by the European Commission and data provided by Management Authorities from Romania.

The issue regarding the impact of EU funding on development will represent the focus of a different research conducted after the programmatic period of 2007 – 2013 is finalized, with opportunity to outline the impact on Romania's development, comparatively with other EU Member States, with support of the analysis of financial data, while also taking into account the impact of the economic crisis on the development.

The methodology used was based on document analysis, secondary data analysis and statistical analysis. The analysis of levels of funding granted through different EU financial instruments has been conducted on basis of statistical analysis of financial information from European Commission budget. The aspects related to possible reasons for low levels of absorption have been identified through document analysis and secondary data analysis of annual implementation reports from Management Authorities of Operational Programs from Romania, with focus on procedural aspects, and other reports and studies.

2. The evolution of regional development policy

Economic cohesion policy was taken into consideration by European Community half a century ago. During this period, it became more and more important and probably it will remain a priority. Article 3 of the Treaty of European Union (Treaty of Maastricht) stipulates the fact that the Union "shall work for a sustainable development of Europe based on balanced economic growth and (…) shall promote economic, social and territorial cohesion, and solidarity among Member States[1]". Also, the Treaty recognizes the importance of sharing this economic growth by all Member States and regions in order to seek convergence on life standards within different regions. EU aims at achieving this goal through its regional development policy, mainly through structural and cohesion funds.

Article 159 of the Treaty establishing the European Community stipulates that: "in order to promote its overall harmonious development, the Community shall develop

1 A similar expression is stipulated by article 2 of Treaty establishing the European Community: "The Community shall have as its task (…) to promote (…) economic and social cohesion and solidarity among Member States".

and pursue its actions leading to the strengthening of its economic and social cohesion, (…) shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favored regions or islands, including rural areas". In this context, the success rate of regional policy is highly appreciated on reducing the regional differences related to Gross Domestic Product (GDP) per head.

For this reason, the policies have been established fifty years ago. European Social Fund (ESF), European Agricultural Guidance and Guarantee Fund (EAGGF) and European Regional Development Fund (ERDF) have been created in 1958, 1962 and 1975, respectively. Among them, ERDF was the first explicitly regional fund, which relied on the existent pre-requisites that regional policy should be more a national concern than one at the Community level. Initially, there was nothing to stop Member States to substitute ERDF funds for their regional expenditures; in fact they converted ERDF in reductions.

In 1986, the European Single Act envisaged a regional policy created to take into consideration any negative effects on single market. On February 1988, following an examination of the EU budget, an agreement was concluded by the European Council which doubled the financing for structural funds especially for poorer regions. The reforms that took place for the setting up of the single market gave the Commission a bigger importance in providing, implementing and adjusting the policy. The funds were not available for the Member States without the prior approval of the Commission. The principles of those reforms remained the core of the regional policy.

The creation of the Cohesion Fund in 1994, was based on the Commission's concern in supporting poorer Member States to manage the challenges imposed by the single market without fulfilling the convergence criteria requested by economic and monetary union (in particular, the need for infrastructure investments). The main goal of The Cohesion Fund is to support less developed Member States that have the Gross National Income (GNI) per head lower than 90% of the EU-25 average.

At the end of the 1990s, few Member States were concerned with the performances of EU related to the productivity growth and the unemployment rate. That led to the Lisbon Strategy, published in 2000 and renewed in 2005, which had two major objectives at the European level: 3% of Europe's GDP invested in research and development by 2010, and an employment rate (the proportion of Europe's working age population in employment) of 70% by the same date. The implications of the regional policy strategy were focused on three priorities: job creation, improvement of the attractiveness of regions and towns of the Member States, and promotion of innovation, entrepreneurship and growth in a knowledge-based economy.

Consequently, the aim of the structural and cohesion funds was to reduce not only the income discrepancies, but also the sustained growth rate of the poorer regions. The Commission stated that "cohesion policy has been recognized as a key instrument at the Community level contributing to the implementation of the growth and jobs strategy – not just because it represents one third of the Community budget, but also because strategies designed at local and regional levels must also form an integral part of the effort to promote growth and jobs. The role of SMEs, the need to meet local skill demands, the importance of clusters and the need for local innovation centers are such that in many cases strategies also have to be built from below, at the regional and local levels[2]".

3. Structural and cohesion funds

Structural funds are not a unique financing source within EU budget. Every fund covers a certain thematic area. Structural funds do not finance individual projects, but multi-annual programs set out by regions, Member States and the EU Commission on the basis of the EU framework. The financial support represents an added value for the eligible territories. Member States shall maintain the financial engagements to the same level they had at the beginning of programming period.

There are three financial instruments, known as structural and cohesion funds, for the multi-annual program 2007-2013, as follows: European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund, and two complementary interventions: European Agricultural Guidance and Guarantee Fund (EAGGF) and European Fisheries Fund (EFF).

Economic and social cohesion policy has three objectives, for the multi-annual program 2007-2013, as follows:

1. Convergence objective – is to promote growth-enhancing conditions and factors leading to real convergence for the least-developed Member States and regions. In EU-27, this objective concerns – only within 17 Member States – 84 regions with a total population of 154 million, and GDP per capita of less than 75% of the Community average[3], and – on a "phasing-out[4]" basis – another 16 regions with a total of 16.4 million inhabitants and a GDP only slightly above the threshold, due to the statistical effect of the larger EU. The amount available under the Convergence objective is 282.8 billion Euros, representing 81.5% of the total. The whole territory of Romania is eligible under this objective.

2. Regional Competitiveness and Employment objective – In EU-27, a total of 168 regions are eligible, representing 314 million inhabitants. Within these, 13 regions which are home of 19 million inhabitants represent so-called "phasing-in[5]" areas and are subject to special financial allocations due to their former status as "Objective 1" regions. The amount of 55 billion Euros – of which 11.4 billion Euros is for the

2 COM(2006) 281. European Commission, The Growth and Jobs Strategy and the Reform of European Cohesion Policy. Fourth Progress Report on Cohesion, p. 8.

3 Measured in purchasing power parities and calculated on the basis of the Community figures for the last three years available at the moment the decision is taken.

4 A phasing-out system is granted to those regions which would have been eligible for funding under the Convergence objective if the threshold of 75% of GDP had been calculated for the EU at 15 and not at 25.

5 A phasing-in system is granted until 2013 to NUTS 2 regions which were covered by the former Objective 1 but whose GDP exceeds 75% of the average GDP of the EU-15.

“phasing-in” regions – represents just below 16% of the total allocation. Regions in 19 Member States are concerned with this objective.

The former programs Urban II and Equal are integrated into the Convergence and Regional Competitiveness and Employment objectives.

3. European territorial cooperation objective **–** is financed with 2.44% of the EU budget allocated to structural and cohesion funds and it refers to cross-border, transnational and inter-regional cooperation. This objective is based on the experience drawn from the former Community initiative – INTERREG.

The implementation of structural instruments is based on the following principles:

– concentration principle on priority objectives for development – the intervention of structural funds is concentrated on the territories or populations who face difficulties. Applying of this principle led to limited interventions areas;

– *programming principle* – represents a multi-annual approach which lead to the elaboration of multi-annual programs. In this respect, the adopted measures become the responsibility of the Contracting Authority;

– *partnership principle* – implies a close collaboration between the Commission and the Contracting Authorities in every Member State from the preparatory phase until the implementation of the measures, at the national, regional or local level; and

– *subsidiarity principle* – was established by the Treaty of Maastricht. It implies that a high level authority cannot act if an objective is satisfactory achieved by a lower level authority.

As consequence, the Managing Authorities designated by the Member State shall decide on the evaluation of the project which is funded and they shall supervise their implementation.

– *additionality principle* – in order to develop the regions and labor market, EU financing should be additional and it should not replace the resources already engaged by the national, regional or local authorities.

Table 1: Objectives and financial instruments for 2007-2013

Instrument	EDRF	ESF	Cohesion fund
Objective	Convergence	Convergence	Convergence
	Regional competitiveness and employment	Regional competitiveness and employment	
	European territorial cooperation		
Priorities	Focus on Lisbon strategy	Focus on Lisbon strategy	Environment and transport infrastructure; trans-European networks (TEN)
	Infrastructure	Training	Transport outside TEN
	Investments	Employment	Urban transport
	R&D	Effective administrative capacity	Energy
	SMEs		
EU maximum financing	85%	85%	85%

European Regional Development Fund (ERDF) was set up in 1975 and it became the main instrument of EU regional policy. ERDF objectives are, mainly, the promotion of structural adjustment and development of the backwards regions, supporting the economic reconversion, the development of regions with structural problems, including declining industrial regions, urban areas with economic delays, or areas dependent on fishery or certain services. Through ERDF are financed productive investments that contribute to the creation of jobs, mainly, through investments in SMEs, infrastructure, local human capital development etc.

European Social Fund (ESF) was set up in 1958. It aims at improving employment opportunities in the single market through increasing the mobility and facilitating the adjustment to the industrial changes, particularly through vocational training and recruitment systems. Thus, it strengthens economic and social cohesion and it contributes to "European Employment Strategy".

Through "Convergence" and "Regional Competitiveness and Employment" Objectives, ESF supports actions related to the followings:

1. increasing the adaptability of employers, SMEs and entrepreneurs;
2. improving the access to employment and sustainable inclusion on the labor market of inactive persons, unemployment prevention on long term and work activity prolongation;
3. strengthening the social inclusion of disadvantaged categories for a sustainable integration on the labor market and fighting against discrimination; and
4. strengthening the human resources.

Cohesion Fund was set up by the Maastricht Treaty in 1992 in order to provide necessary financing contributions for environment and transportation infrastructure. It is addressed to those Member States which implemented the Convergence Program and whose Gross National Income (GNI) per capita is lower than 90% of EU average. Until the accession of Romania, the fund covered Spain, Greece, Ireland and Portugal.

Unlike the structural funds described above, the Cohesion Fund does not finance programs, but individual projects that are clearly identified from the beginning. The decision of financing a project is taken by the Commission based on the agreement with the recipient country; meanwhile, the projects are managed by the national authorities and supervised by a Monitoring Committee.

Cohesion Fund is the financial instrument that supports investments in transportation infrastructure, environment and energy. The domains of interventions are as follows: trans-European networks, as specified in the Decision no. 1692/96/EC, major environment infrastructure projects, and domains which are feasible for durable development and environment protection. The aim of the Cohesion Fund is to sustain the national budgetary effort by financing the major environment and trans-European transport networks. Furthermore, the fund helps the beneficiary countries to comply with the European regulations.

European Fund for Agriculture and Rural Development (**EFARD**) is a complementary intervention designated for Common Agriculture Policy. It was set up in 1958 and it finances rural development measures and it provides aids for farmers located, mainly, in backward regions. EFARD is addressed to improve the productive units, by processing and marketing the agricultural products. It is the correspondent of SAPARD[6] Program and accessible for the Member States (SAPARD is accessible for applicant countries in the pre-accession period. Its objectives consist in sustaining the agricultural products and in restructuring the EU agriculture.

Romania applies the National Strategic Plan through National Rural Development Plan issued at national level. The estimated value of EFARD budgeted for 2007-2013 is 7.114 billion Euros.

European Fisheries Fund (**EFF**) is the complementary intervention created for European fishery policy. It supports measures for competitiveness in fishery sector. EFF was set up in 1993 for adapting and modernizing the fishery industry by removing the surplus capacities. The fund is mainly for the coast regions depending on fishery sector. It supports measures and initiatives for ensuring the development of fisheries areas; taking measures to adapt the capacity of fishing fleet, promoting the sustainable development of inland fishing; helping boost economically viable enterprises in the fisheries sector and the operating structures to become more competitive; fostering the protection of the environment and the conservation of marine resources; encouraging sustainable development and improve the quality of life in areas with an active fishing industry.

4. Financial Allocations

At the EU level, the funds are allocated for "Attractive places to invest and work", "Improving knowledge and innovation for growth", "More and better jobs", "Territorial Dimension" and "Technical Assistance". The values allocated are shown in Table 2.

Table 2: Projects selected: Global Progress in implementing the Community Strategic Guidelines (CSG)

	Decided OPs	Allocated	%
CSG Themes	344,305,598,427	93,444,474,921	27.1%
Attractive places to invest and work	164,118,232,619	42,810,552,390	26.1%
Energy	10,808,045,616	1,424,323,194	13.2%
Broadband	2,304,553,527	418,171,980	18.1%
Environment	46,477,783,269	9,769,612,721	21.0%
Rail	23,856,392,361	5,371,579,945	22.5%
Other transport	17,218,933,106	4,557,447,931	26.5%
Culture & social	22,805,478,827	7,445,188,453	32.6%
Road	40,647,045,913	13,824,228,166	34.0%

6 SAPARD - Special Accession Program for Agriculture and Rural Development.

	Decided OPs	Allocated	%
CSG Themes	344,305,598,427	93,444,474,921	27.1%
Improving knowledge and innovation for growth	85,170,297,921	24,928,685,476	29.3%
ICT for citizens & business	12,907,084,871	2,855,876,947	22.1%
Entrepreneurship	8,474,699,007	2,218,205,794	26.2%
Innovation & RTD	49,702,909,371	14,183,316,319	28.5%
Other investments in enterprise	14,085,604,672	5,671,286,416	40.3%
More and better jobs	69,860,323,997	18,327,392,084	26.2%
Capacity Building	4,845,633,033	909,740,573	18.8%
Social Inclusion	11,308,765,918	2,837,435,950	25.1%
Labor market	22,834,966,581	5,990,860,613	26.2%
Human capital	30,870,958,465	8,589,354,948	27.8%
Territorial Dimension	14,563,135,325	4,385,063,576	30.1%
Technical Assistance	10,593,608,565	2,992,781,395	28.3%

Source: European Commission, March 31, 2010

The average value for Allocation rate in Decided Operational Programs (OPs), for all the five themes, was 27.1%, lower values being recorded for "Attractive places to invest and work" and "More and better jobs", but close to average (26.1% and 26.2%). The lowest rate for Allocation in Decided Ops is registered for Energy sector (13.2%) and it is the highest for Other Investments in the enterprise (40.3%).

Accordingly to "Cohesion Policy: Strategic Report 2010 on the Implementation of the Programs 2007-2013", European Commission, Brussels, 31.3.2010, in the **transportation sector** – CSG theme, most Member States (CZ, EL, HU, LT, LV, PL, PT, RO) have mostly selected road projects in the framework of their regional and/ or national programs – with the notable exception of Estonia (81.2% of the selected projects in rail instead of 63.2% in the road sector). In Bulgaria, the project selection rate is very low (5%) for both rail and road sectors.

In the **energy sector** – CSG theme, several Member States are in a situation of major delays with no or little progress (BG, ES, EL, LV, PL, PT, RO, SI, SK, UK). On the other hand, there are also some positive examples with good level of selected projects (FR, CZ, LT). Member States, like BG, ES, PL, PT, RO, UK, report no or very little allocations to energy efficiency while it can be part of the solution to meet the mandatory renewable energy targets by 2020. Investments in wind energy (only 2.9% allocated) or TEN-E (no allocation yet) also need to be much more looked at. Overall the energy priorities are doing better. Despite the increased risk of natural disasters (flooding, forest fires, storm) the uptake of investments in "risk prevention" is especially weak in some Member States (ES, EL, HU, PL, RO).

Progress in selecting projects in the **cultural and social infrastructure** CSG theme (schools, hospitals and social centers) is generally above the average at 32.6% of projects selected. Within those Member States that have important allocation (mostly convergence beneficiaries) six report above average progress (EE, ES, HU, MT, PT, SI), while five are lagging (CY, EL , IT, LV, RO).

The structure of total funds allocated for Romania for 2007-2013 is presented in Figure 1. Transportation and environment are the sectors most financed by EU, in the sector operational program, then regional operational program and human resources development sector operational program. Unfortunately, the transportation sector and environment sector, both still have big absorption problems.

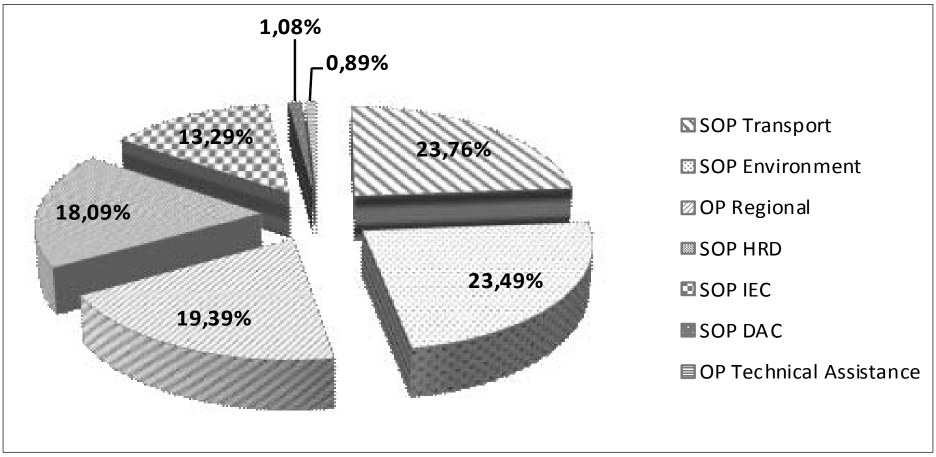

Figure 1: The allocation of European funds programmed in 2007-2013 period for Romania

Source: Romanian Authority for Coordination of Structural Instruments

5. Absorption of EU Structural and Cohesion Funds

The last report on European Commission, from 2010, shows that our country and Greece had the biggest problems in absorbing EU funds.

Table 3: Global progress by Member State in selecting projects

Member States	Programmed volumes – EU contribution (€)	EU amount allocated to selected projects (€)	Absorption (%)
EL	20,210,261,445	2,400,948,542	11.9%
RO	19,213,036,712	2,711,947,484	14.1%
SK	11,360,619,950	2,106,256,613	18.6%
DE[7]	25,488,616,290	4,919,757,173	19.3%
PL	65,221,852,992	12,682,948,883	19.5%
BG	6,673,628,244	1,348,913,250	20.2%

7 DE has reported 3.6bn € allocated to selected operations in 2009. It was not in a position to provide a thematic breakdown.

Member States	Programmed volumes – EU contribution (€)	EU amount allocated to selected projects (€)	Absorption (%)
AT	1,204,478,581	247,155,550	20.5%
CZ	26,302,604,484	5,615,772,516	21.6%
CB[8]	7,815,224,954	1,882,310,420	24.1%
FR	13,449,221,051	3,501,386,380	26.0%
LU	50,487,332	14,460,188	28.6%
ES	34,657,733,981	10,099,811,458	29.1%
DK	509,577,239	153,011,045	30.0%
FI	1,595,966,044	505,746,852	31.7%
UK	9,890,937,463	3,482,870,901	35.2%
LT	6,775,492,823	2,396,316,031	35.4%
LV	4,530,447,634	1,673,017,721	36.9%
IT	27,965,315,403	10,633,897,198	38.0%
PT	21,411,560,512	8,136,196,969	38.0%
SI	4,101,048,636	1,731,582,355	42.2%
CY	612,434,992	258,686,686	42.3%
HU	24,921,148,600	11,541,360,316	46.3%
SE	1,626,091,888	787,989,893	48.5%
MT	840,123,051	409,452,037	48.7%
IE	750,724,742	388,568,643	51.8%
EE	3,403,459,881	1,779,726,718	52.3%
NL	1,660,002,737	926,353,744	55.8%
BE	2,063,500,766	1,260,898,467	61.1%
Total	344,305,598,427	93,444,474,921	27.1%

Source: European Commission, March 31, 2010

The absorption rate is calculated as percent from EU amount allocated to selected projects (€) in Programmed volumes – EU contribution (€). The average of EU 27 is 27.1%, which means an important gap in the case of Romania, which has an absorption rate half of this average. The best performances are achieved by Belgium (61.1%) and Netherlands (55.8%), but in these countries we have small programmed volumes (1.6 and 2 billion Euros). Among the states which had programmed volumes over 19 billion (including Romania), the best performance is achieved by Hungary: 46.3% from 24.92 billion Euros programmed volumes.

In 2010, Romania has attracted European funds worth 4.6 billion Euros, which improves the absorption rate, reaching it at about 19.1% of the total allocations in

8 CB = Cross Border or European Territorial Cooperation programmed allocations.

2007-2010; nevertheless it remains among the lowest in EU. This absorption rate is calculated in total funds allocated until the date when the absorption rate is presented (so, the 19.1% percent from December 31, 2010 is calculated in total funds allocated in 2007-2010 period).

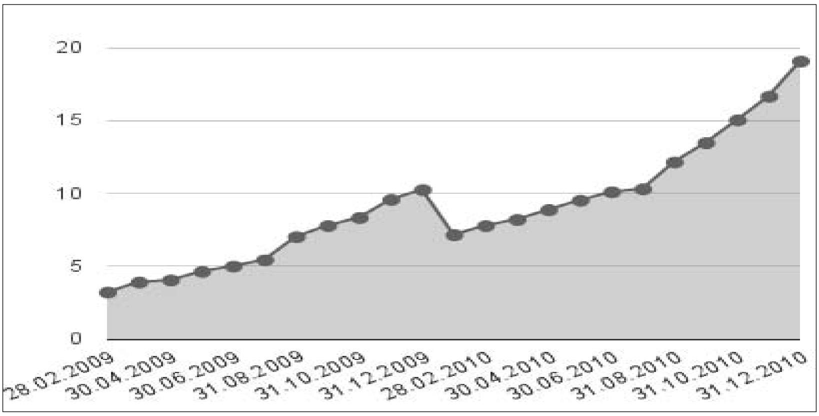

Figure 2: Absorption rate for Romania (2009-2010)

Source: http://eufinantare.info/Instrumente_structurale_UE.html

Yet the situation has improved in 2011, as it comes out of the data from Table 4:

Table 4: Values of projects financed by EU, Romania, February 28, 2011

	Total Programmed (bill. Euros)	Submitted Projects (bill. Euros)	Approved Projects (bill. Euros)	Contracted Projects (bill. Euros)	Effective Payments (bill. Euros)	Contrac-ted/ Total (%)	Payments/ Contrac-ted (%)	Submi-tted/ Total (%)
OP Regional	15863165050	31260919877	14796079620	8842642743	890596640	55.74	10.07	197.07
SOP Environ-ment	19211390366	18890719634	15333337015	9357212300	271318230	48.71	2.90	98.33
SOP Transport	19439021440	15285648920	8301219701	2956919334	474774108	15.21	16.06	78.63
SOP IEC	10874345207	26148205862	11490550752	3637762515	682854894	33.45	18.77	240.46
SOP HRD	14799339706	40608811561	15340310137	11756264309	260657168	79.44	2.22	274.40
SOP DAC	885550363	1987899745	512239331	327509763	31232657	36.98	9.54	224.48
OP Technical Assistance	724770367	273534911	285659464	212363834	45824508	29.30	21.58	37.74
TOTAL	81797582499	134455740510	66059396020	37090674798	2657258205	45.34	7.16	164.38

Source: Romanian Authority for Coordination of Structural Instruments

Note that the absorption of total funds allocated increased significantly in 2011; the projects contracted representing 45.34% of the total. For HRD SOP this percentage is 79.44%. The lowest percentage of 15.21% is registered on the transportation sector.

Effective Payments remain very low, at 7.16% overall. In projects approved, payments rate is only 2.9% for "Environment" sector and 2.22% only for "Human

Resources Development". The highest payments rate is registered for "Technical Assistance", 21.58%.

As the volume of projects submitted, the overall coverage amounts allocated for 2007-2013 was 164.38%, which shows interest for these projects. For "Human Resources Development" this percentage is higher, at 274.4% and the "Technical Assistance" is low, only 37.74%.

At the end of February 2011, from 27,170 projects submitted only 7,032 projects have been approved and only 5,021 from these have been contracted. The low number of projects finally contracted can be explained by the lack of the own sources on the behalf of beneficiaries. The data show that the projects were made in large numbers, but the number of projects approved and finally contracted is quite low. On overall, the rate between Approved and Submitted Projects is very low, 25.88%, and the rate between Contracted and Approved Projects is only 3/4 (see Table 5).

Table 5: Number of projects financed by EU, Romania (February 28, 2011)

	Submitted projects	Approved projects	Contracted projects	Approved / Submitted (%)	Contracted / Approved
OP Regional	7,614	1,357	1,131	17.82	83.35
SOP Environment	292	174	164	59.59	94.25
SOP Transport	71	42	38	59.15	90.48
SOP IEC	7,705	2,334	1,586	30.29	67.95
SOP HRD	10,161	2,753	2,011	27.09	73.05
SOP DAC	1,251	310	283	24.78	91.29
OP Technical Assistance	76	62	58	81.58	93.55
TOTAL	27,170	7,032	5,271	25.88	74.96

Source: Romanian Authority for Coordination of Structural Instruments (February 28, 2011)

6. Aspects regarding EU budget and financial allocations

The financial framework 2007-2013 was formally adopted on May 17, 2006 when the European Parliament, the Council and the Commission signed the Interinstitutional Agreement on Budgetary Discipline and Sound Financial Management, which contains the financial framework. The three institutions agreed that the Union would concentrate its action over the next seven years period on three main priorities (see http://ec.europa.eu/budget):

- integrating the single market into the broader objective of sustainable growth, mobilizing economic, social and environmental policies to that end; the goals under this priority, which corresponds to "Sustainable Growth" and "Preservation and Management of Natural Resources";
- giving more substance to the concept of European citizenship by completing the area of freedom, justice, security and access to basic public goods and services; and
- establishing a coherent role for Europe as a global player – inspired by its core values – in assuming its regional responsibilities, promoting sustainable development and contributing to civilian and strategic security.

Table 6: Financial framework 2007-2013 (million Euros at current prices)

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	Total
1. Sustainable Growth	53,979	57,653	61,696	63,555	63,974	66,964	69,957	437,778
1a Competitiveness for Growth and Employment	8,918	10,386	13,269	14,167	12,987	14,203	15,433	89,363
1b Cohesion for Growth and Employment	45,061	47,267	48,427	49,388	50,987	52,761	54,524	348,415
2. Preservation and Management of Natural Resources	55,143	59,193	56,333	59,955	60,338	60,810	61,289	413,061
of which: market related expenditure and direct payments	45,759	46,217	46,679	47,146	47,617	48,093	48,574	330,085
3. Citizenship, freedom, security and justice	1,273	1,362	1,518	1,693	1,889	2,105	2,376	12,216
3a Freedom, Security and Justice	637	747	867	1,025	1,206	1,406	1,661	7,549
3b Citizenship	636	615	651	668	683	699	715	4,667
4. EU as a global player	6,578	7,002	7,440	7,893	8,430	8,997	9,595	55,935
5. Administration	7,039	7,380	7,525	7,882	8,334	8,670	9,095	55,925
6. Compensations	445	207	210					862
Total commitment appropriations	124,457	132,797	134,722	140,978	142,965	147,546	152,312	975,777
As a percentage of EU GNI	1.02%	1.08%	1.16%	1.18%	1.16%	1.15%	1.14%	1.13%

Source: http://ec.europa.eu/budget

Overall, on 2007-2013, “Sustainable Growth” represents 44.86% of Total, and “Preservation and Management of Natural Resources” represents 42.33% of Total. The financial priorities in this period for EU budget are “Cohesion for Growth and Employment” and “Market related expendisture and direct payments”.

The financial relationship between Romania and EU budget for 2007-2009 period is presented in the Table 7.

Table 7: Financial relationship between Romania and EU budget in 2007-2009

Funds received by Romania from the EU			
	2007	2008	2009
Billion (Euro)	1.6	2.67	2.95
% of GNI	1.34	2.03	2.6
Fund paid to the EU by Romania			
	2007	2008	2009
Billion (Euro)	0.930	1.02	1.22
% of GNI	0.78	0.78	1.07
Net balance between Romania and EU budget: funds received by Romania			
	2007	2008	2009
Billion (euro)	0.67	1.65	1.73
% of GNI	0.56	1.15	1.53

Source: http://ec.europa.eu/budget

If the funds paid by Romania were somewhere around 1% of GNI, the funds received have increased from 1.34 to 2.6% of GNI. Net balance was 1.53% of GNI in 2009, almost 1.5 bigger than the funds paid. In billions Euro, net balance increased from 0.67 (in 2007) to 1.73 (in 2009). This data show a beneficial relationship for Romania with the European Union budget.

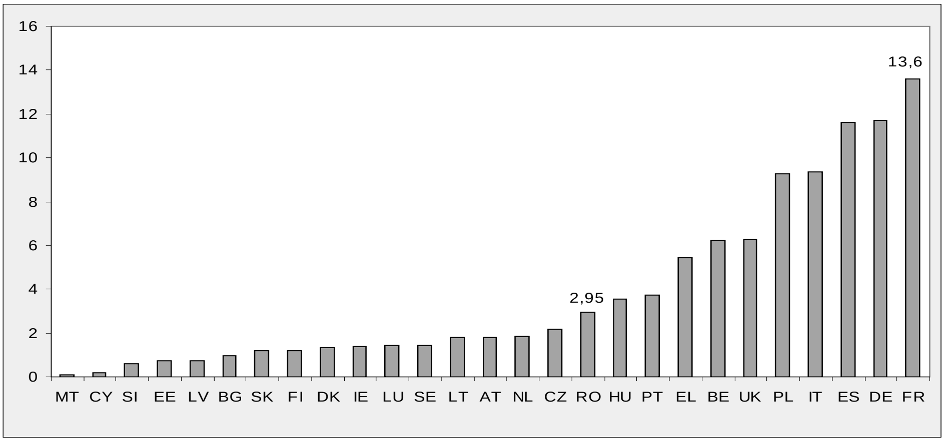

Figure 3: EU funds received by Member States in 2009

Compared to other European Union Member States, Romania is among the top 12 countries from the perspective of funds received in 2009. The top 5 countries are in order France, Germany, Spain, Italy and Poland.

7. The influence of the structural and cohesion funds

It is difficult to appreciate the influence of structural policies on cohesion due to a discontinuity of the statistic data of Eurostat regarding GDP or employment rate at NUTS-2 and NUTS-3 regions. There is a gap between the moment an investment is financed by EU funds and the moment that investment becomes operational and profitable. The gap can last from several years to a decade, or even more, but does not imply that the structural instruments do not have short-term impact.

According to the Third Report on economic and social cohesion – *A new partnership for cohesion convergence competitiveness cooperation*, between 1994 and 2001, in the cohesion states, excluding Ireland, the growth of GDP per capita exceeded by 1% the Community average (3% respectively to 2%). In all these states, excluding Greece, the proportion of the active population employed grew faster than the average. Besides, in Greece as well as in Ireland, the growth of the labor productivity exceeded the double of the Community average for the same period and it was, also, higher than the average from Portugal. The interventions of structural instruments in Spain led to an increase of GDP with 1.5%, in Greece with more than 2%, in Ireland with almost 3% and in Portugal with more than 4.5%. Furthermore, the GDP in the German new lander grew with almost 4% due to those interventions.

Someone might realize the real influence of structural and cohesion funds, explaining its success through a combination of circumstances, the choices of national politics and through other European politics. However, the theory of real Community added value of the structural policy on cohesion and convergence is confirmed by the followings:

- "Each Euro spent at the EU level by cohesion policy leads to further expenditure, averaging 0.9 Euros, in less developed regions (former Objective 1) and 3 Euros in regions undergoing restructuring (former Objective 2)[9]".

- "Estimates from input-output tables, suggest that around a quarter of such expenditure returns to the rest of the EU in the form of increased exports, on machinery and equipment in particular, as GDP and investment grow. This 'leakage' is particularly large for Greece (42% of structural aid) and Portugal (35%)"[10].

Despite all these circumstances related to the economic and social progressive performances of the Member State, it is worth mentioning that this tendency is slower as regards the regions. Foreign Direct Investment (FDI) inflows have tended to go disproportionately to the economically stronger regions, both within countries and across the EU as a whole. Within Member States, FDI is concentrated in and around major cities, especially the capitals, which are the focal points for the growth of new activities, very little reaches in the backward regions[11].

For the period 2000-2004, there were approved almost 3,600 major projects within cohesion policy. Among those, almost 1,600 projects were financed by European Investment Bank (EIB). EIB is involved in financing five domains in order to sustain cohesion policy and Lisbon–Göteborg Strategy, as follows: economic and social cohesion, i2i (initiative innovation 2010), trans-European networks, environment protection and improvement, aids granted to SMEs. Its action is efficient especially in the large-scale projects which are related to important risks (major infrastructure, R&D etc.). EIB financing mechanism of the innovative programs generates a leverage effect from 1:3 to 1:6.

It is worth mentioning that the structural policy helps regions and Member States to exploit their development potential by investing capital, human resources and technology in order to exceed the possible difficulties related to powerful economic or monetary integration (interest rate, single exchange rate, liberalization, high competitiveness, restructure and staff reduction). Also, it sustains the internal market through commerce and job creation generated by projects financed by EU funds, objectives that could not be achieved without the catalytic role of the European intervention.

In Romania, the absorption of structural and cohesion funds is still a problem due to high rejection rate and the existing problems for beneficiaries in procuring

9 Community Strategic Guidelines, 2007-2013, COM(2005) 299, p. 8.

10 Third report on economic and social cohesion – A new partnership for cohesion convergence competitiveness cooperation, February 2004.

11 *Ibidem*

their own part of funding for covering costs related to own contribution, starting the project and covering non-eligible expenditure. Access to Social and Cohesion Funds represents for Romania an opportunity to develop balanced regions, to modernize transportation and environmental infrastructure in order to support rural development, to promote employment opportunities for labor market as well as social policies for increasing living standards.

As outlined in Tables 4 and 5, out of a total number of 27,170 projects submitted in all operational programs, 25.88% have been approved by the end of February 2011, which represents 45% out of total amount programmed for 2007-2013 for Romania.

Possible reasons for this situation have been outlined in annual implementation reports (2009) provided by Management Authorities, and also in the document "A formative evaluation of structural instruments in Romania", in which achievements for the period 2009-2010 are evaluated. While the annual implementation reports mention aspects related to projects submitted by beneficiaries and issues related to project approval, contracting, monitoring and evaluation, the latter report gives an overview on structural instruments in Romania, and points out aspects related to functioning of Management authorities and program management. Thus, it is pointed out that the OPs are structured from financial point of view in an incremental manner over the period 2007 – 2013, making the programs more "crowded" towards the end of the programming period, with the possible exception of SOP ECC. This type of planning seems to have been conceived in this manner from the programming stage, as decision-makers would thus reassure beneficiaries of continuous access to funding. Consequently, a large volume of interventions is to take place in the second half of the programming period 2007 – 2013. This may determine a large number of project approvals during 2012 – 2013, and of payments during 2013 – 2015.

Moreover, implementation of structural instruments is negatively affected by the lack of correlation among technical, legal and financial terms. The strategies backing up the structural instruments are insufficiently anchored in the general national development strategy. This leads to lack of correlation between legislation that regulate structural instrument implementation and other national relevant legislation.

The large number of projects that were rejected can be explained, in the case of all OPs, by the fact that ineligible applicants submit projects, that projects do not fulfill eligibility criteria or have incomplete documentations, or that the documentations do not take into account the objectives of the programs or the evaluation criteria used. Other aspects become more relevant during technical-economic analysis. These include incomplete, unclear or uncorrelated with the project objectives, lack of information for supporting the project, such as data in the project application, in the business plan, in the feasibility study or in other studies; errors in budgeting, lack of analysis regarding ways to obtain and use funding sources, unrealistic financial forecasting with regards to income and expenditures generated by a project, calculations of cash-flow and overestimated indicators, all impacting on the sustainability of the project and in the case of economic projects on its profitability. Such aspects may be partially due to insufficient knowledge available, even in cases where consulting services are contracted.

The formative evaluation points out that coordination and control procedures within Romanian legislation are sometimes more stricter than the provisions of UE financial regulations regarding structural funds, which generates more red-tape. This aspect is visible especially related to spending the funds and submitting the reimbursement procedures.

Public procurement procedures have been repeatedly mentioned as problematic during project implementation, taking long time because of the complicated legislation on procurement, of differences in interpretation and of procedures being contested. Changes in the legislation have been made to speed up these procedures. Nevertheless, several aspects in breach of some of the principles for awarding public procurement contracts, such as insufficient transparency, non-discrimination, equal treatment, continue to influence the procurement procedures, and later on slow down the reimbursement procedures, which may lead to prolongation of project implementation duration. To avoid such cases, ACIS has started in spring 2011 a series of training courses for beneficiaries, which include courses in public procurement of goods, services and works.

SME beneficiaries from Romania deal with difficulties in accessing loans needed to pre-finance own contributions for projects supported by structural instruments, due to harsher loaning policies of commercial banks, as result of financial crisis and in response to the current economic crisis.

8. Conclusions

Romanian authorities should increase the absorption rate by accelerating contracting of the projects and allocating more human resources towards monitoring project implementation and evaluation.

Fewer bureaucratic procedures are necessary for a normal development of procedures for refund claim. Also is necessarily to shorten the time for reimbursement and to simplify related procedures. By increasing the amounts reimbursed, the authorities increase the possibility to use EU funds more quickly. Preventive control can eliminate situations of default of non-eligible expenditures. We believe it is also important for Romania to further improve the public procurement legislation.

In addition to all considerations on the impact of structural policies, there are two conclusions that worth being mentioned: a) it is necessary to draw up a multi-annual financial perspective for seven years in order to enable a certain stability and programming; and b) the implementation of EU financed projects encourages the financial discipline for the local administration.

For the following programming period, it is important that stakeholders ensure coherence among strategies related to structural instruments and national policies, programs and measures to support social-economic development. Moreover, the financial planning should take into consideration to reduce the amount of projects towards the end of the programming period, and to ensure that most of the program allocation is contracted in the first half and middle of the programming period, in view of reducing the burden of absorption and the risk of not spending money from the structural instruments.

In addition, information and program promotion should be more focused on the beneficiary, more proactive, correlated with possible technical assistance provided for major projects, with impact on development on a larger area. Moreover, other financial instruments available in the European Union should be set in place, made functional and used, not just JEREMIE, JASPERS, but also JESSICA.

References:

1. Autoritatea pentru Coordonarea Instrumentelor Structurale, 'Rezumate ale rapoartelor anuale de implementare a Programelor Operaţionale', [Online] available at http://www.fonduri-ue.ro/rapoarte-studii-evaluari-240, accessed on September 8, 2009.
2. Berica, C., 'Structural Funds – Value Added and Costs', Munich Personal RePEc Archive, paper no. 28151, January 14, 2011, [Online] available at http://mpra.ub.uni-muenchen.de/28151/4/MPRA_paper_28151.pdf, accessed on February 21, 2011.
3. Cojanu, V., Dima, A., Muşetescu, R., Pîslaru, D. and Stănculescu, M., *Specific Criteria for the Management of Structural Instruments and the Implications for Romania*, European Institute from Romania, Impact Studies, PAIS II, 2004.
4. EU Finanţare Info, 'Instrumentele Structurale ale Uniunii Europene şi Absorţia Fondurilor Europene în România', [Online] available at http://eufinantare.info/Instrumente_structurale_UE.html, accessed on September 8, 2009.
5. European Commission, 'Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013', COM(2005) 0299, Brussels, 05.07.2005, [Online] available at http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/050706osc_en.pdf, accessed on September 8, 2009.
6. European Commission, 'Cohesion Policy: Strategic Report 2010 on the Implementation of the Programs 2007-2013', Brussels, 31.3.2010.
7. European Commission, 'Financial Programming and Budget', [Online] available at http://ec.europa.eu/budget/prior_future/fin_framework_en.htm, accessed on September 8, 2009.
8. European Commission, 'Financing Engineering: Background: Jaspers, Jeremie, Jasmine, [Online] available at http://ec.europa.eu/regional_policy/funds/2007/jjj/index_en.htm, accessed on September 8, 2009.
9. European Commission, 'Fourth Progress Report on Cohesion: The Growth and Jobs Strategy and the Reform of European Cohesion Policy', COM(2006) 281, [Online] available at http://europa.eu/legislation_summaries/regional_policy/review_and_future/g24238_en.htm, accessed on September 8, 2009.
10. European Commission, 'Third Report on Economic and Social Cohesion: A New Partnership for Cohesion – Convergence, Competitiveness, Cooperation', 2004, [Online] available at http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/cohesion3/cohesion3_toc_en.pdf, accessed on September 8, 2009.
11. Fiaschi, D., Lavezzi, A.M. and Parenti, A., 'Productivity Dynamics Across European Regions: the Impact of Structural and Cohesion Funds', 2009, *Discussion Paper*, no.

84, [Online] available at http://www.dse.ec.unipi.it/pubblicazioni/dsedps/files/2009-84.pdf, accessed on February 21, 2011.
12. Florescu, D., *Analiza capacităţii de absorbţie a fondurilor europene la nivelul României*, paper presented at the International Conference of Faculty of Finance, Insurance, Markets and Stock Exchange, Academy of Economic Studies, Bucureşti, Romania, December 2010.
13. Guvernul României, 'O evaluarea formativă a instrumentelor structurale în România', [Online] available at http://www.fonduri-ue.ro/upload/Exec%20Sum%20-%20evaluare%20CSNR%20_2_.pdf, accessed on September 8, 2009.
14. Murgescu, D.M., 'Structural and Cohesion Funds, a Financing Alternative for Romanian Public Administration', 2010, *Analele Universităţii "Constantin Brâncuşi" din Târgu Jiu, Seria Economie*, vol. 4.I, pp. 256-267.
15. National Strategic Reference Framework of Romania, [Online] available at http://portalmfp.mfinante.ro/wps/PA_1_1_15H/static/amcsc/fond_structural/fonduri_structurale/fonduri_Romania/CSNR_final_EN.pdf, accessed on September 8, 2009.
16. Susanu, M., 'Controversies and Challenges along the Access – Absorption Route of the European Structural Funds', Munich Personal RePEc Archive, paper no. 18599, May 07, 2008, [Online] available at http://mpra.ub.uni-muenchen.de/18599/1/MPRA_paper_18599.pdf, accessed on February 21, 2011.
17. Treaty Establishing the European Community, OJ C 325/24.12.2002, [Online] available at http://eur- lex.europa.eu/ro/treaties/index.htm, accessed on September 8, 2009.
18. Treaty on European Union, OJ C 325/24.12.2002, [Online] available at http://eur-lex.europa.eu/ro/treaties/index.htm, accessed on September 8, 2009.

List of abbreviations:

EU: European Union after January 1, 2007, with 27 Members States

Member states EU 27: AT = Austria, BE = Belgium, BG = Bulgaria, CY = Cyprus, CZ = Czech Republic, DE = Germany, DK = Denmark, EE = Estonia, EL = Greece, ES = Spain, FI = Finland, FR = France, HU = Hungary, IE = Ireland, IT = Italy, LT = Lithuania, LU = Luxembourg, LV = Latvia, MT = Malta, NL = Netherlands, PL = Poland, PT = Portugal, RO = Romania, SE = Sweden, SI = Slovenia, SK = Sslovakia, UK = United Kingdom.

IEC: increase economic competitiveness; HDR: human resources development; DAC: development of administrative capacity;

SOP: sector operational program; OP: operational program.