

## **SOME CONSIDERATIONS REGARDING THE ABSORPTION OF EUROPEAN FUNDS IN ROMANIA**

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### **Abstract**

*For sustainable economic growth, Romania needs investment and exports. European funds and foreign investment contribute to the formation of Romanian capital, as alternative to the lack of financing of the banking system. In the last 10 years, of the amounts collected from the EU. 17, 8 billion euros were used in the public sector, and 14, 8 billion in the private sector. In the period 2005-2015 Romania received from the United States 31, 8 billion, of which 12, 2 billion were invested in fixed capital, and 19.2 billion euros were current expenditure. For the 2007-2013 financial period, only 20% of the amounts absorbed were used in the real economy, to support competitiveness and to set up agricultural capacities. We noticed that these amounts were neither sufficient nor well-used.*

*For the 2007-2013 financial year, the European Commission has produced an activity report on the Romanian use of European funds. Thus, suspicions of fraud and irregularities were found, but they are insignificant. The European funds allocated to the financial year 2007 have not been fully utilized for the following reasons: incompetence in fund management, delay in Sectorial Operational Programs and Management Authority launch, unsustainable projects, lack of communication between the Romanian authorities and those in Brussels regarding the estimation of payments on Projects and lack of Informing beneficiaries of the use of non-reimbursable funds. Some of these irregularities are also found in the current financial exercise.*

*For the financial year 2014-2020, € 31.2 billion (excluding agriculture) was allocated to investments in infrastructure, cohesion and rural development.*

*We believe that for the current financial year a reduction of € 3 billion from the program "Training of the labor force and human capital development" will be needed, from 9.4 billion euros. Euro to 6, 4 billion, because in the previous financial year, from € 4.3 billion were used 1.3 billion. This difference will be used for the Competitiveness Enhancement Program. Errors reported in the previous financial year need not be repeated in the current financial year.*

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## **1. Introduction**

The absorption of European funds in Romania is taking place following the priorities of European convergence this referring to the reduction of regional and rural disparities between regions and EU member states, both in the pre-accession, accession and integration period in the EU, which is still ongoing.

The European funds contribute to the formation of the Romanian capital necessary first of all for investments and exports, areas that insure increase economic sustainability.

In the 2007-2013 financial exercise and in the current exercise, European funds are mainly geared to the European priorities assumed at national level to support economic growth. After EU accession, European funds and foreign investment did not contribute enough to modernize the economy and infrastructure, did not create many well-paid jobs, as hoped.

The level of absorption of European funds is analyzed in this paper to highlight irregularities in the previous financial year in order to avoid this in the current financial year.

## **2. The state of knowledge of the problem**

The concerns raised by the analysis are the basis for the approach of a longer period of time since 2005 to the present. The Ministry of Public Finance has provided information in the form of tables, charts, diagrams, absorption of funds in financial years, showing how they managed European money. The study covers all the sectoral operational programs of the financial year 2007-2013 and the operational programs of the current exercise. The differentiated approach to programs and stages is not geared to knowing the accuracy of statistical data, but rather to explaining the low values of the

European funds when they are presented in European context, comparing with other Member States and with other regions of European development.

This analysis highlights the true cause for which Romania has not absorbed all the funds made available from the European budget. These funds were neither sufficient nor effective, as evidenced by statistical data.

By comparing with other Member States, namely Poland and the Czech Republic, who have managed to attract more money, which they have used effectively, Romania can also learn from their experience.

### **3. Material and method**

All the available material comprises a long period of time, which I stepped in to ease the study. The period also includes the two financial years that were studied by the comparative method, thus recalling the common elements but also the differences, and finally I made suggestions.

The research method has been supported by the investigation of documents, reports and assessments made by European officials, as well as documents drawn up at national level. From the analysis of the materials considered relevant to the purpose of the chosen theme, we have found data and facts showing that money from European funds was not used for investment that created jobs but was used for current expenses.

Analyzing the annual European budget, I noticed that Romania is a net user of European money, contributing with only 0.9% to the budget, while other countries have a higher contribution to the European budget. In the current European context, the European budget will be lower because of Brexit.

The Sectoral Operational Programs analyzed in the financial year 2007-2013 include priority areas of intervention called axes. By comparison, it is noticed that the axle distribution was not well-drafted, in the sense that some axes were allocated too much money, which they did not absorb even axes with too little money, although they were projects that would be Could accomplish.

Responsibility lies with institutions that have asked for money, managed the money and proved incompetent in its use.

#### **4. Results and discussions**

After the events of 1990, the money from the privatization did not invest enough in the productive enterprises, because the new shareholders of the privatized companies considered it more profitable, in stead of modernizing and refurbishing the existing factories, to build malls, office buildings and housing districts.

After Romania's accession to the EU, neither European funds nor direct foreign investment contributed sufficiently to the modernization of the economy and public infrastructure, did not create a high gross national income (GNI) and did not generate enough adequate employment and wages. In general, both European funds and foreign investment contribute to Romanian equity.

Between 2005 and 2015, Romania received approximately € 31.8 billion from the EU, of which € 12.2 billion, or 40% were invested in fixed capital, and the rest of 60% are expenditures Current, ie 19, 2 billion.

**Table 1: Investments destinations**

<b>Destinations</b>	<b>Amount (EURO billions)</b>
1. Investments	12.6 billion euros
2. Current expenses	19, 2 billion
3. Contributions to the EU budget	11.9 billion EURO

Source: Ministry of Public Finance

If we take into account that Romania paid the sum of 11.9 billion euros of the EU budget in the post accession period, the remaining amount is 19.9 billion euros, or 60% of the total. We appreciate that this amount was not sufficient for the needs of the Romania. Regarding the EU budget, each Member State contributes 1% of GDP, but as GDP varies greatly from one country to another, it is known that Germany, France, the United Kingdom, Italy and Spain together contribute with 75% to EU budget.

In 2015, Germany contributed the most to the formation of the EU budget, allocating 27 billion euros, which is 21%, in the same year Romania only allocated 1.32 billion euros, or 0.9%. We believe that under these circumstances it is very difficult to raise money without the UK, a net

contributor to the EU budget, the budget will be much lower in the future, even if we consider that the UK has benefited from the correction mechanism on the ground that we need for economic development.

However, from the European funds allocated, most money has been used for regional development, for projects to reduce development gaps compared to other EU Member States. Over the past 10 years, 17, 8 billion euros have been used in the public sector, according to the table below.

**Table 2: European Funds destination**

Domains in the public	Amount (billion)
1. Road and rail infrastructure	4.7 billion euros
2. Infrastructure, water and canal networks	8, 9 billion. euro
3. Environment protection	1.6 billion euros
4. Securing borders	1,5 billion euros
5. Scientific research and technical assistance	0, 3 billion

Source: Ministry of Public Finance

In the private sector, 14, 8 billion euros were used

**Table 3: Funds destination**

Areas in the private sector	Amount
1. Farm subsidies	7.4 billion euros
2. Agricultural production capacities	5.1 billion euros
3. Preparing the workforce and developing human capital	1.3 billion euros
4. Supporting competitiveness of	1 billion euros

Source: Ministry of Public Finance

Of the amounts received from the EU for the financial year 2007-2013 only 6, 1 billion (20%) went into the real economy to support the competitiveness of 1 billion euros (30%) while the establishment of agricultural capacities in rural

areas were of 5,51 billion euros. Considering the very small percentage allocated to investments, we can assume that for this period the amounts were insufficient. In fact, much of the European funds have been used for subsidies, workforce preparation programs and feasibility studies for infrastructure projects, which have not contributed to the sustainable development of the economy.

For the period 2007-2013, an activity report was prepared by the European Commission's Anti-Fraud Department, which oversees the proper management of European money.

On this occasion were "suspicions of fraud" and "irregularity", in reality the situation is not so serious, because of the 19 billion euros allocated in 2007-2013 only 1, 2% are suspicions of fraud from European funds, worth 230 million euros.

In conclusion, for sustainable economic growth with many well-paid jobs, it is necessary to attract European funds and a better structure for their allocation. From the report made and published by DLAF in September 2016, 1156 shares were found to be irregular and suspected of fraud only in 556 projects. The control operations carried out by the European Commission are easy to verify because these money are included in the consolidated annual budget of Romania in the category of revenues and expenditures.

In conclusion, Romania is a permanently supervised country with regard to the use of European funds, which is why we consider that there should be more supervision and less sanctioning.

Under the provisions of the European regulations on the spending of Structural Funds under Regulation n + 2 / n + 3, the final balance will be in 31 March 2017.

The Ministry of European Funds announced that Romania received from the European Commission in the first nine months of 2016 more than 3.2 billion euros from the structural and cohesion funds allocated from the 2007-2013 financial year.

Thus, between 2007 and 2016, the European Commission disbursed 14.42 billion euros from the Structural and Cohesion Funds on the basis of European project expenditure, with the absorption rate of 75.69% as non-reimbursable amounts.

These amounts absorbed by Romania do not include the European funds allocated to agriculture, for which there is another budget.

The analysis of the financial exercise 2007-2013 has highlighted several causes, for which it has not benefited to the maximum from European funds, losing about 4 billion euros in this period.

A cause would be incompetence in managing this money. The successive governments did not launch the Sectoral Operational Programs and the corresponding Management Authorities in time, national institutions responsible for managing European money. Another cause would be that not all of the projects submitted were sustainable, not all created well-paid jobs and long-term profitability.

There are currently projects under DLAF investigations. On the occasion of the checks carried out by national and Community authorities, it was found that too much money was spent on European funds on feasibility studies and presentation symposia.

Another reason for low absorption is the delay in communication to the European Commission of estimated project payments, the European Commission, on the basis of these estimated payments, annually draws up the budget for the Member States.

If the estimates are not correct and are made late, there is a risk that too many or too little money is allocated in the Community budget, so money can be locked, which could be used in other priority projects. Another aspect addressed by both Romanian authorities and European officials is the lack of information for entrepreneurs, farmers and business people about the submission conditions of a project with a grant.

In this aspect, ministries, local authorities should organize informing campaigns across the country, regarding European funds, as European money is also received for such activities. To conclude, knowing these mistakes made in previous financial years, they should not be repeated in future financial years.

In the period 2014-2020, 31, 2 billion euros were allocated for investments in infrastructure, cohesion and rural development, excluding (agricultural subsidies).

According to information from the Ministry of Public Finance, the destination of European funds in the 2014-2020 financial year by program type is presented in the table below.

**Table 4: Funds destination**

Destinations	Amounts
Establishment of production capacities for agriculture	€5 billion
Scientific research and technical assistance	€1.4 billion
Road Infrastructure, Channel Water Networks and the Environment	€9.7 billion
Supporting competitiveness	€4.2 billion
Preparing the workforce and developing human capital	€9.4 billion
Agricultural subsidies	€12 billion

Source: Ministry of Public Finance

The table above also includes European funds for agriculture. For this financial year it is necessary to increase the share of the amounts intended for the development and modernization of the real economy, namely:

- Industrial frames with high level in processing and complexity
- Services that use advanced technologies
- training Romanian entrepreneurs to access as many European funds as possible.

We believe that a €3 billion reduction from the "training of the labor force and human capital development" program is needed, from €9.4 billion to less than 6.4 billion euros because in the previous financial year, €4.3 billion was earmarked, of which only EUR 1.3 billion was used.

The € 3 billion difference is to be used for the Competitiveness Enhancement Program.

## 5. Conclusion

The 2014-2020 program preparations have not been made to The foreseen date, so the absorption has not been complete, although other EU member states have made substantial progress in the area



Actual absorption for the financial year 2014-2020 began in May 2016, two and a half years after the start of the exercise. So far about 1% of the total amount has been absorbed. With all the delays mentioned during this period, €13 billion projects were launched for highways, heating, school dropout, etc. The EU funds destination for the present period should have minor modifications to support the sustainable economic growth model. The investments need money and the exports need competitively, so investments in high degree of processing industrial areas and a competitive export production are necessary.

The state also needs to solve the corruption issue in the Public Administration, reduce bureaucracy, simplify procedures regarding the acces to European funds and monitor the project implementation, the authorities responsible for managing European funds must assume their responsibility.

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