

**BETWEEN SUCCESS AND UNSUCCESS IN ABSORBING EU FUNDS
– POLAND VS. ROMANIA**

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Abstract

Component of the cohesion policy promoted by the European Commission, European grant financing represents an inexpensive and important resource for the social and economic recovery of the member states, offering the prospect for the budgetary sustainability, encouraging public and private investments and thereby reducing the development gaps both at national and international level.

In the present study, through the comparative analysis between Romania and Poland in the field of EU funds absorption, we intend to identify the weaknesses and the strengths of each of the two member states, helping to formulate a set of recommendations that our country should follow in order to attract funds related to the Multiannual Financial Framework 2014-2020, thus following the example of Poland in order to become a model in this area and to benefit from the modernization opportunities provided by the structural instruments.

Key words: *absorption capacity, contraction rate, European funds, cohesion policy, structural instruments*

1. Introduction

The absorption of EU funds is directly determined by the administrative, institutional and financial capacity of each member state that is entitled to benefit from EU funding. The performance of each state in attracting and using the structural funding instruments can be measured with

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the help of the absorption rate which indicates the effective flows of money registered in the national economy through implemented projects and financed by European money.

The issue of accessing EU funds and, especially, that of accessing funds by new member states of the European Union is a major concern at community level.

[1] In the financial crisis that has heavily impacted the economies of the member states, and not only, the recovery policies and the economic growth policies targeted by the governments of these countries have not taken into consideration in all cases the cohesion policy proposed by the EC, which may have played a significant role in reducing the deficits through the economic and human resources allocated. This is the case of Romania, a state that has not given adequate importance to this policy through which Romania could have accessed 19.668 billion euro. This amount would have been reflected in infrastructure investments, in generating new jobs and could have positively influenced the state budget through collection levers, taxes and contributions, all contributing to reducing unemployment, to economic growth and to the reduction of the budget deficit.

2. Poland experience in accessing European funds

The status of being a new member state of the European Union represents a challenge given by the ability of each state to harmonize the national policies as well as the legal and institutional framework according to the European policies. Each state that wants to become a member of the European Union has one pre-accession period in which it should be prepared the accession and integration framework. The state should also assume a series of rules in order to facilitate the integration process. But the real difficulties arise after the accession moment and are given by the differences in the application itself of the new procedures at national level, in direct relation with the European requirements.

Such differences could also occur in the European Union funds provided to member states in order to achieve the cohesion policy and are given by the lack of institutional and legislative framework that could facilitate the absorption of these funds.

Taking into account all that was mentioned before, it is relevant the case of Poland, where the difficulties of implementing the structural funds for the period 2004-2006 have contributed to the registration of a very low absorption rate of structural funds. At the end of 2005, the rate of absorption

of the amounts allocated from the European Regional Development Fund was only 18.5% from the total resources for the period 2004-2006. Only two other member states, Cyprus and Malta, had lower rates of absorption. The situation of the absorption rate of the amounts allocated from the cohesion fund was even more alarming, recording at the end of 2005, a value of 0.8%. [2]

Poland's experience in accessing European funds for the period 2004-2006 revealed a number of problems both at organizational and legislative level, regarding the accessing and implementing of European funding projects.

The main weaknesses of Poland in order to access European funding for the period 2004-2006 were:

- the lack of an appropriate legal framework; it was set too late and subjected to many changes that led to discontinuity in applying the rules governing the Structural Funds and to the lack of transparency regarding the implementation process;
- the changes made to the Public Finances Law in the period 2004-2005 were not appropriate in order to facilitate the access to co-financing of public entities eligible to access these funds, so many projects had no sources of financing to be implemented;
- the multiannual budgets were not being addressed;
- insufficient forecasts for addressing public-private partnerships;
- public procurement procedures were long and often unclear;
- the failure of the implementation framework of the structural funds with EU legislation in the field of environmental impact, which led to the suspension of funding for certain projects;
- the inefficiency of the control procedures, which were inadequate and have negatively affected the payments to final beneficiaries, the claims for reimbursement being rejected;
- the inefficiency of the project monitoring system, as a result of the inseparation responsibilities between the Ministry of Economy (the main management authority) and the Ministry of Finance (the payment authority on FS), which resulted in the improper control functions and monitoring;
- the existence of constraints related to human resources (number, qualification) was one of the most important limitations in the effective accessing of structural funds;

- the beneficiaries lack of experience in applying the new rules made it significantly difficult the entire process of organization of the structural funds.

The low level of absorption of structural funds for 2004-2006, brought several challenges for Poland in terms of accessing structural funds for the programming period of 2007-2013 to which were allocated around 67 billion EUR.

In order to remedy the deficiencies noted in the experience of Poland regarding accessing European funds for the period 2004-2006, there were performed a number of important reforms that should facilitate the process of accessing structural funds. These include:

- ✓ the compliance of legal requirements and the alignment to applying European standards in the public procurement and environmental legislation;
- ✓ improving human resources by accessing funds to strengthen the training of the employees involved in the implementation of operational programs by accessing funds for Technical Assistance and Human Capital;
- ✓ the completion of the new structural funds monitoring system by the end of 2007, in order to allow the effective monitoring of the new programs;
- ✓ the national legislation in the field of structural funds has been modified (according to the National Development Plan, the law took effect in late September 2006) and aimed the removing of excessive regulations;
- ✓ the strengthening of the legislative framework was achieved in 2005-2006 through a series of reforms that aimed the public procurement law and the public finance law. The public procurement reform was particularly important and ensured the support for the structural funds implementation. Public finance reform has contributed to facilitate co-financing;
- ✓ the reform of the legislative framework was achieved by introducing new laws such as: the Law of National Development Plan, the Law regarding the National Capital Fund (in force since August 2008) and the Law regarding the Public Private Partnership (in force since October 2008);

- ✓ the introduction of the multiannual budgets in the context of public finances;
- ✓ organizing trainings regarding public procurement and environmental legislation for authorities and final beneficiaries at central, regional and local level. Technical assistance was used to provide attractive incentives for the staff responsible in managing these funds and for ensuring on-going training and exchange experience with similar authorities from neighbouring member states;
- ✓ ensure effective monitoring by focusing the structural funds management functions within a single institution or by transferring powers to the Ministry of Regional Development.

One of the greatest challenges for the developing countries that have joined the EU recently is the co-financing ability of European projects of the national and local authorities. In this regard, in Poland, various mechanisms have been established in order to support the entities from the public sector with their own insufficient budgets funding as follows:

- the establishment of a system of pre-financing for co-financing from the state budget that would allow entities from the public sector with insufficient budgets to submit applications to the Ministry of Finance to grant the co-financing required;
- the arrangement of debt instruments, interest-free or low-interest for pre-financing that are to be repaid upon receipt of funds from the European Union or special purpose funds (Fund of Labour, Fund of the National Environmental Protection and Fund of the management water, etc.);
- since 2006, pre-financing funds were included in the budgets of specific entities from the public sector and the Ministry of Regional Development became responsible for the distribution of budgetary reserves for accessing the structural funds. The structural funds are now fully integrated into national budgets, thus facilitating the access to European funding.

As a result of the measures taken by Poland in order to improve the process of absorption of EU funds, the period 2007-2013 was a success, positioning Poland in the top among the countries with performance in this area. In an study about the Poland performance and the prospects of development that the European funds brings to this country it is mentioned that: "After 5 years of EU membership we have not only proved to be

effective in obtaining EU funds, but above all our actions are dynamic also in their spending. As a result, we are currently the most important beneficiary of the EU funds and thus have a historic opportunity for the exceptional economic and civilizational leap.” [3, p.4]

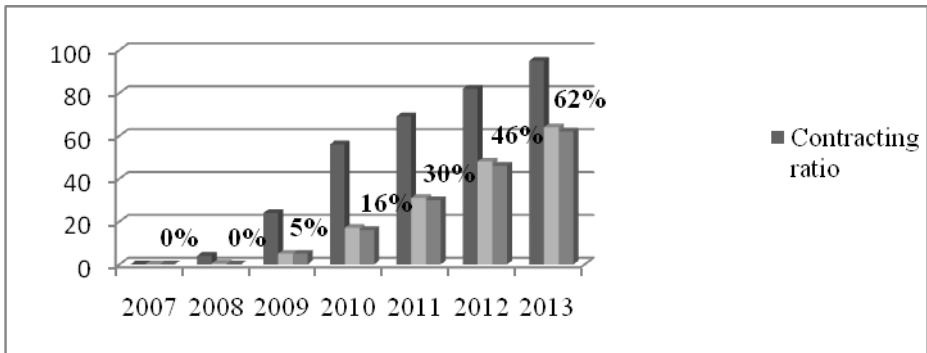
Table 1: The progress of implementation of EU funds in Poland in 2007-2013

Year	2007	2008	2009	2010	2011	2012	2013
Contraction rate	0	4%	24%	56%	69%	82%	95%
Payment rate	0	0,4%	5%	17%	31%	48%	64%
UE certification rate	0	0	5%	16%	30%	46%	63%

Source: Authors’ processing- data taken from KPMG Report 2007-2013

For Poland, the period 2007-2013 period was successful, registering on 31.12.2013 a rate of absorption of EU funds of 63%. The resource flows received have helped to reduce the effects of the economic crisis, to grow the GDP and to increase the competitiveness of the national economy. They also supported the development of entrepreneurship, the creation of new jobs and the construction of a modern transport infrastructure.

Figure 1: The progress of implementation of EU funds in Poland in 2007-2013



Source: Authors’ processing - data taken from KPMG Report 2007-2013

3. The analysis of the absorption rate of EU funds in Poland - comparison with Romania

Romania can be compared to Poland in terms of historical, geographical and administrative – territorial similarities, but in terms of EU

funds absorption rate performance the two countries are situated at opposite poles. Romania cannot be given as an example of efficiency in drawing European funds unlike Poland which can be considered an example of success and efficiency.

There are views that argue, rightly, that "Poland, which is on a larger scale than ours and with potential problems more complex than ours, has made from the cohesion policy an engine of growth, social progress, reduction of disparities and increase its credibility as a major actor of the Union." [4, p.8] This statement is supported if we consider that Poland has not felt the economic and financial crisis, registering growth in that period.

For Romania, the analysis of the accessing European funds highlights the modest results obtained, shown in the table below.

As it can be seen, the difference between the rates of contracting, the rates of payment and the rates of certification records significant values. Thus, we can say that in Romania, there is no efficient management of the structural instruments provided by the European Union. The low rate of absorption of EU funds, made from Romania in some periods rather a net contributor to the EU budget.

Table 2: The progress of implementation of EU funds in Romania in 2007-2013

Year	2007	2008	2009	2010	2011	2012	2013
Contracting ratio	0	6%	16%	43%	67%	79%	94%
Payment ratio	0	1%	3%	9%	15%	22%	37%
EU certification ratio	0	0	1%	2%	6%	11%	27%

Source: Authors' processing - data taken from KPMG Report 2007-2013

From the total amount allocated to Romania for the period 2007-2013, it has registered a contracting rate of 94%, but the rate of payments under the contracted grants was only 27%, which shows a significant difference between the two rates. This situation is due to the sanctions applied by the European Commission to our country, due to the numerous and repeated non-compliance reported after evaluations of country in the field of accessing and implementing EU funded programs. The success of Poland in the EU funds

absorption, is due undoubtedly mostly to the unpleasant experience encountered in attracting European funding for the period 2004-2006. Regarding the status of accessing European funds for the period 2007-2013 from the Structural and Cohesion Funds of the European Union, the situation for the two countries analysed is shown in table 3 and is as follows:

Table 3: The rates of absorption of EU funds registered in Romania and Poland in the period 2007-2013

The total amount allocated to each country for the programming period 2007-2013 (billion Euro)		
Funding Instrument	POLAND	ROMANIA
European Regional Development Fund	34,79	8,97
European Social Fund	10,01	3,68
Cohesion Fund	22,39	6,52
The contracting ratio for Structural and Cohesion Funds		
European Regional Development Fund	94%	94%
European Social Fund	95%	84%
Cohesion Fund	96%	99%
The payments ratio for Structural and Cohesion Funds		
European Regional Development Fund	64%	36%
European Social Fund	70%	47%
Cohesion Fund	60%	31%

Source: Information taken from the KPMG Report for the period 2007-2013

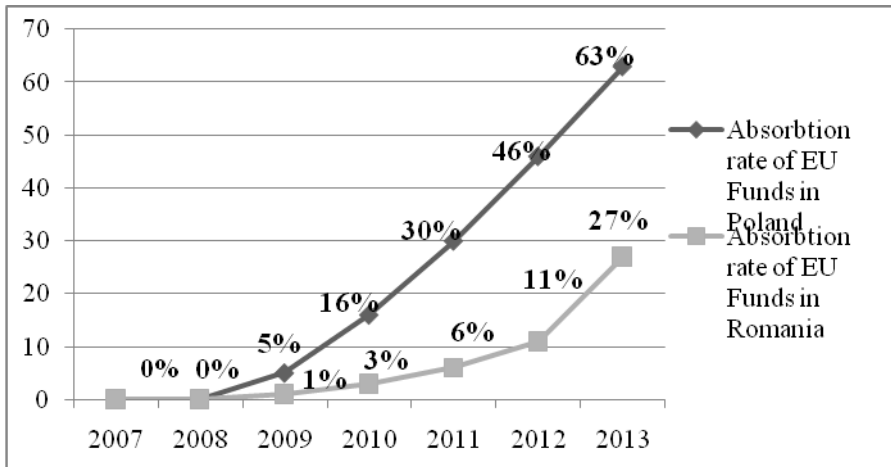
From table no.3 it is noted that the differences are not very large in terms of contracting ratio, but there are almost half in Romania against Poland in terms of payment rates.

This situation has happened due to the sanctions applied to Romania by the European Commission, due to the numerous and repeated financial irregularities detected in the implementation of projects financed from EU funds, due to the poor and inefficient management and due to the absence of an effective legal and institutional framework, chapters to which Romania is far behind Poland. For Poland, the difference between the contracting ratio and the rate of EU funds payments by the European Commission for these programs is much smaller, the contracting ratio being 95% and 63% the payments ratio. This was largely due to the measures that Poland has taken to improve the institutional and legislative framework in the area of EU funds,

given to the previous experience for the 2004-2006 programming period.

Graphically represented, the comparative rate of absorption in the two analysed countries, is as follows:

Figure 2: The absorption rate of EU funds in Poland and Romania



Source: Authors' processing - data taken from KPMG Report 2007-2013

Reality shows that during the first years of membership the member states record low rates of absorption of EU funds due to the lack of experience in the field and because of the difficulties encountered in the implementation of eligible projects and of the problems of funding procedures from the European Commission.

In the comparative analysis of the EU funds absorption between Poland and Romania, it should be taken into account several important aspects. Poland had an advantage in this area given by the fact that has received European funding previously the programming period 2007-2013, being member state of the European Union since 2004.

The problems pointed out in the absorption of EU funds for the period 2004-2006 in Poland are similar to those identified during early European funding and contracting in Romania. These refer to:

- ✓ the inefficient institutional and administrative framework;
- ✓ legislative obstacles in all stages of absorption of EU funds due to the absence of an appropriate legal framework, which was established late and has undergone many changes (eg. Public procurement law, Environmental law, etc.);
- ✓ the absence of the co-financing capacity among local governments; the Public Finance Law has not provided support for this process;
- ✓ institutional barriers related to the complexity and bureaucracy procedures and to the qualification of the staff involved.

The measures that were lately taken by Romania and were aimed to improve the absorption process, should help to increase the performance of Romania in this field for the programming period 2014-2020. In this regard, it is essential the proper monitoring of the management authorities regarding the implementation of each program and the rapid assessment of the reimbursement requests in order to speed up attracting European funding. A significant role is played by the absorption of funds in the Technical Assistance field in order to be provided specialized technical assistance to all managing authorities and intermediate bodies, thus ensuring proper monitoring in all phases of the programme implementation.

As regards the multiannual financial framework 2014-2020 [5], Poland receives about 36% of the funds allocated to the member states in Central and Eastern Europe and Romania takes 9% of this amount, representing 21.4 billion euro.

Romania has to learn from the mistakes made in the implementation of the structural instruments available for the period 2007-2013 and to focus in particular on the following lines in terms of accessing funds related to the next Multiannual Financial Framework 2014-2020:

- improving the mechanism and the implementation procedures of EU funds;
- the appropriate use of technical assistance recommending authorities to outsource the complicated assistance services;
- improving and simplifying the procedures in the public procurement;
- focusing on the development of national and regional strategic projects, which will consist in an integrated strategy with effects identified not only locally but also centrally.

4. Conclusions

The entire process of accessing European funds is complex and requires vertically and horizontally cooperation among stakeholders. Although the success of attracting funds is usually attributed to the managing authority, the accomplishment of such an approach could not be achieved without the constant support of all partners taking part in this process, both at central and local level. In the comparative analysis between Romania and Poland can be identified similarities but also many differences in the absorption of EU funds. Similarities come from the fact that in the first years of membership the member states record low rates of absorption of EU funds due to the absence of experience in the field and because of the weaknesses in the financial procedures required by the European Commission. But the major differences come from the way in which the two analysed countries have understood the importance of correcting the deficiencies noted in the absorption process. Poland's response to the reported vulnerabilities in accessing and implementing the structural instruments was immediately and it was focused on the reorganization and on the efficiency of the institutional and legislative framework, resulting in measures that have strengthened and made more efficient the EU funds absorption, thereby paving the way for tranches of funding for the period 2007-2013. In contrast, Romania proved inconsistencies in taking measures for the deficiencies reported and was not seen constantly and responsible in their application. Thus, over the acts of corruption and absence of transparency in accessing and implementing European funded projects, despite numerous warnings and sanctions that our country has received from the European Commission for nonconformities reported (suspension of payments), have not been performed significant reforms and strong measures to prevent and stop these irregularities.

Despite the efforts of the authorities from Romania to take administrative, legal and institutional-organizational measures in order to increase the level of absorption for the 2007-2013 budget year, there were no noted improvements. Thus, with only 12 months before the end of the financial period 2007-2013, the rate of absorption (reimbursement of expenditure) remains very low, at only 44.8%, a result which equals to a significant loss of funds for Romania.

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