

ANALYSIS OF STRUCTURAL AND COHESION FUNDS ABSORPTION IN ROMANIA

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Absorption of structural funds is one of the main challenges for public administration, for the business environment and the non-governmental sector. European integration itself depends on optimizing the absorption of structural funds allocated to Romania for 2007-2013. Romania will be receiving cohesion and structural funds amounting for over 19 billion euro. Money will be directed to projects in the field of basic infrastructure (60% of the total amount), economic competitiveness (15%), human capital (20%) and administrative capacity (5%). National co-financing in this period is estimated for approx. 5.53 billion euro, both from public sources (77% out of the total) and private ones (23%).

According to data made available by the Ministry of Public Finance, the overall amount paid by Romania to the European budget in 2007 was 3.97 billion lei (1.2 billion euro) and in 2008 it was approx. 4.23 billion lei.

Main bottlenecks faced by new EU member states, Romania herewith included, are reflected in the weak capacity of making efficient use of the allocated funds, the lack of experience in elaborating large scale projects at European standards, the deficit in transparency in organizing public tenders, as well as a low comprehension degree of the methodology of using European funds.

The use of European funds is a big opportunity of economic development in Romania given the fact that full absorption would mean an annual inflow of approx. 5% of the country's GDP.

Moreover, by absorbing the post-accession funds, Romania could become a favorite destination for foreign investors, by increasing its potential to develop investment projects, especially in the field of infrastructure.

However, the weak programming policies and the delays in taking decisions on the budget made that the 7 operational programmes would only be sent to Brussels in 2007, after Romania's accession to the EU. The degree of structural funds absorption in the first post-accession year was almost half as compared to other Member States such as Czech Republic, Poland, Hungary or Slovak Republic, according to a study published by the National Bank of Romania in March 2008. The absorption rate for Romania was 21.7% as compared to 42.9% in Hungary and 42.8% in Poland. Structural and cohesion funds have been absorbed up to the level of 32.7%, while funds for agriculture and rural development have only been absorbed up to 3%.

In order to significantly improve this process, several measures have been adopted, such as:

- a priority was set for the national budget to allocate the necessary resources for co-financing investments that are financed with European money. The maximum pre-financing threshold was increased from 15% to 20% of the projects total value;

- pre-financing is also granted to beneficiaries falling under the scope of state aid rules, up to 35% of the total grant;

- for private beneficiaries, the option was given to open their project accounts in commercial banks, not only in the State Treasury;

- VAT can be reimbursed following each invoicing.

In the same time simplified procedures were introduced to submit project documentation. Thus, it has been established that not all supporting documents need to be submitted at the moment of the application submission and they could be brought in a later phase (usually in the sub-contracting phase). At the moment of the application submission, copies certified by the beneficiary are also accepted instead of copies legalized by a public notary. Legalized copies are only requested in the pre-contracting phase. Project guidelines were revised and they much clearer in stating the list of documents that need to be submitted by the applicant in the contracting phase.

Other measures targeting the financing of the economy and the increase in liquidity were also designed such as:

- adopting the legislation regarding public-private partnerships in view of increasing the dynamics of private investments in infrastructure;

- the possibility to compensate VAT to receive with VAT to be paid or other taxes in the months to come after the month in which the reimbursement claim will be submitted as well as after the expiry of the legal period of 45 days for reimbursement;

- chance will be given to take part in public tenders for projects financed from the structural funds even to

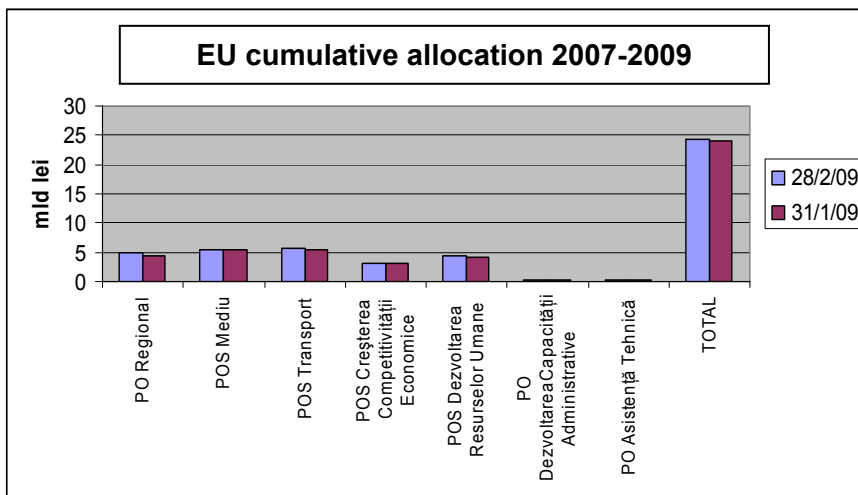
companies which have debts towards the state budget as long as they are less than the debts to the state budget. A government ordinance is planned in this respect.

Against the background of the desire to absorb structural funds to the highest degree possible, we can ascertain that this was not achieved until present. If we analyze the statistics of submitted applications, approved projects, signed contracts and payments made to beneficiaries at the end of February 2009, we can see that Romania should work more on accelerating and optimizing this process.

We will further on present an empirical analysis of the current situation in Romania. Judging on the amounts of money that are allocated to the 7 operational programmes, we can assess that they are significant as compared to pre-accession funds. What we could notice was a higher degree of concentration for the Regional Operational Programme (ROP), the Environment Operational Programme (EOP) and the Transport Operational Programme (TOP), which aim at rehabilitating specific infrastructure in the country.

Other programmes which share moreover the same degree of attractiveness are the Sectoral Operational Programme Increasing Economic Competitiveness (SOP IEC) and the Sectoral Operational Programme Human Resources Development (SOP HRD) and, to a lower extent, the Operational Programme Administrative Capacity Development (OP ACD) – also see figure 1.

Figure 1



As regards submitted applications, we could notice that the highest numbers were recorded for SOP IEC (2963 projects), SOP HRD (2845 projects) and ROP (1447 projects), while for the other operational programmes, the numbers were smaller. For example, in the case of TOP a number of 19 projects were submitted by the end of

February 2009, 3 more than at the end of January 2009.

This can be explained by the interest of main stakeholders in various programmes – both public authorities and other stakeholders (businesses, NGOs, employers’ organizations, employees’ unions, SMEs etc).

Figure 2

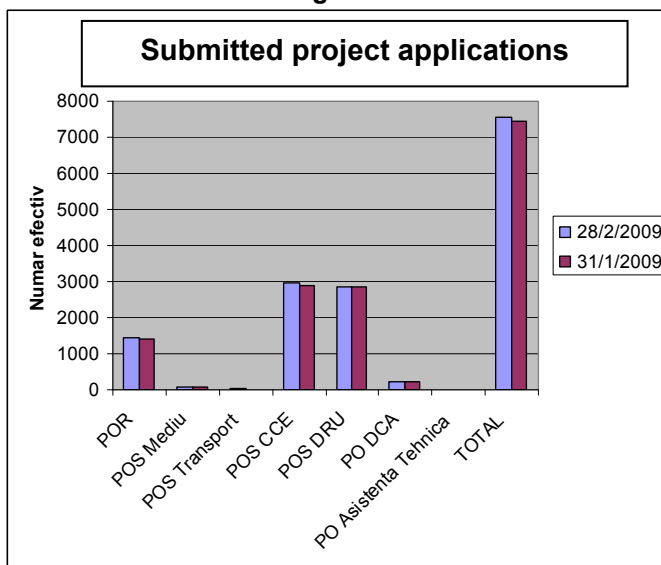
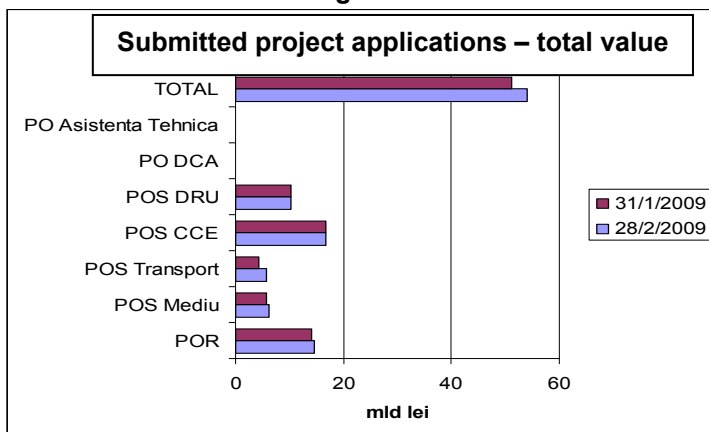


Figure 3



Analyzing the statistics of approved projects, we could notice that their number was much smaller than the submitted project application. This shows the fact that in Romania there is not yet a solid expertise in this field.

For example in the case of ROP, out of a total number of 1447 submitted project proposals, only 310 were approved, 550 were rejected and the rest of 587 are still under evaluation. As regards SOP IEC, out of a total number of 2963 submitted applications, 968 were rejected, 385 were approved and 887 are still undergoing evaluation procedures.

Out of an overall number of 7565 submitted projects, only 1046 were approved and 2137 were already rejected. It means that approximately one third (27%) of the submitted applications were declared ineligible and this number could increase taking into account that 3659 projects are still to be evaluated.

The total value of these projects is proportional to the number of approved projects which will enter their implementing phase (see figure 5).

This rather disproportionate trend can be also explained by several mismatches as regards the capacity to manage these funds as well as the internal evaluation and contracting procedures.

Several changes in the national legislation have been forwarded for approval to the European Commission. They mainly target decreasing the evaluation period of projects from more than 80 days to approximately 30 days.

This is expected to be reflected in an increase in effectiveness of the Management Authorities of all the operational programmes as well as of the applicants, which will certainly foster increased absorption.

Figure 4

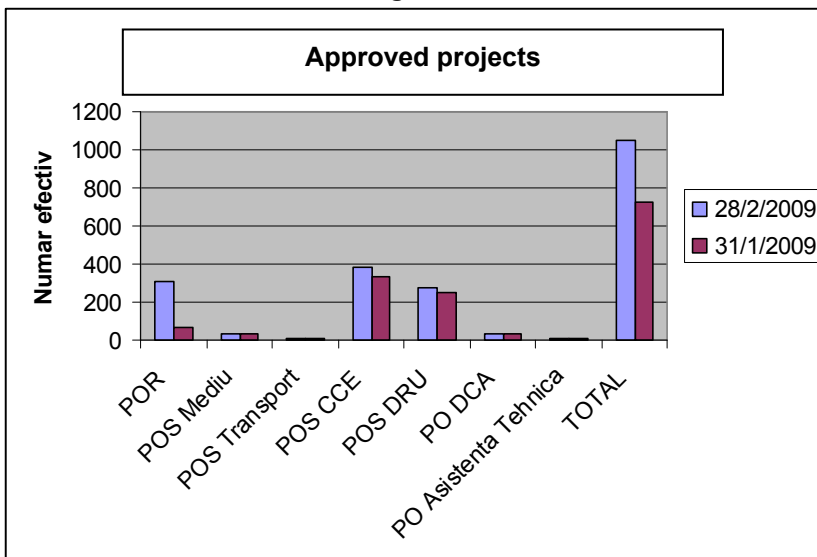
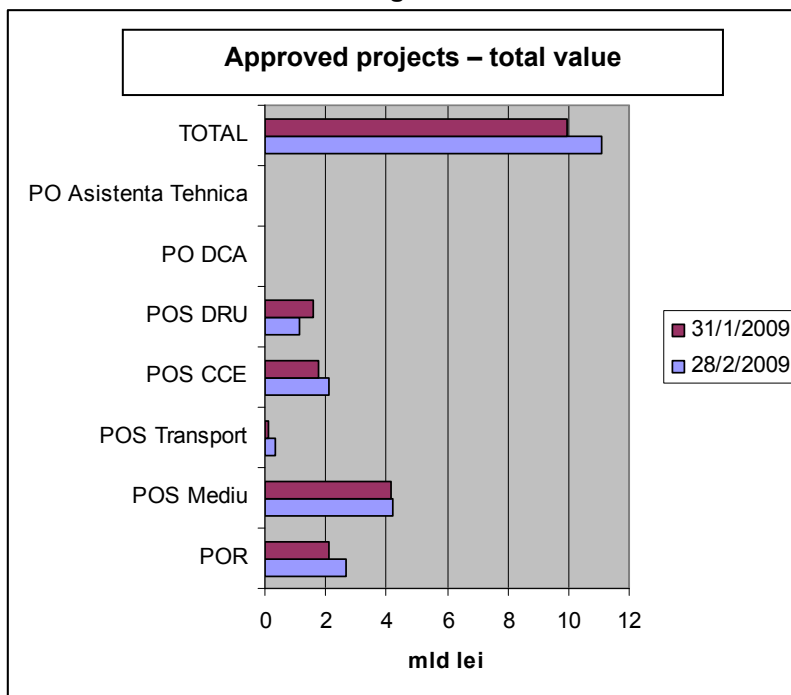


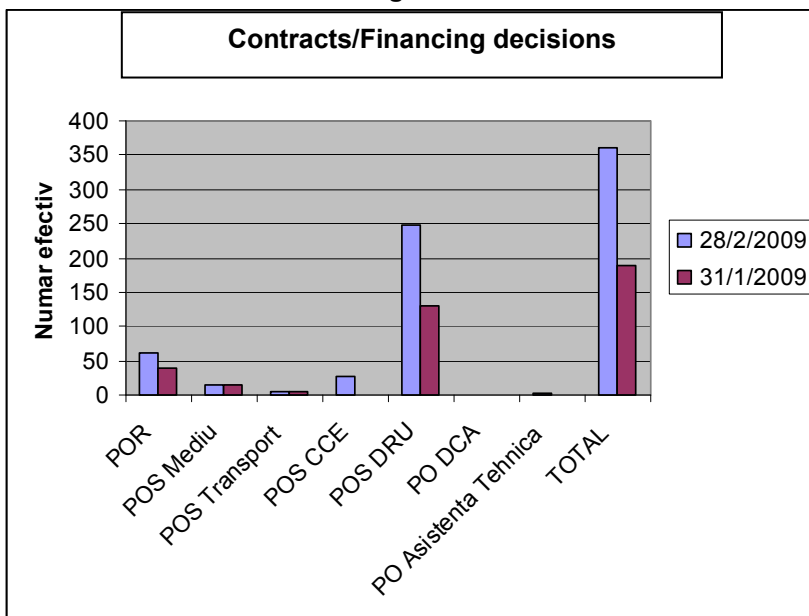
Figure 5



The total number of signed contracts by the contracting authorities with the beneficiaries was 360 at the end of February 2009 as compared to only

190 at the end of January 2009. This shows significant progress, taking into account that the number almost doubled in only one month (see also figure 6).

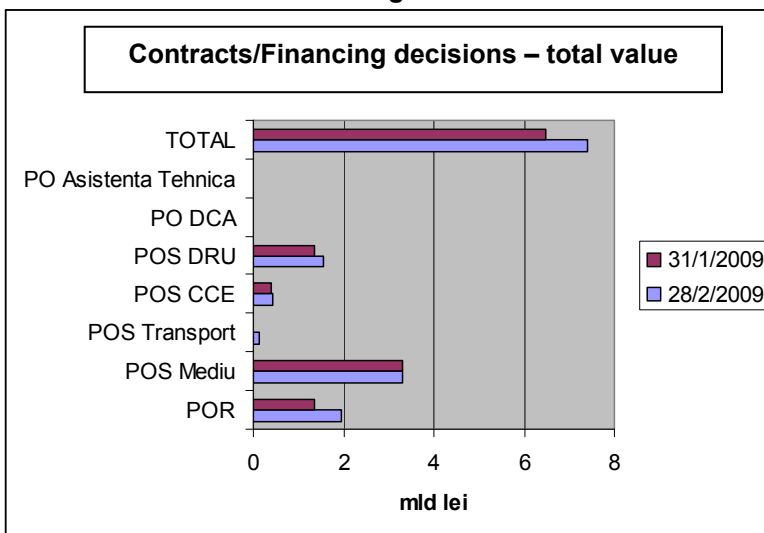
Figure 6



The overall amount of contracted projects shows different trends depending on the operational programme. For example the highest values were recorded for projects submitted under the ROP, EOP and SOP HRD with amounts ranging from 1.554.079.020 lei and 3.308.039.947 lei.

As regards the other operational programmes, the total value of contracted projects was much smaller and it was even 0 for OP ACD as for this particular programme no contracts have been signed up to the moment (see figure 7).

Figure 7

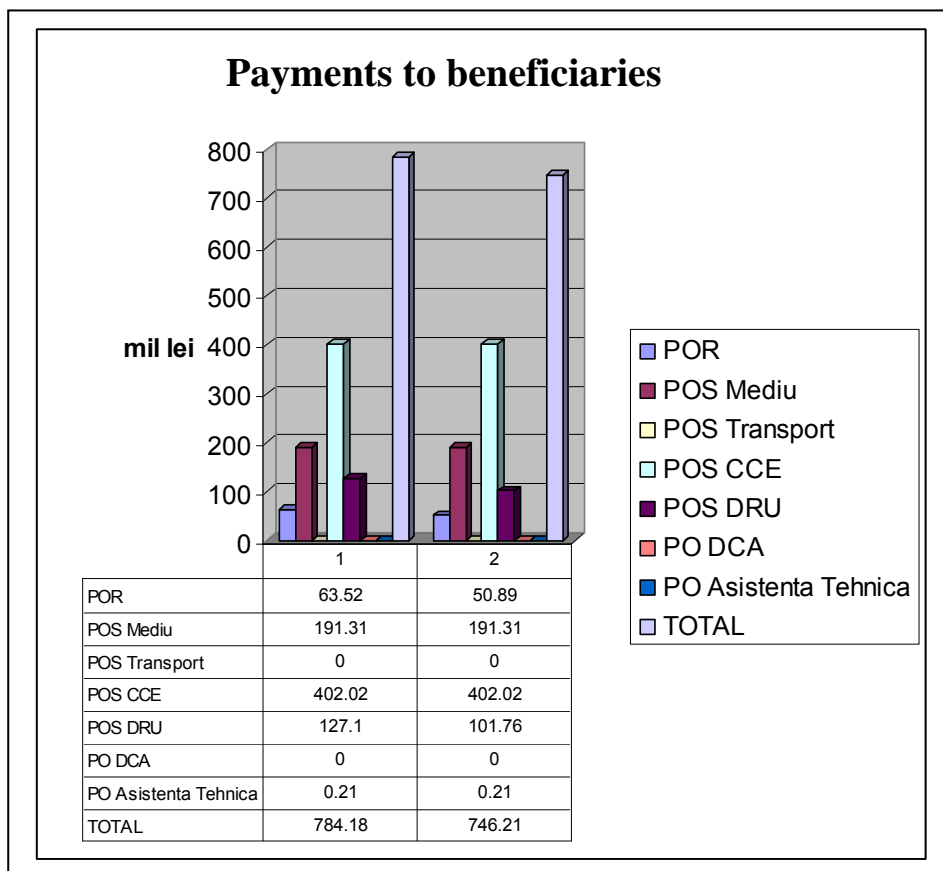


If we also analyze payments to beneficiaries up to the moment, we can notice that there are significant discrepancies between the operational programmes. Total payments until the end of February 2009 range from 218.121 lei to 402.020.000 lei, with a cumulative total of 784.184.756 lei for all the operational programmes. The largest amount was paid to beneficiaries of SOP IEC projects, followed by EOP and SOP HRD, while payments for the Technical Assistance Operational Programme were 0. In line with the above mentioned updated procedures, there is hope that improvements and increased effective-

ness will also apply to payments towards the beneficiaries in order to implement as many successful projects as possible.

From December 2008 until mid-March 2009, Romania absorbed structural funds amounting for approximately 400 billion lei. The total amount absorbed until present is 900 billion lei. In order to improve the process, the Romanian state adopted several measures, among which increasing the pre-financing from 15% to 20% and reimbursing VAT with each invoice submitted with the payment claims.

Figure 8*



*Interval 1 shows the values recorded at the end of January 2009, while interval 2 shows the values recorded at the end of February 2009.

To conclude we can assess that, according to our analysis, absorption of funds allocated from the structural funds was limited and had several gaps, both from the legislative point of view and the management point of view.

However, in the same time, a positive trend could be noticed, resulted from an increasing number of projects

which are already being implemented, as well as of approved projects.

Perspectives are also positive, especially that the process is facilitated in the context of the global economic crisis, which drastically reduced access to financing resources for most of the players in various markets.

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