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## THE EUROPEAN FUNDS – AN ANTI-CRISIS MEASURE AT THE MOMENT

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Daniela Florescu\*

### **Abstract.**

*The European funds do not represent an inward purpose, but instruments in reaching the objectives established at the level of the European Union, of the EU member state, based on the implementation documents. The access to Social and Cohesion Funds offers Romania a possibility to develop the regions which are lagging behind, to modernize transport and environment infrastructure, to support rural development, to create new employment opportunities, to sustain social policies which will lead to the growth of the standard of life. The non-reimbursable structural assistance is more the support replaces an important part of the financial effort that should be done by a state on its own, the more helpful and precious is. This research work displays diverse aspects concerning the implementation modalities of irredeemable funds. Furthermore, the existence of a strong institutional structure was absolutely necessary, capable to ensure the formulation and application of public policies, to keep the coordination processes inside ministries going, the implementation of national programs, increasing the application capacity of partnerships between local administrations.*

**Keywords:** structural funds, irredeemable financing, management authorities, regional operation programs, absorption capacity, convergence.

**JEL Classification:** F36, F35, O29

Categorically, the financial crisis, started worldwide about two years ago, creates big problems to the entrepreneurs who either benefited from a credit line and now they are hardly coping with the debts, or are at the very beginning and, since they no longer find financing sources, they are about to take a step back or even to definitely give up the project.

Today, every one talks about the crisis, even the astrologers make fuzzy forecasts. On everyone's lips one can read questions such as: What is the propagation speed of the crisis? Up to what level shall we see its effects? How does the crisis affect our business? What is the good direction to turn to, so that to be less affected? In short: What's to be done?

If that's how things really were, we only have one solution: to find a cheap financing source, that would allow us to develop new businesses, adjusted to the new requirements and to the new conditions. This particular source is represented by the structural funds, Romania being able to benefit from non-redeemable funds in amount of Euro 32 billions for the period 2007 – 2013.

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\* Daniela Florescu is expert M.A.I. – A.N.R.S.C. in Bucharest. E-mail: [dana\\_florescu70@yahoo.com](mailto:dana_florescu70@yahoo.com)

The structural funds are post – adhesion funds paid from the European Union budget, whose main objective is to provide support for the member states so that the economic and social disparities between the European Community regions diminish. They are used to support investments in: education, health, development of IMMs (small and medium sized enterprises), infrastructure and transport, environment, energy sector, agriculture, tourism, research, professional training etc.

The prioritized objectives of the European funds for the period 2007 – 2013 are:

- objective Convergence, which promotes the structural development and adjustments of the regions with delays in development;
- objective Regional Competitiveness and Employment, which supports the regions not eligible for the objective Convergence;
- objective Territorial European Cooperation, which supports transnational regions, counties and areas.

Which to concern the structural assistance allocated to the Member States from the EU27 for 2007-2013 is of 308 billion euro, which represents 35% of the EU budget of an 862 billion euro value. The amounts allocated to the new Member States for the 2007-2013 period are significantly larger than in the first exercise. For the EU8 plus Romania and Bulgaria, the total amount allocated is of 175 billion euro, representing more than half of the entire budget allocated for the cohesion.

In 2009, Romania can engage from the European funds, through the operational programs, non-redeemable funds in total amount of Euro 4,168,964,971, as follows:

- through the National Rural Development Programme: 1.442.871.530 euro;
- through the Regional Operational Program: 441.135.485 euro;
- through the Environment Regional Operational Program: 578.507.217 euro;
- through the „Human Recourses Development” Sector Operational Program: 452.584.803 euro;
- through the Program „Growth of the Economic Competitiveness” Sector Operational (POS – CCE): 386.097.057 euro;
- through the „Growth of Administrative Capacity” Operational Program: 40.850.990 euro;
- through the Transports Regional Operational Program: 770.539.727 euro;
- through the „Technical Assistance” Operational Program: 26.221.919 euro.

When it comes to such amounts, everyone is questioning the manner of improving the capacity to manage the structural funds. Even the President of the country thinks that the absorption of the structural funds must represent a first degree priority nowadays. Moreover, the President is not happy by the fact that 85% of the money received as advance down payment were not spent, considering that in the years 2007 and 2008, the European Union transferred into the Treasury accounts of the Ministry of Finance (the management authority) advance down payments of Euro 1.85 billions coming from structural funds, out of which only Euro 200 million were spent on quite insignificant projects.

According to European Innovation Scoreboard 2007, Romania is ranked last among the European countries as far as the innovation capacity is concerned. The states who propounded a more explicit objective with regard to the innovation shall have the possibility to create a cohesion and concentration for the investments in the field. Romania, by not specifying the innovation, also in the case of the economic competitiveness objective, shall not register significant transformations, but it could lessen the investments effort. Comparative to other states, we chose the JROP type funds allocation model by regions, a centralized national program respectively, with financial allowances differentiated by regions depending on the development level. The regional program does not provide the possibility to differentiate the development objectives for each region, it only established a number of national priorities that are to be implemented at the regional level, allowing for a funds re-allocation depending on the absorptive capacity of each region, fact that brings into question the final objective concerning the reduction of regional differences.

With regard to the actual stage of the European funds absorptive process, by regional programs, at Jun 30<sup>th</sup>, 2009 the status is as follows:

| OPERATIONAL PROGRAMS  | Reporting period | Total funds allocations mil lei | PROJECTS SUBMITTED |                             |                               | PROJECTS APPROVED  |                             |                               |
|---|------------------|---------------------------------|--------------------|-----------------------------|-------------------------------|--------------------|-----------------------------|-------------------------------|
|   |                  |                                 | Number of projects | Total allocations (mil lei) | Total assistance EU (mil lei) | Number of projects | Total allocations (mil lei) | Total assistance EU (mil lei) |
| Regional Operational Program                                      | 31.01.09         | 4.964,78                        | 1.418              | 14.038,68                   | 8.881,63                      | 64                 | 2.134,30                    | 1.515,36                      |
|   | 30.06.09         |                                 | 1.960              | 20.556,555                  | 13.559,559                    | 541                | 4.390,120                   | 3.007,556                     |
| Environment Regional Operational Program                          | 31.01.09         | 5.441,03                        | 69                 | 5.789,97                    | 3.844,63                      | 32                 | 4.185,41                    | 2.796,66                      |
|   | 30.06.09         |                                 | 113                | 6.688,440                   | 4.433,595                     | 42                 | 5.407,856                   | 3.575,852                     |
| Transports Regional Operational Program                           | 31.01.09         | 5.523,20                        | 16                 | 4.401,61                    | 1.535,71                      | 6                  | 127,17                      | 28,49                         |
|   | 30.06.09         |                                 | 33                 | 7.703,162                   | 2.921,422                     | 12                 | 321,335                     | 63,395                        |
| Growth of the Economic Competitiveness Sector Operational Program | 31.01.09         | 3.084,50                        | 2.880              | 16.721,61                   | 8.221,13                      | 337                | 1.787,57                    | 1.221,70                      |
|   | 30.06.09         |                                 | 3.361              | 18.840,637                  | 9.079,889                     | 850                | 2.435,866                   | 1.367,519                     |

|  |          |           |       |            |            |       |            |            |
|--|----------|-----------|-------|------------|------------|-------|------------|------------|
| Human Resources Development Sector Operational Program           | 31.01.09 | 4.205,64  | 2.834 | 10.180,65  | 8.254,10   | 249   | 1.586,97   | 1.272,4    |
|  | 30.06.09 |           | 3.005 | 10.424,194 | 8.408,404  | 648   | 3.003,550  | 2.398,856  |
| Growth of the Administrative Capacity Sector Operational Program | 31.01.09 | 376,58    | 206   | 318,95     | 270,39     | 30    | 54,31      | 44,06      |
|  | 30.06.09 |           | 353   | 438,973    | 349,951    | 49    | 103,770    | 84,723     |
| Technical Assistance Operational Program                         | 31.01.09 | 238,05    | 7     | 73,56      | 45,46      | 5     | 62,39      | 37,76      |
|  | 30.06.09 |           | 16    | 144,830    | 94,652     | 12    | 124,040    | 79,252     |
| TOTAL  | 31.01.09 | 23.833,78 | 7.430 | 51.525,030 | 31.053,050 | 723   | 9.938,120  | 6.916,430  |
|  | 30.06.09 |           | 8.831 | 64.796,791 | 38.847,472 | 2.154 | 15.786,537 | 10.577,153 |

### Absorption capacity January – Jun 2009

Source: Authority for Coordination of Structural Instruments

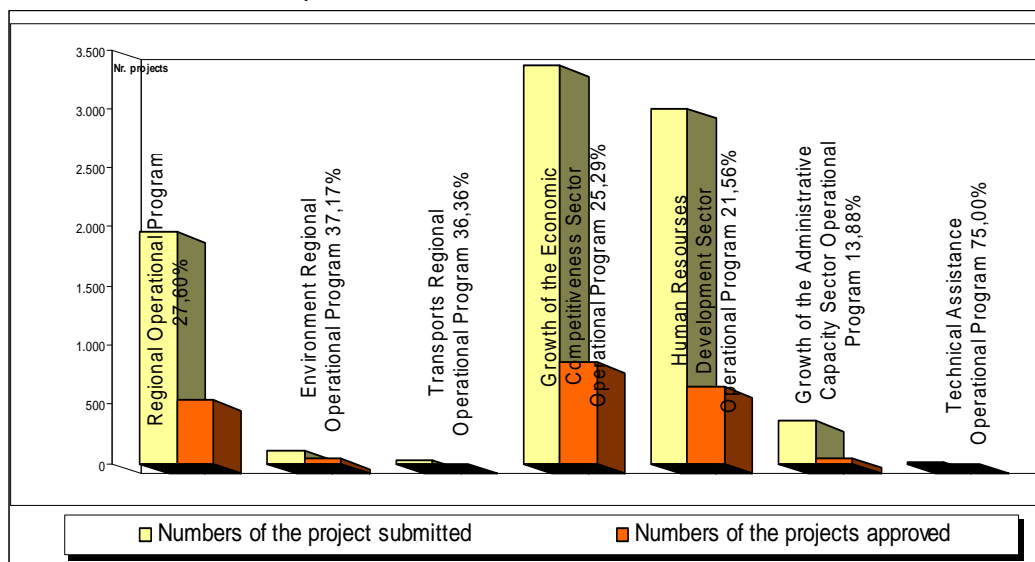


Fig 1. Situation of numbers the project approved in numbers of the projects submitted

Tracking down the events' chronology, we can only draw one sole conclusion: something is wrong. We have projects exceeding, in some cases, twice the amounts

budgeted by the program, such as the Regional Operational Program, Growth of the Economic Competitiveness Sector Operational Program (294%), Human Resources Development Sector Operational Program (200%), but so far, within the POR projects we could only engage amounts up to half of the allocations: Regional Operational Program (61%), Growth of the Economic Competitiveness Sector Operational Program (44%), Human Resources Development Sector Operational Program (57%).

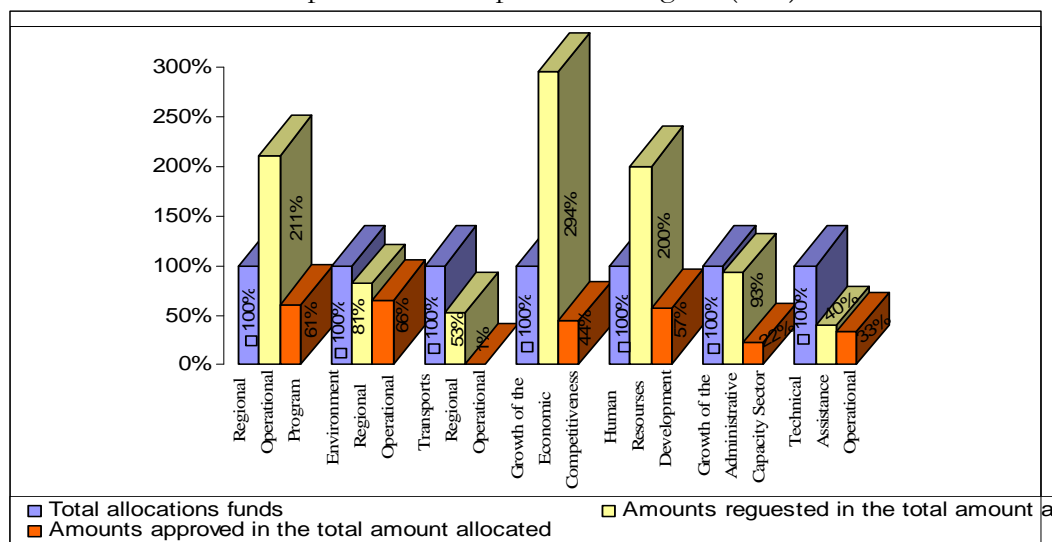


Fig. 2. Situation of amounts requested and amounts approved in the total amount allocated

On a careful analysis of the situation, it can be noted that Romania is facing a whole chain of problems. Although the projects were submitted more than one year ago, they have not received a solution yet. The explanation of the representatives of the competent authorities is simple: they have a small number of available personnel, working on the signing of the contracts and preparing the Guide for launching the financing line of this year. The previous Government approved a staff increase by 30 jobs for each management authority, but everything was cancelled once the expenses diminishing policy of the actual Government was implemented.

This is a vicious circle. Everyone knows it, but no one has a solution. Nobody wants to officially complain about this problem. This is a system problem, but nobody cares to solve it. If the budget expenses cannot increase in 2009, because the deficit must be kept under control, it is obvious that other solutions need to be sought for. That is because, naturally, there are no public servants working free of charge, no pro-bono evaluators or projects already evaluated. Every time, the Government people take pride in the methods of simplifying the funds accessing procedures, but the solutions prove to be unreliable. A huge gap was created between the period when the projects were submitted and the time when they get solved, a gap which caused many of the entrepreneurs to give up, while others made the impossible to maintain their initial activity and investments plan.

The staff issue is not singular; there are much more swoons co-working in the delaying of the absorption of the structural funds:

- excessive bureaucracy (for instance, the signing of the documents in black ink triggers the rejection of the financing application, the pages should only be numbered in the upper right corner, etc.);

- lack of inter-cooperation between the management authorities for planning and coordinating the general activity. Although, at the beginning of this year, an Inter-ministerial Committee was created, the coordination between the operational programs is missing;

- the programs are not focusing on truly important problems;

- lack of professionalism of the management authorities specialists, who can barely handle the bureaucratic paperwork (at the beginning of 2008, less than 40% of the personnel was experienced in working with the European funds)

- modification of the Applicant's Guide during the projects assigning tenders;

- lack of prior notifications;

- the reduced number of partners invited to discussions, on the occasion of diverse events on the theme of the European funds;

- too little time for expressing opinions or the lack of feedback after discussions , etc.

Romania is not the only one facing problems related to the absorption of European funds. Therefore, the European Committee established a new target: to simplify certain rules in the management of the European funds in order to support the regions in fighting back its negative effects.

Concretely, considering the rapid growth of the unemployment in all the European Union member states, in a moment when their budgets are really tight, it was decided to give the opportunity to pay back 100% of the costs declared by the member states for the projects financed from the European Social Fund (FSE) in 2009 and 2010. The member states are not required to contribute with a national co-financing, which allows a speed-up of the implementation of the projects supporting the employment. This option does not re-open the discussion on the distribution of funds among the member states, or the total value of the funds and raises not liabilities on the member states to contribute with a subsequent co-financing.

This modification is mainly focusing on facilitating the implementation of 455 programs in the sphere of cohesion policy for 2007-2013, representing total investments of EUR 347 billions, which means more than one third of the community budget. The objective is to accelerate the flow of investments mainly directed towards those who complete the projects and towards the Europe citizens most affected by crisis.

With regard to the slow start-up of the big infrastructure projects, caused by the complementary financing difficulties of the European investments faced by the public finances of the member states and regions, measures were taken in order to clarify and simplify certain daily management norms of the European funds; among these, a tremendous importance is shown for:

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- establishing one category of „major project”. Previously, the European Committee approved all projects whose total cost exceeded Euro 25 millions in case of environment projects, and Euro 50 millions for the projects in other sectors. From now on, the minimum approval value was set to Euro 50 millions for all fields. Consequently, the environment projects of smaller importance could be started faster;

- the norms of „income generating ” projects (for example, paid highways or projects involving the rental or the sale of land plots) are also simplified, in order to reduce the administrative tasks undertaken by the member states;

- programs in the sphere of cohesion policy could be reviewed by the member states in a simpler manner, in order to be able to take the new reality into account. On the other hand, certain dispositions concerning the obligation to maintain the investments for a period of five years will no longer be applicable for the commercial companies went bankrupted;

- investments in sectors related to the energy effectiveness and the use of the regenerative energies for accommodations shall be encouraged, due to their important potential in generating increase and work places;

- modification on increasing the flexibility of the disengaging norms. For example, the financial allocation for a major project will be fundamentally protected once the member state sends the project to the Committee. Presently, they are not protected unless the Committee approves the project;

- FEDER will be able to support accommodation refurbishing or building activities to the favor of the communities challenging social exclusion, both in rural areas, and in urban areas. Previously, the construction of accommodations was not eligible for FEDER financing and only accommodations in urbane areas could be subject to refurbishments.

The storm on the financial markets will slow down, but the loans will be more and more expensive. This is the reason why the European funds become very important for our development.

Therefore, it can be estimated that there is a set of terms which beneficiaries of this type of financing must accomplish, in order to have a good absorption rate. Among the first terms is programming the public investments programs as effective as possible, which would allow a full integration of structural funds in the public finance systems. The second conclusion which can be drawn out of the experience of the states is related to the partnerships which the local administrations have to fulfil with the representatives of the civil society. Mostly, in these regions, the local administration has a limited capacity and partnerships with non-governmental subjects allow co financing the projects and implicitly generates the rising of the level of accessing structural funds.

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