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THE ABSORPTION OF UE FUNDS IN THE CURRENT CONTEXT OF THE COHESION POLICY

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Abstract: *Romania continues to be affected by the global recession. It has suffered a significant reduction in foreign investment since the start of the recession, as investors have moved away from emerging markets in search for security. Developing an appropriate, focused strategy for the allocation of EU funds is only the first, though perhaps the most important step in implementing the EU cohesion policy. The successful implementation of EU co-funded projects is contingent not only upon the effectiveness of these countries' administrative systems, but also on the activity of the potential beneficiaries.*

Key words: *cohesion policy, European funds, development, European programs, inability to absorb.*

1. Introduction

This paper presents a description of the European cohesion policy, its main characteristics and function in relation to the Romanian situation regarding the low level of EU funds absorption.

EU funding represents an opportunity able to ensure the financial stability of Romania, and also to cover a loss in foreign investments during the last years. In this field, a certain blockage is registered that needs to be removed. Romania's most important objective must be a coherent and effective absorption of EU funds. Without this funding opportunity, Romania cannot develop its infrastructure, environmental programs and agricultural reforms.

It is therefore very important to understand how these processes work in order to access as much European money as possible.

2. EU Cohesion Policy 2014-2020

The cohesion policy or regional policy of the European Union provides a framework for financing a wide range of projects and investments with the aim of encouraging economic growth in EU member states and their regions. The policy is reviewed by the EU institutions once every seven years. The next round of programmes is to be launched in 2014.

The regional policy of the European Union has the overall goal to promote economic prosperity and social cohesion throughout the entire territory of the Union, i.e. the 27 member states and their 271 regions.

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2.1. Current programmes (2007-2013)

Within the current financial framework (2007-2013), spending on regional policy amounts to an average of almost €50 billion per year, which is more than one third (35.7%) of the total EU budget.

Regional policy spending is channelled through three funds – often called 'Structural Funds'. These are the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund.

The three main objectives of the EU's cohesion policy are: Convergence, Regional Competitiveness and Employment, and European Territorial Cooperation.

Convergence: Over 80% of the cohesion policy budget is allocated to the poorest regions, which are those where the GDP per capita is less than 75% of the EU average (or slightly above this level). This money is spent on measures to boost economic growth, including transport and other infrastructure projects. A total of 100 regions receive funding under the Convergence objective, which up until 2006 was known as 'Objective 1'. These regions have a combined population of some 170 million people, which represents just over one third of the total population of the EU. Most of the so-called 'Convergence regions' are to be found in the new member states in Central and Eastern Europe (which joined the EU in 2004) as well as in Greece, Portugal, Spain and southern Italy.

Regional Competitiveness and Employment: Around 16% of the money – or €8 billion per year – is shared among the approximately 170 regions that do not qualify for support under the Convergence objective. The 'Regional Competitiveness and Employment' objective was previously (until 2006) known as 'Objective 2'. European money is used to co-finance projects that contribute to the strengthening of economic competitiveness by promoting innovation and entrepreneurship, protecting the environment, improving transport links, adapting the workforce and investing in human resources.

European Territorial Cooperation: The remaining 2.5% of the cohesion budget – around €1.25 billion per year – is used to promote cooperation among regions in different member states by means of joint projects and exchanges of experience. Most of this money is spent on building closer links between border regions.

2.2. Future programmes (2014-2020)

In November 2010, the European Commission published its first ideas concerning the future of the EU's cohesion policy after the current programming period has come to an end in 2013. The most significant ideas put up by the Commission included:

Linking allocation of funds to the Europe 2020 objectives.

These objectives include raising the employment rate, tackling poverty, improving access to education, investing more money in research and technology, using energy more efficiently and promoting clean technologies to reduce carbon dioxide emissions.

Inviting member states to sign partnership contracts.

These contracts would closely correspond to the National Reform Programmes that the member states have to develop and implement in the framework of the Europe 2020 Strategy. They would set out priorities for investment, allocation of resources and targets to be achieved.

Focusing resources on a small number of priorities.

The Commission is proposing that member states and regions should concentrate resources from the structural funds and national budgets on a small number of thematic priorities, linked to the Europe 2020 objectives. Those countries that receive a relatively small slice of the structural funds would be asked to focus their programmes on just 2 or 3 priorities.

Making payments depend on certain conditions.

The Commission proposes a series of specific conditions to be agreed with each member state. These could relate to the implementation of improvements to public administration or reforms to national legislation - for example regarding employment rules or environmental standards. Final payments would not be made until the pre-agreed conditions have been met.

Creating a 'performance reserve' to reward the best performers.

It has been suggested that a relatively small part of the budget for cohesion policy (perhaps 3% of the total) could be kept in reserve and used for making bonus payments to those member states and regions that have been most successful in reaching and surpassing their pre-agreed targets.

Stronger monitoring and evaluation.

The Commission believes that improved monitoring and evaluation systems are necessary for supporting the move to a more results-oriented approach. It would like clear and measurable targets and indicators to be agreed in advance, which can be used to assess the outcomes of programmes in the various member states.

Combining grants with loans.

Using EU money to provide loans is seen as a way to maximise the impact of public money and encourage more financially sustainable investments. The Commission already has experience in utilising so-called ‘financial engineering instruments’ in the current programming period (2007-2013).

Reinforcing the territorial dimension.

The Lisbon Treaty states that the European Union should promote not only economic and social cohesion but also territorial cohesion. This implies that the EU should aim to ensure a more balanced development of economic activity across all of its regions, including urban and rural areas, islands and peripheral regions. In particular, the Commission intends to pay more attention to urban areas, and to increase the involvement of local and regional authorities in operational programmes.

Strengthening partnerships.

The Commission wants to increase the involvement of local and regional stakeholders, social partners and civil society organisations in the implementation of operational programmes. It also wishes to encourage the spread of local development approaches based on partnerships among the various relevant actors.

The ideas put forward by the Commission provide the basis for a public consultation (open until 31 January 2011) and an ongoing dialogue with national, regional and local governments, the European Parliament, the Committee of the Regions, and other stakeholders.

3. Regional policy in the EU: A midterm healthcheck

The majority of regional funds go to so called Objective 1 regions, those whose gross domestic product (GDP) is below 75% of the EU average. According to the European Commission, "Objective 1 of the Structural Funds is the main priority of the European Union's cohesion policy".

With the accession of ten new member states in 2004, most beneficiaries of Objective 1 status are now located in Central and Eastern Europe.

For the current regional programming period, the European Commission proposed a new legislative package in order to concentrate structural and cohesion fund spending on Lisbon (innovation, growth and jobs) and Gothenburg (sustainable development) goals.

Now, halfway through the current budgetary period which ends in 2013, the Commission has conducted a mid-term review of the current policy, assessing EU member states country-by-country to analyse how well they are succeeding in using cohesion funds.

4. Romania's inability to absorb EU money

Romania is largely unable to take advantage of the billions of euro in EU financing available for the country's economic development, a think-tank has warned, and only 3.4% of the money is actually spent.

The Institute for Public Policies (IPP) warned that the situation in Romania is alarming. The report, entitled 'Structural funds – from development opportunity to budget of prey', highlights in detail the "extremely low" absorption rate of money allocated to Romania to help bridge its development gap with the rest of the European Union.

Significantly, the report slams the Romanian administration's "lack of transparency" in dealing with the so-called "structural" funds.

Bucharest has absorbed only 3.4% of €20 billion in EU funding allocated for 2007-2013.

The IPP claims that Romania is way behind Bulgaria, which joined the EU together with Romania, on 1 January 2007.

Romania’s rate of absorption of EU funds has been very low. The opposition asked the government to resign over what it described as a "disastrous performance".

The ministers must penalize EU fund beneficiaries who are overdue in implementing their projects, so that the money can be diverted towards other European developments. The ministers and state secretaries in the committee for EU funds must exercise rigor in public procurement, going as far as terminating faulty financing contracts or charging financial corrections. The National Authority for Public Procurement Regulation and Monitoring (ANRMAP) will draw up a series of instructions and recommendations for contracting authorities regarding standard selection and verification criteria, conditions under which auctions may be sped up, as well as other rules of good practice.

The ministers have been tasked to terminate EU-funded contracts whose implementation is unjustifiably overdue or which have been awarded through fraudulent auctions, a decision prompted by the very low level of EU reimbursements.

NGOs and European experts have called on Romania to appoint a special minister in charge of coordination and absorption of EU funding. Bulgaria improved its performance after setting up such a ministry, back in 2008.

5. Conclusions

The cohesion policy must imperatively, and maybe more than ever, benefit all Europeans, in order to better allow them to achieve the Europe 2020 strategy’s objectives. In addition, the cohesion policy is not only about financial redistribution aiming at accelerating GDP growth in the poorest regions. Its main aim is to reduce territorial disparities and give European citizens equal opportunities, wherever they live.

It is an important role with respect to territorial cooperation for regions, but also for Europe itself. Europe can gain a lot from always more elaborated cross-border cooperation, trans-national projects and sustainable interregional network.

Romania's problems are "systemic". The country's problems stemmed from corruption, poor legislation, inefficient management and control, bureaucracy and conflicts of interest.

Some projects involving EU funds had been audited, and irregularities were found, exposing the risk that some of the money could be returned to Brussels. Such problems particularly appeared when EU funds were transferred from the central government to local authorities. The local administrations must be careful with the funds of the Regional Development Ministry, of the Ministry of Agriculture's money, of the Ministry of Labour's, to comply with the procedures because the signals we have got so far are serious enough. Romania should agree to allow foreign experts to manage EU funding, but it has the problem of being very proud, considering this would impinge on its sovereignty, although this is just not the case.

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