

## ROMANIA: TWO DISTINCT FINANCIAL PERIODS AND THE SAME MANAGEMENT ERRORS

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### **Abstract**

The management of European Funds absorption can be characterised by its most efficient indicator: the absorption rate. The 2007 – 2013 and the 2014 -2020 financial periods revealed various deficiencies in the way the Romanians State had handled certain aspects. This scientific research aims to analyse the management of European Funds in Romania, at macro-economic level - a topic of great interest these days. Our basic hypothesis revealed such funds' sustainability in our regional economic development. The inter-dependent variables of this research are the flawed management and the low absorption rate of European Funds. From a methodology viewpoint, we made a comparative analysis of the access, use and actual absorption rate of community funds, between the two financial period experienced by Romania, underlining the dysfunctions that prevented the absorption rate from growing, in each financial cycle. The purpose of this research is to identify a series common errors made during both analysed periods as well as the elements hindering the optimisation of this process. This research could be used as basis to reform the process of absorbing European Funds at national level, which could have a positive impact on improving the country's social infrastructure, speeding up its development and reducing its disparities.

### **Keywords**

Dysfunctions management, EU funds, absorption rate, development, programming

### **JEL Classification**

G23, G28, R58.

### **Introduction**

The enlargement of the European Union, (EU) between 2004 and 2007, led to a change in perspective over the common EU budget. The 21<sup>st</sup> century paradigm came with rapid, deep and permanent changes triggered by certain new phenomena, such as mass migration,

climate changes, the need to reinforce the external EU borders and to consolidated collective security.

The main method taken into account for the consolidation of the EU, was to fill in the economic and competitiveness gap, between the various Member States. The key to understanding the true importance of a country's economic activity was that country's increasing orientation outwards, as the financial collapse of a state can reverberate in the entire community. The economic dysfunctions of a country have an impact on the other European contributors; thus, a national economic problem turns into a EU problem. Here, we can use as example, the financial crisis in Greece, which started in 2009, reached its peak in 2015, and only started to show slight signs of improvement in mid 2017, after a qualified intervention from the European Commission (EC). In order to survive the crisis, Greece benefitted from three bailout programmes: the first programme (implemented via the Greek Loan Facility, in 2010) comprised 110 billion euro; the second programme (implemented via the EFSF, in 2012) offered a bailout package of 172.6 billion euro while the third programme (implemented via the ESM, in 2015) came with 86 billion euro (European Court of Auditors, 2017). Following these joint efforts, Greece managed to leave the economic crisis behind it, the 20<sup>th</sup> of August, 2018 (Council on Foreign Relation, 2018). When it joined the EU, Romania too gained access to a set of economic opportunities meant to have a positive influence on its system development, for the purpose of helping this system reach the common EU standards. If the first financial period (2007-2013) took the Romanian authorities by surprise, thus being marked by major time gaps between the written proposals and the actual absorption rate, the second budget allocation period (2014-2020) seemed to benefit from a better process organisation, after a slow start.

From Romania's perspective, structural funds represent a central pillar in the country's efforts to acquire economic development, as they support social change and they can speed up the reform process, thus contributing to the country's pre-defined goal of aligning with the other European economies.

Romania understood the importance of creating an irreversible connection with the EU and thus, THE NATIONAL DEFENCE STRATEGY FOR 2015-2019 (Romania Presidential Administration, 2015) – which is still valid, until a new one is drawn up and adopted, has the following motto: “*A powerful Romania in Europe and in the world*”.

Article 20 of this strategy categorises the following matters as “national security interests”:

- reducing the development gaps and rebuilding large public systems and
- consolidating the European Union and actively participating in its integration processes from within.

Besides, article 65 of the same document also mentions the reception of EU money. The absorption of European Funds has been categorised as a persistent vulnerability that hinders the state institutions' capacity to assess and mitigate the impact of risks and threats. Articles 66-69 also reveal other vulnerabilities of the Romanian state, that prevent the country from reaching a high absorption rate of the funds provided by the EU: “The central and local administration's capacity to implement national and European public policies, corruption, the scarce resources and the incoherent way of managing them”.

### **Theoretical framework**

The European Union invests in its less developed member states in view of reinforcing financial, social and territorial cohesion for the purpose of aligning the economies of all of its countries, in a harmonious future. The main aim of this operation is to reduce the imbalances existing between Western Europe and the less developed member states (Kolodziejwski, 2020). According to the specialized literature (Mikko, 2006), the way in which the common funds are allotted tends to favour smaller member states, which have a higher representation in the EU's decisional bodies.

Cohesion – with its three layers (economic, social and territorial) is regulated in the EU Treaty in articles 174-178, and it aims to “promote a harmonious development of the entire Union”.

*Cohesion Policy or Regional Policy* is the expression used inside the European Union to describe the bulk of all actions and measures taken by the EU institutions to reduce the development disparities existing between the Member States – which are integral part of the European Community. This can be understood as a macro-financial mechanism used to implement the investment strategy employed to achieve the desired items for the EU’s unitary progress. This policy is mainly implemented through the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). These 3 types of funds, together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) make up the European Structural and Investment Funds (ESIF) which are entirely designed to support the economic development of the EU member states.

In order to facilitate the use of the above mentioned funds, the EU has created and made available, for Romania, a set of instruments named Operational Programmes, aimed at reducing the discrepancies existing between the country’s regions and consolidating cross-border, trans-national and inter-region cooperation within the EU space.

### **Research methods**

This is an empiric research, based on directly observing the reality of the two financial periods mentioned above, i.e.: 2007-2013 and 2014-2020. We chose quantitative research to comprehend the phenomenon of European Funds absorption, underlining the features that we considered to be defining for this process, after analysing the absorption rates throughout the 13 calendar years of the financial periods. This phenomenon can have a direct impact on the improvement of the social infrastructure and it can reduce inter-regional disparities by supporting the state’s harmonisation and integration in the European Community.

Our thematic analysis will focus the absorption rate of European Funds, which was branded as a national interest objective in the 2015-2019 National Defence Strategy. We will use comparative analysis of study the levels of access to, use of and effective absorption of European Funds, identifying the elements that hinder the optimisation of this process.

The data has been collected from the reports published by the European Commission and the Ministry of European Funds (MEF) and it refers the existing regulation in this domain, which have been transposed by the Romanian Government from the UE directives.

There are many ways in which this scientific research can be used in practice, as it centralises the dysfunctional elements identified during the previous and the current financial periods, in view of making the accession and absorption process more efficient; thus, it could prove to be very useful for the next financial period set to start in 2021.

### **Analysis of the European Funds absorption rate during the first financial period - 2007-2013**

The structural and cohesion funds allotted by the EU to Romania, during the 2007-2013 financial period amounted to 19.7 (Ministry of European Funds, 2012) billion euro - the same amount was also stipulated in the National Reference Strategic Framework, where it broken down by Operational Programmes.

During the reference period, the absorption rate was much lower than the effect recorded during the following 3 or even 4 years.

Gradually, the amounts absorbed by Romania, from the EU budget increased considerably: 1.6 billion euro in 2007; 2.6 billion euro in 2008; 2.9 billion euro in 2009, 2.29 billion euro in 2010, reaching the amounts of 5.56 billion euro in 2013, 5.93 billion euro in 2014 and

5.49 billion euro in 2015. The amount requested from the European Commission between 31.10.2015 and 31.10.2016 was 4,096,501.212 euro.

These differences can be justified both by the slow project initiation and implementation process and by the progresses acquired in time, due to the learning process and the increase of administrative capacities (Gherghina, 2017).

If we take into account the entire length of the first financial period, Romania absorbed approximately 30.7 billion euro, from the non-reimbursable European Funds, broken down as follows: 18.43 billion euro absorbed before 31.12.2013 and 12.3 billion euro absorbed between 2014 and 31.03.2016 (Ministry of European Funds 2007-2013, 2016).

Although the achievements of the first financial period are acknowledged in the reference environment, we must underline the fact that not all of that period's targets were reached. For instance, Romania's Country Report for 2015 (European Commission, 2015) drawn up by the European Commission mentioned the fact that these funds were meant to help Romania improve its development level so that it could adopt the euro as a national currency, as of 2019. Joining the euro-zone has been a strong desire in Romania. However, so far, this has proven to be an unsustainable dream, and, according to the medium term projections, it will continue to remain unsustainable due to the major economic discrepancies existing between the Romanian state and the euro-zone countries.

The absorption level of the first economic period improved in 2017, as follows: within the Sectoral Operational Programme "Increase of Economic Competitiveness", the final absorption level was 100%; within the Technical Assistance Operational Programme – 100%; within the Operational Programme "Environment" –84.48%; within the Operational Regional Programme: 93.41%; within the "Human Resource Development" Operational Programme – 90.81%; within the Sectoral Operational Programme "Transport" - 81,07%; and within the Administrative Capacity Development Operational Programme– 100% (Ministry of European Funds, 2017).

We do not want to minimise the success of the projects implemented during the previous financial period. However, due to the tergiversations encountered in the effective absorption process, the official figures could only be quantified in 2017; while the 31st of March, 2017, was also the deadline set for submitting the application for the payment of the final balance, along with the final expenses statement, to the European Commission. Once the dysfunctions were remedied, 10 years after the first steps had been taken, the final absorption rate for the 2007-2013 Operational Programmes reached 89.08 %, according to the data provided by the MEF to the European Commission.

After analysing the factors and causes that kept the absorption rate of structural and cohesion funds to such low levels during the studied period (2007-2013), we put together the following centralising list:

- Dysfunctions found within the Management Authorities (MA): lack of transparency, political fluctuations occurred due to changes in the Government's composition or following elections; firing experts at various competence levels; supporting cronyism that had a negative impact, either by allowing certain people to occupy positions for which they were not professionally qualified or by declaring certain projects eligible, although they did not meet the compulsory criteria.

- A lack of highly skilled personnel, well qualified in the field of accessing and absorbing European Funds, was discovered among public servants, as well as a lack of self-confidence caused by their fear of making mistakes that might render projects non-eligible (during the elaboration stage) or mistakes that might lead to financial penalties (for the projects' flawed implementation). There were many occasions when the project was found to be inconsistent with the administrative and eligibility criteria, the idea was found to be irrelevant compared to the programme's objective; errors were found as well in the way the documentation had been filled in (financing applications, feasibility studies, technical

projects, cost-benefit analysis, necessary certificates and permits, obtained in obsolete formats, environment impact assessments, set-off reports, etc.).

- The high spread of corruption at all levels: from the elaboration stage, when projects were declared eligible, to the favouring of some contractors in the tenders (Public Auction) until the distortion of the elements at the final reception of the projects. Although the literature review prefers to use the term “dysfunctions” of the check and control mechanism, the irregularities found in the process of accessing European Funds led to fraud suspicions; in 2012, this prompted the EC to take exceptional measures, unprecedented at EU institutions’ level. In 2012, Romania was ranked among the countries with the highest levels of fraud (European Commission, 2013), along with Italy and the Czech Republic, the quantified amount of fraud money being 119 million euro. On the same note, the EC report dated 24.07.2013, on the “Protection of the EU’s Financial Interests – Fight Against Fraud” mentioned the fraud (corruption) in Romania in multiple contexts: the complexity of the irregularities found to be fraudulent, frauds committed during the pre-adhesion stage (including in the use of specific tools), amounting to de 38.5 million euro (European Commission, 2013), insufficient statistics to determine and follow the frauds and recover the prejudice and failure to implement the EC’s recommendations from 2011, in due time. The repercussions had a financial impact at the national level: Human Resource Development Operational Programme was completely suspended while other operational programmes were partially interrupted; The MA had had encounter difficulties in finding liquidities, which had a direct negative impact on the reimbursement applications’ set-off and, implicitly, on the funds’ absorption rate.

- The lack of major reforms (anti-fraud, bureaucracy-reducing reforms, etc.) that would contribute to the process optimisation.

- Excessive bureaucracy/ suffocating documentation (specific to state institutions) that needed multiple permits, approvals and signatures, doubled by unclear or ambiguous provisions stipulated in the specific methodologies or the Applicants’ Guide.

- The deficiency of real post-implementation supervision led to some projects being short-lived. For instance, in 2009, in the Municipality of Drobeta-Turnu Severin, Mehedinți County, numerous investments were made in the tourism infrastructure, via the financial mechanism named: “Territorial Cooperation Programme between Romania and Bulgaria”. Thus, the “Valea lui Dinu” Touristic Complex, built between 1985 and 1987 was rehabilitated and, by 2010, citizens could enjoy a new leisure centre. Unfortunately, this investment objective was only opened for two seasons.

- The specialised literature also mentions, in this context, the lack of coordination and the lack of a transversal interface, between the various programmes and projects implemented, which could have been homogeneously connected, based on certain common elements. It’s true that this could have made the process more efficient but we don’t think that the improvement would have been major enough to increase the absorption rate.

- Lack of sustainability of some projects, which have proved difficult to maintain and not feasible. To support this allegation, we have chosen a high profile example: the ski trail built in Jina, Sibiu County. Measuring 560 m in length, equipped with a cableway and snow cannons, this ski trail was only functional for a few days after its inauguration, because it did not snow too often in the area and artificial snow was insufficient and too expensive to make. Thus, the project named: "Amenajarea domeniului schiabil din comuna Jina, arealul turistic Mărginimea Sibiului" worth more than 3 million euro, was only one of the multiple useless investment objectives completed during the first European financial period; in other words, fund allotted to unfeasible projects.

- Error loading operating system (MySMIS).

- The low rate of project eligibility was also marked by an immature consultancy market and a lack of project writing expertise among the applicants (this conclusion refers to the private sector).

### **European Funds absorption rate during the current financial period**

According to the information published by the MEF, during the 2014-2020 financial period, Romania can access more than 31 billion euro, out of the total amount of approximately 464 billion euro, allotted for ESIF and EAFRD, for the above mentioned financial components. For the implementation of the Cohesion Policy (financed through FESI), Romania has at its disposal approximately 23 billion euro.

Just like in the previous financial period, the 2014-2020 interval has well defined items that have to be achieved.

The result that the EU desires to obtain through the absorption of its funds after 2020, targets an intelligent, green, connected, social Europe, that is close to its citizens, as well as a sustainable and integrated development.

Between 2007 and 2019 (November 30), the EC allotted 54.64 billion euro to Romania, via its Cohesion Policy and it received, from the Romanian state, 18.91 billion euro, as contribution to the budget of the European Community. After 13 years of EU membership, the audit reporting indicates a positive balance of 35.45 billion euro; these are European funds allotted to Romania, surpassing our country's own contribution. This amount of 54.64 billion euro received from the EC was used to set-off the expenses borne with the investment projects executed in Romania, as well of direct payments to farmers and other forms of European subsidies. Out of this total amount, 2.75 billion euro came from pre-adhesion programmes (PHARE, ISPA); these were funds absorbed by Romania starting from 2007. The bulk of this financial allocation came from operational programmes and from funds specific to the 2007-2013 programme period: more than 33.92 billion euro.

The on-going programme period - 2014-2020- is taking, at a smaller scale, the same route as the previous financial period. Thus, during the first years, the absorption rate was extremely low, i.e.: between 2014 and 2016, it did not even reach 5% over multiple financial instruments. The Romanian Authorities steered the discussions towards the fact that, during that time, they were still trying to maximise the absorption levels from the previous financial period and, according to the information provided by the MEF, in the Governing Report for the European Funds Portfolio, between November 2015 and December 2016, the absorption rate for this previous financial period (only) reached 81.73% in 2016. For this reason, the Romanian state was promoting, at that time, in the media, only the absorption rate recorded during the 2007-2013 financial period; this offered the ideal scenario for the Government, without revealing, to the public, the disastrous situation recorded during the 2014-2020 financial period.

Gradually, four years after the beginning of the financial period, the Romanian state started to implement and set-off payments for the fulfilment of certain investment objectives.

We are analysing, below, the hierarchy of absorption level recorded during the current financial period, according to the data provided by the EC ( European Commission, 2020).

The absorption level recorded during the first year, 2014 was 0% as the Romanian authorities were still preparing, at that time, the legal framework, needed for the adequate implementation of projects. The first payments were made to Romania in 2015; these were insignificant amounts that placed the absorption rate below 1%. This situation continued until 2016, when the absorption rate reached 3%. The first significant changes in the absorption process started to become visible in 2017 - when the absorption rate was 12%. Then, it increased to 24% in 2018, to 28% in March 2019 (Ministry of European Funds, 2019) and it reached 34% towards the end of 2019. On 31.01.2020, the Ministry of

European Funds published its latest report on the level of European Funds absorption in Romania, the figure indicated being 38%.

The dysfunctions found during this financial period have largely been the same as the ones found during the previous period. There was, however, a particularity: the high level of corruption was not just preserved but it proliferated. Thus, in Special Report no. 6/2019, issued by the European Court of Auditors, Romania was ranked on the penultimate place in terms of correctness in spending European funds; in less subtle words, it was ranked second in terms of frauds committed with money coming from Brussels. The rate of frauds committed by the Romanian state with cohesion funds, reached 1.10% of the total amounts absorbed, falling within the same parameters as the ones recorded during the 2007-2013 financial period, when the defrauded amount was estimated to be between 200 and 337 million euro.

### **Conclusions**

The following conclusions can be drawn from the both financial periods (2007-2013 and 2014-2020) experienced by our country (European Court of Auditors, 2018):

- The legal framework needed for the implementation of the financing sources, was adopted late in both financial periods.
- There were successive delays that created a domino effect with an impact on the moment when the allotted budgets started to effectively be spent. During the first financial period, the first amounts were set-off, to reduce the existing discrepancies and insure the necessary standards, 1-2 years after the programmes were initiated.
- The project implementation delays encountered in the first financial period, continued during the second period as well. There were a lot of postponements when the project applications for the 2014-2020 period had to be initiated because the effects inherited from the previous financial period (including the afferent set-offs) were felt until 2016. Practically, this meant that the two programme periods overlapped. In other words, although the new programme had already started, the Member States were still spending funds left from the previous period.
- The constant reviewing of the Operational Programmes raised questions about the soundness of the factual analyses used as basis for the programming process; this prompted the applicants to mistrust the permanency of the Applicant Guidelines.
- We've noticed that, the attempts made to improve the efficiency of the absorption process, were mainly focused on maintaining consistency with the existing legal norms in place, while the aim to achieve concrete results was not given the same attention.
- The last conclusion drawn is, perhaps, the most useful: following our comparative analysis of the two financial periods experienced by the Romanian State so far, we noticed the same major errors and dysfunctions, repeated in both cases: corruption, lack of transparency in the use of public funds, civil servants' incompetence (a possible effect of cronyism – which is a very widespread phenomenon in Romania), the lack of experts and specialists (a topic that is frequently discussed but this does not lead to any constructive solution related to an improvement policy/strategy).

We cannot claim to fully draw the conclusions of all experiences related to European Non-Reimbursable Financing, because we do not have a full, overall, comprehensive image of all the measures taken and the impact of each measure on the absorption rate, as the information provided by the Member State is insufficient. However, the main result of our analysis, presented above, is the fact that fund absorption has to be a means of achieving results and not a purpose in itself, as it is perceived and treated by the Romanian state.

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