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The European Funds, Risk and Challenge for Managers

Manuela Panaitescu¹, Mariana Trandafir²

Abstract: The absorption of EU funds represents for Romania a chance to recovering from the social and economic gaps and to become a competitive state in relation to other Member States of the European Union. The management ability of European funds is closely related to the low rate of their absorption. This has resulted in the risk of de-commitment of unused amounts by Romania at the end of the funding period.

Keywords: Management; Economic Development; EU funds

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1. Introduction

The European funds are one of the solutions to reducing economic and social disparities compared to the developed countries in the European Union. However, some managers, partly due to the relatively low level of information related to the opportunities offered by the European funds, do not use this form of financing.

2. The Funds Available for the Programming Period 2014-2020

Structural Funds and Investment (ESIS) through which the EU supports strengthening the economic, social and territorial cohesion are: European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European fisheries and maritime Affairs (EFMA).

At European level, the European Commission drafted the Europe 2020 Strategy and the draft regulations for 2014-2020, establishing the general framework of the investment priorities. The Regional Development Plan 2014-2020 was developed in conjunction with the investment priorities of the Proposal for a Regulation of the European Parliament on investment for economic growth and employment. They consider the following 11 thematic objectives:

- strengthening research, technological development and innovation;
- Improving access, use and growth of the ICT quality;
- Improving the competitiveness of SMEs;
- Supporting the shift towards an economy with low- carbon dioxide emissions in all sectors;

¹ Senior Lecturer, PhD, Danubius University of Galati, Faculty of Economic Sciences, Romania, Address: 3 Galati Blvd., Galati, Romania, Tel. +40372361102, Fax. +40372361290, Corresponding author: manuelapanaitescu@univ-danubius.ro.

² Associate Professor, Phd, Danubius University of Galati, Faculty of Economic Sciences, Romania, Address: 3 Galati Blvd., Galati, Romania, Tel.: +40372361102, Fax. +40372361290, E-mail: marianatrandafir@univ-danubius.ro.

- Promoting climate change adaptation, risk prevention and management;
- Protecting the environment and promoting resource efficient use;
- Promoting sustainable transport systems and removing the bottlenecks in the key network infrastructures;
- Promoting employment and supporting the labor force mobility;
- Promoting social inclusion and combating poverty;
- Investment in education, skills and lifelong learning by developing education and training infrastructure;
- Enhancing institutional capacity and an efficient public administration.

At national level, the Romanian Government has adopted the Partnership Agreement with the European Commission, in which there was established the action on the implementation of operational programs for 2014-2020. Also, it was elaborated the National Strategy for Regional Development through which there are set the priorities for the development of regions and institutional relationships that facilitate the correlation with sectoral strategies. The Strategy represents the vision of the Romanian Government on regional development, a programming document which represents the strategic base for supporting the programs of funding from external/community, national, regional and/or local funds aiming at regional development.

The EU allocation for Romania for 2014-2020 is of about 33 billion euros, an amount of which the structural funds and investment represents about 22.5 billion euros, distributed as follows:

Table 1. Allocation of Structural funds and investment for 2014-2020

EUROPEAN STRUCTURAL and INVESTMENT FUNDS	Total amount of allocation (Bil. €)
Cohesion Fund	6.935
Less Developed Regions	14.607
More Developed Regions	893
Youth Employment Initiative (additional allocation)	106
Total	22.541

Source: Processing information provided by the European Commission

To this there are added the allocations for agriculture (EAFRD) and the fisheries and maritime affairs (EFMA), totaling 8.2 billion euros.

The EU funds allocated for Romania represent a challenge for all managers, who can submit projects for funding through them. The key actions that can be financed through projects submitted by managers are multiple and support the development of various sectors of the economy:

- Enterprise innovation through new technologies, applied research, innovative services with high growth potential;

- Use of agricultural and forestry advisory services, including support services in agricultural management in order to improve economic and environmental performance;
- Developing innovative ICT applications and infrastructures for accessing;
- Promoting digital competences of managers in rural areas;
- Development of new business models and organization of marketing activities that favor the internationalization;
- The restructuring of farms;
- Grants for starting a business for young managers;
- Improving market organization in fishery and aquaculture sectors;
- Measures to increase energy efficiency and use of renewable energy;
- Developing strategies and action plans for adaptation to climate change;
- Sustainable management of water resources and prevention of soil erosion;
- Investment in waste management and green infrastructure;
- Actions to reduce air pollution;
- Diversification of local economies by protecting and enhancing the cultural patrimony and natural sites;
- Restoring and enhancing biodiversity, including in Nature 2000 areas and farming systems with a high nature value;
- Investments in more efficient irrigation systems;
- Investment in eco-innovation in aquaculture;
- Investment in road, rail and maritime and multimodal investments;
- Financing the active and preventive measures regarding employment, personalized services and guidance, training courses specific for the inactive, unemployed and disadvantaged people;
- Independent activities and entrepreneurship for young people from all sectors, establishment of businesses;
- Investments in infrastructure, education and training;
- Support for the development of adult learning systems responding to high quality standards.

Obviously these activities which are eligible for funding through the Structural Funds and investment are not restrictive.

Thus, managers in Europe are facing clear options, but difficult. The first is to face up collectively the immediate challenge represented by the recovery and long-term challenges - globalization, pressure on resources, aging - to offset recent losses, to regain competitiveness, boost productivity and to keep the EU on an upward path of prosperity (“sustainable recovery”).

The second option is to continue undertaking reforms in a slow rhythm and largely uncoordinated, risking a permanent loss of welfare, a sluggish growth rate (“sluggish recovery”), which can lead to high levels of unemployment and social distress, and a relative decline on the world stage.

3. Funds Raised in the Programming period 2007-2013

Being a beneficiary or a contributor in relation to the European Union? This debate is important when we consider the benefit that we have due to the EU accession in 2007. The total amount drawn between 2007-2013 by structural funds and cohesion is about 12 billion Euros. This compares to the total amount allocated to Romania through the same types of non-refundable funds, i.e. 19 billion Euros.¹

The Operational programs through which funds were allocated and the amounts reimbursed are listed below. The Programs that have the greatest degree of absorption are the administration and technical support, while the POSDRU, program for human resources, has the smallest degree of absorption. This reflects the weak administrative capacity of the managing authority and the implementing bodies involved in the management of those funds.

Table 2. The absorption Stage for Operational programs 2007-2013
(April 2016)

Operational Program	Allocation 2007 – 2013 (mil. Euro)	Statements of expenditure submitted to EC (Current absorption rate)		Reimbursements from EC (the real absorption rate)	
		Value (mil. Euro)	%	Value (mil. Euro)	%
POS CCE	2.536	1.921,5	75,75	1921,5	75,75
POS DRU	3.476	1.894,8	54,51	1.726,8	49,68
POS Transport	4.288	2.734,5	63,77	2.686,3	62,65
POS Environment	4.412	3.138,3	71,12	2.945,5	66,76
PO Regional	3.966	2.567,8	64,75	2567,8	64,75
PO DCA	208	194,2	93,37	170,5	82,00
PO technical assistance	170	166,3	97,71	137,5	80,79
Total	19.056	12.617,2	66,21	12.156,2	63,79

Source: information provided by the Ministry of European Funds

According to the situation presented by the Ministry of Finance, in 2007-2013, Romania paid to the EU budget 1% of GDP each year, the total amount being sent to the Community budget of 9.2 bn. Euros, but got through pre-financing, reimbursements and direct payments over 21 billion Euros. Following the calculation for the financial balance, it appears that Romania has gained from this interaction almost 12 billion Euros.

Romania failed to absorb nearly three billion euros in financial year 2007-2013, due to uncompleted term projects, of which two billion euros on the transport and one billion euros on environment, said Radu Emanoil Dascalu, State secretary for European Funds, responsible for large infrastructure program, within the conference “Mechanisms for a developing market” organized by the Employers' Federation of Construction Companies Tuesday, April 12, 2016. There were stated the following remarks: “The tragedy is that these amounts that we could not absorb in the previous cycle will consume from the new budget OPLI (Operational Programme for Large Infrastructure). This means

¹ We have not included here the funds for agriculture and fisheries.

that out the amounts allocated to this new program, about 30% are already contracted and under development, i.e. they are those that have not ended yet”.

4. The Identified Risks in the Implementation of Projects

- The ability to co-finance projects by their beneficiaries, factor influencing the financial capacity to absorb funds (co-financing can be achieved through its own resources or bank loans);
- the lack of available funds (cash flow) to ensure the development of the projects, knowing that the rule of paying back of the already achieved expenditure applies, and the pre-financing to beneficiaries are low, which entails the risk for inability to pay, as in the case of beneficiaries projects funded by POSDRU 2007-2013;
- Delays in the repayment of amounts required by requests for reimbursement / payment requests (the duration exceeds often the 30 days period, provided for in legal regulations, reaching to up to 6 months), which leads to the impossibility of accurate planning of financial flow;
- Delays in the payment of taxes due to the state, a direct consequence of the issues mentioned above;
- Cumbersome public procurement, there may be many disputes that delay the procedure or even lead to the resumption of the procurement procedure, which leads to exceeding the implementation period of projects established under financing agreements;
- The application of financial corrections following the checks by the authorities of management or Romanian or European audit, who may find irregularities in respecting by the beneficiaries of the national rules regarding the public procurement procedures used to implement projects even after their completion;
- Preparation of control documents, finding notes and applying sanctions imposed by the supervisory authorities shows the inconsistent enforcement of the law with serious consequences for beneficiaries;
- Reduced corruption and developing the administrative capacity of public institutions directly involved in the management of EU funds (managing authorities, implementing bodies);
- Excessive bureaucracy - the need to provide numerous documents at the project submission and for the submission of reimbursement applications (dozens of full bookshelves);
- Declare as ineligible incurred costs, with no requests for clarification and explanations, with mistakes from the project officers;
- The existence of unfair terms in financing contracts, which flagrantly violate the principles of law and they favor only the financier;
- The change the rules during the “game” practice, by issuing instructions or through contractual changes that transform the context of implementation of projects;
- Possible lawsuits for damages arising from not honoring the contractual obligations by the financier;
- Lack of communication, ineffective or no collaboration with the Managing Authorities and implementing bodies which issue unclear and misleading instructions;
- The Information system (MySMIS) provided by the European Funds Ministry fails to cover the reporting and communication requirements and it is difficult to use;

- Timely insurance and maintaining an experienced staff, is one of the factors that determines the success of fund administration.

All these deficiencies lead to difficulties for managers in implementing projects and thus to poor absorption of European funds. Due to the previous efforts to correctly finalize the projects, some managers lose confidence in trying to access funds, preferring the easier way, although more costly of investment financing through the banking system.

Conclusion

The European funds are a risk and a challenge for managers, they can contribute to economic development of the society as a whole and to reduce the disparities of Romania to the EU average. Risks must be assessed by managers and they should take all measures to mitigate them. Meanwhile the challenge resulting from the need to use available funds, since their existence is a real advantage in the possibility of financing projects with much lower costs compared to investments financed by attracting banking loans.

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