Representative Aspects regarding the Implementation of EU Grant Programs in Romania

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Abstract

The purpose of this article is to highlight that accessing structural funds is a strategic priority for Romania. One of the opportunities that Romania can benefit through its status as an EU member is represented by Structural and Cohesion Funds. Analyzing the pre-accession absorption rates and the funds for the 2007-2013 period is of interest to the new incumbents of Structural and Investment EU Funds, in the years to come 2014-2020 because this can increase the capacity of indicators assumed through the projects and the successful implementation of these projects to be submitted.

Keywords: structural funds; pre-accession fund; regional development

JEL Classification: F36; O11; R11

Introduction

European grant funding for the EU member or candidate countries, as an objective of economic and social cohesion is achieved through programs whose purpose is the reduction of gaps between different regions of EU and supporting the permanent sustainable development. EU budgetary resources are targeted mainly towards stimulating economic growth, creating jobs and making odds even between different regions, and also significant amounts of money are allocated to rural development, agriculture, fisheries and environmental protection. The EU member states are contributing to the EU budget but their funds are assigned a certain quota through the Structural and Cohesion Funds. The national financing of each Member State is completed by Common Strategic Framework (CSF) funds for the purpose of achieving the objectives of the Europe Strategy 2020 for a smart, inclusive and sustainable growth.

The research conducted by Zaman (2008) estimated that in 2020, Romania's GDP per capita would represent 60-65% compared to the EU average in the scenario “without structural funds” and 75-80% in case of “structural funds”.

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This study was the starting point for analysing the situation of implementing programs with grant funding from European sources in order to achieve a comprehensive scan of pre-accession and post-accession structural instruments to be used as guidance in amending new guidelines intended for the financing period of 2014-2020. Certain amounts were allocated to regional development through European funding programs, supplemented by funds provided by national budgets but this system has revealed a number of barriers that led to financial corrections.

**Historical Evolution of European Grants in Romania. General Consideration and Elements**

Accessing European grants assumes that involved entities (SME, NGO, public authority) request financial incentives for investments they need. The European funds have been created to provide financial support for less developed regions in order to accelerate the economic, social, and cultural development of these regions and to support their alignment with European standards, ensuring equal opportunities for all European citizens.

In the pre-accession period, respectively 1992-1999, the EU provided financial assistance of about 1.2 billion euro for Romania, a support that has continued after 2000 through the pre-accession structural instruments\(^2\). Starting with the year 2000, a mechanism to support the candidate countries from Central and Eastern Europe in the EU accession process was represented by three financial instruments: **ISPA** (Instrument for Structural Policies of Pre-Accession), **SAPARD** (Special Accession Program for Agriculture and Rural Development) and the most important program is **PHARE** (Poland Hungary Aid for Reconstruction of the Economy).

During 2004-2006 period the major targets of the national development plan supporting Romanian’s preparation for EU accession were: increasing economic competitiveness, sustainable rural development, tourism development, infrastructure systematization, renewing IT and communication technologies.

**ISPA** is based on Council Regulation (EC) no.1267/1999 of 21st of June 1999 and provides financial support for investments in environmental protection and modernization of transport infrastructure, in order to upgrade these two sectors in European candidate countries. During 2000-2003 Romania has signed 40 financing memoranda under ISPA program, amounting to 1.45 billion euro EU funds, representing 70% of the total financial assistance granted to Romania under ISPA program in 2000-2006 period\(^3\).

<table>
<thead>
<tr>
<th>Table 1. Projects financed by ISPA program</th>
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<tbody>
<tr>
<td><strong>Objectives</strong></td>
</tr>
<tr>
<td>Major investment in infrastructure of water and waste-water</td>
</tr>
<tr>
<td>Major investments in transport infrastructure</td>
</tr>
<tr>
<td>Technical assistance measures for the environment sector inside which was prepared the application for accessing funding through SOP ENV, for 2007-2015 financial period</td>
</tr>
<tr>
<td>Technical assistance measures for the transport sector</td>
</tr>
<tr>
<td>Horizontal technical assistance measures</td>
</tr>
<tr>
<td>Ex-ISPA measures finalized on 31st December 2011</td>
</tr>
<tr>
<td>European Commission care measures for an extensive period of eligibility until 31st of Dec 2012, in the transport sector</td>
</tr>
</tbody>
</table>


\(^2\) ***Permanent Representation of Romania to the European Union, Romania – EU, Accession Assistance, [http://ue.mae.ro/node/389](http://ue.mae.ro/node/389)

\(^3\) [http://europa.eu.int/comm/regional_policy/funds/ispa/ispa_en.htm](http://europa.eu.int/comm/regional_policy/funds/ispa/ispa_en.htm)
According to data collected by the Ministry of Finance, on 31st of December 2011 ISPA absorption rate was 89.22%.4

Another program applied to Romania in the pre-accession period was the Special Accession Program for Agriculture and Rural Development (SAPARD) based on Council Regulation (EC) nr.1268/99 from 21st of June 1999, and having as its objective to establish a Community framework for supporting the rural development of the candidate countries, to solve the problems affecting the long term adjustment of the agricultural sector and rural areas and to support the implementation of the acquis developed under the Common Agricultural Policy and other related policies and also representing the instrument for the basis of the National Plan for agriculture and Rural Development in Romania 2000-2006.5

The main instrument of assistance to states is the pre-accession PHARE program aiming at promoting economic and social cohesion, harmonization of national legislation with the EU acquis, strengthening institutional and administrative capacity and financing investment projects in the field of border transport cooperation (CBC) together with Bulgaria and Hungary. In Figure 1 I presented the amounts allocated to Romania through PHARE program in the 1997-2003 period - an average of 223.0371 million euro/year. Looking to this figure it is noticeable that the funding increased to the highest level in 2001, followed in the next period by the growth of funds allocated for administrative capacity.

During 2004-2006 period, under the “Wider Europe” initiative, Romania was financed through PHARE program for developing cooperation with neighbour countries like Moldova, Serbia and Montenegro, Ukraine.6

Between 2007 and 2013, grants based on European funds have provided financing schemes/opportunities for SMEs, health and tourisms areas of investments, research and development, environment, energy or territorial cooperation, and for transport infrastructure through European Regional Development Fund- FEDR.

PHARE, ISPA, SAPARD pre-accession programs and funds were replaced after Romania’s admission to EU by European Regional Development Fund (ERDF), European Social Fund

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4  http://www.mfinante.ro/ispa_preaderare.html?pagina=ispa
5  http://www.sapard.com
(ESF), the Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD), the European Fisheries Fund (EFF) as shown in the table 2.

Table 2. The relationship between the pre-accession and post-accession funds

<table>
<thead>
<tr>
<th>Pre-accession funds</th>
<th>Post-accession funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHARE – Social and Economic Cohesion</td>
<td>European Regional Development Fund (ERDF)</td>
</tr>
<tr>
<td></td>
<td>European Social Fund (ESF)</td>
</tr>
<tr>
<td>PHARE – CBC – Vicinity programs</td>
<td>European Regional Development Fund (ERDF)</td>
</tr>
<tr>
<td>ISPA</td>
<td>Cohesion Fund (CF)</td>
</tr>
<tr>
<td>SAPARD</td>
<td>European Agricultural Fund for Rural Development</td>
</tr>
<tr>
<td></td>
<td>(EAFRD); European Fisheries Fund (EFF)</td>
</tr>
</tbody>
</table>


European Social Fund (ESF) has funded programs to support education and training, integration or reintegration into labour and administrative efficiency while large investments in trans-European transport infrastructure and environmental projects were co-financed from the Cohesion Fund (CF).

Structural and Cohesion Funds or Structural Instruments are financial instruments through which the European Union acts to eliminate economic and social disparities between regions in order to achieve economic and social cohesion. The development of Member State and Euro-Regions was financed through the Structural Instruments, this development aimed to support the evolution of economic activity and to eliminate the discrepancies between urban and less developed rural areas.

The performance of European grants is mirrored by the use the Structural Instruments that is governed by strict rules that ensure transparency, efficiency, saving and effectiveness of the spending European money. According to Angelescu et al. (2009), many of the economy’s structural problems may be solved by attracting foreign investments and a good absorption of European structural and cohesion funds.

Over the programming period 2007 – 2013, the European funding programs implemented were as follows:

- Sectoral Operational Programme ‘Increasing Economic Competitiveness’ (SOP-IEC);
- Sectoral Operational Programme - Transport (SOPT);
- Sectoral Operational Programme Environment (SOP ENV);
- Regional Operational Programme (ROP);
- Operational Programme for Fisheries (FOP/OP);
- Sectoral Operational Programme Human Resources Development (SOP HRD);
- Operational Programme for Administrative Capacity Development (OP ACD);
- Operational Programme Technical Assistance (OPTA);
- European Territorial Cooperation Programmes (cross-border, transnational, interregional);
- National Rural Development Programme (NRDP).

For the 2014-2020 financial programming period, the major lines of financing from the European Structural Funds and Investment expressed through the Contract or Partnership Agreement 2014-2020 (C/PA) focus mainly on economic competitiveness, convergence and cooperation between Member States, with the objective of smart development based on economic growth and social inclusion. *The Partnership Agreement for 2014-2020*, adopted on

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7 http://eufinantare.info/Instrumente_structurale_UE.html
9 http://www.fonduri-structurale.ro/
August 6, 2014, is the document by which the Romanian government has set funding priorities for the use of European Structural and Investment Funds (ESIF). Multiannual financial framework for 2014-2020 defines the priorities for cash outflows, oriented to an economic growth, employment increase and enhancing of economic competitiveness in line with Europe 2020.\textsuperscript{10} In the Partnership Agreement 2014-2020, the Romanian Government has set certain priorities for the use of EU structural and investment funds (ESIF) indicating as its major objective reducing economic and social development disparities between Romania and EU Member States.\textsuperscript{11} The Memorandum on “Approval of actions and accessing documents regarding the preparation and implementation of EU funds in 2014-2020”\textsuperscript{12} is a document based on European regulations like the Partnership Agreement, which replaces Framework National Strategic Reference and establishes the strategy, priorities and institutional framework for the absorption of European funds at Member State level.

The authorities involved in the management and control system ESIF 2014-2020,\textsuperscript{13} were nominated by the Government. There are three ministries with responsibilities of managing authority for the operational programs as shown in Figure 2.

\textbf{Fig. 2.} Authorities involved in the management and control system ESIF 2014-2020

Source: Memorandum on “Approval of actions and accessing documents on the preparation and implementation of EU funds in 2014-2020”, Bucharest, 13.06.2012, pp.7-9 of “Organization and functioning of the partnership framework for programming of EU funds for a smart, sustainable and inclusive 2014-2020”

\textsuperscript{13} *** National Reform Programme 2015, p.67 at http://ec.europa.eu/europe2020/europe2020-in-your-country/romania/national-reform-programme/index_en.htm
Regional Operational Programme (ROP) is aiming to attract investment for the less developed regions of Romania by financing projects that support entrepreneurial culture, optimizing the productivity of SMEs for handling the pressure of the Single Market and also the development of transport infrastructure technology in the public and private sectors.

Human Capital Operational Programme (HC OP) proposals are aimed at facilitating the participation of employers in workforce development and lifelong learning, vocational and technical education correlated with the actual needs of the labour market and current social actors with local/regional national and encouraging in-depth research and mobility.

Among the priorities to be financed by the Competitiveness Operational Programme (COMP OP) is to support private investment in research, development and innovation; fostering innovative start-ups and spin-offs; development of electronic and public commerce, developing private research infrastructure (establishment of clusters, centres of excellence and research at national, regional and European level).

The purpose of investments financed by the National Rural Development Program (NRDP) is to improve economic and environmental performance, modernization of agriculture and encouraging public-private partnerships and lifelong learning and vocational training in rural areas in general, such as training in business management and other skills needed for the diversification of other activities outside agriculture.

Among the activities financed by the Operational Programme for Fisheries and Maritime Affairs (OP FMA) one may be listed sustaining the investments for the organization of associations of producers, processors, traders, finding new sources of income through the promotion of aquaculture, processing activities, environmental activities, stimulating tourist entrepreneurial activities, providing a solid education for human capital working in the agricultural sector, fisheries and aquaculture.

In this respect there were allocated financial resources totalling over 27 billion euro, without taking into account programs for the agricultural sector, the European contribution to the 2014-2020 programming period is over EUR 22 billion, as shown in Table No.3

<table>
<thead>
<tr>
<th>Operational Programme 2014-2020</th>
<th>Financial allocation</th>
<th>European contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness Operational Programme</td>
<td>1.58 billion euro</td>
<td>1.33 billion euro</td>
</tr>
<tr>
<td>Technical Assistance Operational Programme</td>
<td>0.251 billion euro</td>
<td>0.212 billion euro</td>
</tr>
<tr>
<td>Human Capital Operational Programme</td>
<td>5.05 billion euro</td>
<td>4.22 billion euro</td>
</tr>
<tr>
<td>Administrative Capacity Operational Programme</td>
<td>0.658 billion euro</td>
<td>0.553 billion euro</td>
</tr>
<tr>
<td>Regional Operational Programme</td>
<td>7.91 billion euro</td>
<td>6.7 billion euro</td>
</tr>
<tr>
<td>Large Infrastructure Operational Programme</td>
<td>11.8 billion euro</td>
<td>9.4 billion euro</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27.25 billion euro</strong></td>
<td><strong>22.42 billion euro</strong></td>
</tr>
</tbody>
</table>


The absorption of structural funds, which aimed to “Convergence” objective, had a positive influence; growth was recorded in most regions of Romania and GDP per capita is approaching the EU average\(^\text{14}\).

Other structural funds presented during this research represent potential funding sources to achieve the objectives of the Romania’s National Strategy for Sustainable Development in accordance with the 2000-2025 National Development Plan.

This strategy ensured a coherent economic and social development process and 2005-2007 period was a milestone marking Romania's EU integration which was supported by efforts to increase the absorption of EU pre-accession and post-accession funds.15

The Analysis of the Situation of Implementation of European Grants

The research methods used for compiling this article fall into the category of exploratory research and study, they are based on bibliographic resources relevant in this context and reports on the national stage grants absorption in Romania.

Structural funds are different from the funds used in the pre-accession period. First, responsibility for their management rests 100% with the Romanian authorities; while in terms of pre-accession funding – PHARE, ISPA, and SAPARD – European Commission had a significantly higher involvement.

Table 4. Situation of allocations (cumulative) in pre-accession programs PHARE, ISPA and SAPARD, during 2000-2007

<table>
<thead>
<tr>
<th>Cumulative allocation for 2000-2007 in pre-accession programs of PHARE, ISPA and SAPARD</th>
<th>Contracted Projects</th>
<th>Programs of cumulative payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mil euro</td>
<td>Mil euro</td>
<td>3.469</td>
</tr>
<tr>
<td>5.679</td>
<td>5.110</td>
<td></td>
</tr>
</tbody>
</table>


According to the official data, processed in the table 4, by the end of February 2009, pre-accession programs PHARE, ISPA and SAPARD, registered for the period 2000-2007 a degree of contracting of about 90% and an absorption rate of nearly 70% as can be discerned in Figure 3.

![Fig. 3. Rate of approval and contracting for cumulative projects submitted in the pre-accession programs](http://www.fonduri-structurale.ro/Detaliu.aspx?t=Stiri&eID=4156)

During 2007 – 2013 period the funding based on support guarantee schemes of European Agricultural Fund for Rural Development (EAFRD) without any state aid scheme was somehow disappointing compared to the subsidized loan schemes used in the SAPARD pre-accession period. These guarantee schemes have crossed the barrier of accessibility to financing.\(^\text{16}\)

On 31\(^{\text{st}}\) of July 2015, the rate of absorption of structural funds was 51.26\% and worth 9.769 million euro, as shown in the table 5:

### Table 5. Structural funds absorption in Romania at 31 July 2015

<table>
<thead>
<tr>
<th>Operational Program</th>
<th>UE Allocations 2007-2013- mill euro</th>
<th>Intermediary payments from C.E. - mill euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROP</td>
<td>3966</td>
<td>2468</td>
</tr>
<tr>
<td>SOP ENV</td>
<td>4413</td>
<td>1958</td>
</tr>
<tr>
<td>SOPT</td>
<td>4288</td>
<td>2521</td>
</tr>
<tr>
<td>SOP IEC</td>
<td>2537</td>
<td>1360</td>
</tr>
<tr>
<td>SOP HRD</td>
<td>3476</td>
<td>1157</td>
</tr>
<tr>
<td>OP ACD</td>
<td>208</td>
<td>169</td>
</tr>
<tr>
<td>OPTA</td>
<td>170</td>
<td>106</td>
</tr>
<tr>
<td>Total</td>
<td>19058</td>
<td>9739</td>
</tr>
</tbody>
</table>


The analysis of the financial allocations based on what it is shown in Figure 4, shows that Environment and Transport Operational Programs have received the most funds in 2007-2014 programming period.

![Fig. 4. The European funds allocated to Romania during 2007-2013 period](http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/rezultate/std_abs/Raportare%20Programe%20Operationale%2030%20iulie%202015.pdf)

From the analysis of the allocations for each operational program presented in Figure 4 we may conclude that the SOP Environment and SOP Transport were provided with the largest amounts

from the EU budget and the lowest sums were allocated for the technical assistance program and for OP Administrative Capacity Development, based on the reason that pre-accession funds had as the main purpose to increase the institutional capacity. The total volume of submitted projects to be funded during 2007-2013 financial programming period exceeded the amount of 350 billion lei and the value of signed contracts exceeded 92 billion lei. The total number of projects submitted was 46,929 but the total number of approved projects amounted to only 20,261 only as can be seen in Figure 5.

Fig. 5. The situation for submitted and approved projects for each operational program on July 31, 2015

![Graph showing the number of projects submitted and approved per operational program on July 31, 2015](source: Ministry of European Funds 2015 - Data Processing, http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/rezultate/std_abs/Raportare%20Programe%20Operationale%2030%20iulie%202015.pdf)

The analysis of the contracted amounts compared with the number of projects submitted for each program leads to the conclusion that there is an overall approval rate of files submitted for 2007-2013 operational programs of 43.17%. Most projects approved in percentage of 84.65% are submitted to OPTA, followed by SOP ENV with 75.41% and 53.81% SOP Transport. The lowest approval rate of dossiers submitted register for Human Capital Operational Programme with a percentage of 31.43% and 33.18% for the Administrative Capacity Operational Programme. On 30 June 2015, Romania recorded a structural funds absorption rate of 51.1%. The European Commission funded until that date projects worth 9,739 million euro, compared to 20,786 million euro signed contracts.

Fig. 6. Absorption stage of structural funds in Romania for each operational program until June 2015

![Graph showing the absorption stage of structural funds per operational program until June 2015](source: elaborated using date from http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/rezultate/std_abs/Anexa%201%20iulie%202015%20cu%20DLC%20trimise%20cu%20plati%20CE%20.pdf)
Analysing the absorption rate of the operational programs implemented in Romania during 2007-2013 period, we may conclude that the highest absorption rate was for OP ACD (81.20%), followed by ROP with 62.99% and OPTA with 62.24%. The lowest absorption rate was registered by SOP HRD with 1.157 million euro or 33.30%. The Funds are secured in loans from the Treasury and the expenses will be declared to European Commission after completion of the procedures required lifting the interruption, with reference being made to SOP, HRD and SOP IEC. Among the reasons for the drop in competitiveness of projects submitted for SOP HRD and SOP IEC we may include a lack of skills in writing projects for eligible beneficiaries who, for projects targeting administrative capacity, was made up of public servants without specialized training in writing projects, also the lack of performance audit.

Following a study by Russu (2014) we may conclude that the differences between the regions of Romania are still visible, but there are not significant differences compared to the EU average, which leads us to the conclusion that the keystone of the convergence process based on the development of our country regions can only be the funding coming from European grants. That is why the Roman authorities’ actions are oriented towards increasing the capacity of institutions with responsibilities in the management, control and audit of operational programs.

The National Reform Plan stipulates that it will be implemented The Priority Action Plan for strengthening the absorption capacity of the European Structural Funds for 2007-2013 and 2014-2020 periods and investments, which plays an important role in increasing the absorption capacity of European funds. Analysis of the amounts allocated to strategic programs for Romania, financed from European grants, for 2014-2020 period, shows the following: Large Infrastructure Operational Programme (LI OP) represents the largest program that receives funding of 11.8 billion euro of which euro 9.4 billion European funding (ERDF + CF), followed by Regional Operational Programme (ROP) with 7.91 billion euro, of which euro 6.7 billion EU contribution (European Regional Development Fund), and the smallest amounts allocated are for OPTA (251 million euro, 212 million euro European contribution).

Fig. 7. The European funds allocated to Romania for 2014-2020 period

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The program receiving the smallest amount allocated is OPTA, but we must take into account that the administrative capacity was increased by funds allocated both during the pre-accession and in the programming period 2007-2013 so the funding for the period 2014-2020 is being made especially to provide technical assistance for Human Capital Operational Programme and for Large Infrastructure Operational Programme.

Conclusions

Because Romania benefits from substantial EU aid through grants, our country must make constant efforts to remove barriers that occur in the absorption of EU Structural Funds. A comparative analysis of contracting degree for the three pre-accession programs PHARE, ISPA, SAPARD of approximately 90% with a percentage of 70% for the funds allocated in the period 2007-2013 – while the total absorption was 51.26% on July 31, 2015 – we may conclude that despite the attempts to achieve an absorption rate of 65-80% until 31 December 2015, the Structural Funds absorption was hindered by the inability of beneficiaries to substantiate the feasible projects and to implement them in terms of efficiency, effectiveness and economy.

The highest amounts allocated from the EU budget for 2007-2013 period, were designed to Sectoral Operational Programme-Environment, amounting to EUR 4,414 million (23.15% of the total EU funding), followed by Sectoral Operational Programme - Transport with a value of 4,288 million euro.

This trend continues into the programming period 2014-2020 which is considering the complexity of the investments made in transport infrastructure in the 2007-2013 period. Large Infrastructure Operational Programme, which has as the overall objective the development of transport infrastructure, environment protection, energy modernization and risk prevention at European standards is meant to create sustainable economic growth in terms of protection and efficient use of natural resources\textsuperscript{20}, has received the largest allocation of funds worth of 11.8 billion euro (EU contribution up to the 9.4 billion - ERDF + CF).

Both pre-accession funds and the Operation Programs have played a role in increasing administrative and institutional capacity, in improving skills and education, while the involvement of more actors in the spending of grant funds is a continued priority for the Romanian Government.

At the highest level the decision must be taken based on an active partnership, on a constant communication with key social actors involved in the implementation of the projects financed by the European funds, so that deficiencies that occur in time in the process of spending public money to be removed or diminished.

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