Europe: The Absorption of EU Funds

«Europe: The Absorption of EU Funds»

by Romanian Academic Society

Source:
The Absorption of EU Funds

A MEASURE OF CAPACITY IN THE ADMINISTRATION AND THE PRIVATE SECTOR

Absorbed into other areas of policy where the move is more rapid and spectacular (e.g. the judiciary), we tend to forget about the momentous struggle of the Romanian public administration to absorb EU funds on the pre-accession instruments, as well as to prepare itself for the structural funds which are to come after 2007. This is, actually, a struggle with our own (limited) management capacity: to create and manage projects, to be transparent and spend the money according to strict regulations, without waivers and improvisations, both in the public administration and in that part of the private sector which is eligible for EU funds. This is a unique administrative saga in the modern Romania, as there has never been such a high level of foreign assistance available in our country, with appropriations of almost 2% of the GDP in 2006, and about 5-6% of the GDP in the peak years 2009-2010, extended over such a long period.

All Romanian governments up to now have tried, in good faith, to achieve a higher rate of absorption for EU funds, as this is one of the objectives all parties agree on. However, all governments have been faced with the same problems, because the government can control and speed up only the inputs: building institutions, hiring staff, drafting strategies and, sometimes, identifying projects. But, since by the EU rules disbursement comes at the end of a project, if everything goes by the book, the ability to spend becomes an output indicator. Unfortunately, the road from inputs to outputs is where we get stuck.

In other words, political will, writing strategies and creating institutions with EU models are not enough anymore. Actually, the fact that EU funds come over us only shows more clearly the kind of weaknesses Romanian administration has had for a long time. Just like now, after the coming of the EU funds, capital improvements in Romania have always had their own distinct features, with passed deadlines and surpassed budgets, with adjustments along the way and permanent informal negotiations between the client and the beneficiary. This is the institutional culture of punctual derogations and weak budget constraints, of contracts with orientative value only, which the Balkan-style communism only reinforced.
Spending money on pre-accession instruments

It is difficult to provide a short and comprehensive indicator of performance in this domain, and it will not be very useful anyway, especially because of the complicated structure of assistance available. The absorption and impact issues vary a lot from one program to another, depending on the nature and size of these programs, on the institutions which manage them or the types of beneficiaries. The fewest but largest projects are those in ISPA, the instrument which provides funds for large transportation and environment infrastructure; it is easier to measure progress in such projects. The situation in early 2006 is presented in Tab. 1.

Table 1. ISPA Situation in February 2006

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<tr>
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<th>2,880 bn. €</th>
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<tbody>
<tr>
<td>Total budget (UE+Ro), 2000-2006</td>
<td>2,160 bn. €</td>
<td>75%</td>
</tr>
<tr>
<td>Total EU grant</td>
<td>1 bn €</td>
<td>35%</td>
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<tr>
<td>Contracted funds</td>
<td>340 mil €</td>
<td>12%</td>
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<tr>
<td>Payments made to the projects</td>
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The first projects were approved in 2000. The last projects will have to be approved in 2006. The final payments are to be made by mid-2010.

Source: EC Delegation

Of course the percentages must be interpreted cautiously: only part of them were approved in the first 1-2 years, it takes time to prepare works contracts subsequently, so we can safely say that it is natural to have more payment accumulated towards the end of the period. However, the level of payments is quite low and the pace of signing contracts is not very satisfactory, either, because, at least theoretically, we are more than halfway down the period when the money can be used.

The other two pre-accession instruments, PHARE and SAPARD, have higher absorption rates. For the former, this rate has always been around 95%. But the instruments are difficult to compare because their structures vary a lot. PHARE, the oldest and largest of the three instruments in terms of funding24, is also the most diverse, because it includes capacity building technical assistance and exchanges in various fields, cross-border projects, but also the “Economic and Social Cohesion” component, an anticipation of the Sectoral Operational Programs and the Regional Operational Program after 2007. Because of its various interventions, local private and public infrastructure, grants for SMEs, HR investment, social and civil society projects and so on, PHARE allowed more internal freedom to shift funds between components.

SAPARD, the assistance for rural development that anticipates the large similar program to be funded from CAP after 2007, stands witness for the

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24 The approximate proportion of annual allocations between PHARE, ISPA and SAPARD is 3:2:1.
different type of problems encountered with the measures targeting the local governments and the private agro sector. Interest is high in small rural infrastructure projects (roads and water supply/sewage works), and this component was over-subscribed by 100%. In contrast, for the other measures, mostly focused on farms and private entrepreneurs, the authorities did not get the answers they expected from the potential beneficiaries, due to lack of information, lack of matching funds, or maybe because of administrative hindrances in accessing the funds or, simply, because of the weaknesses of the private agricultural sector.

Finally the new EDIS system (Extended Decentralization Implementation System) which must be applied in the management of funds after 2007, transfers more responsibilities on the Romanian side than the current one (DIS). There won’t be thorough examinations and step-by-step approvals of the European Commission after 2007, only the global, strategic control, and some random monitoring, which means that the moral hazard is increased if the tracking of contract implementation stages by the Romanian side is weak.

**Systemic Issues**

In a meeting with politicians, experts and officials involved in the administration of EU funds in Romania, organized by SAR at the end of 2005, the following list of systemic problems in program implementation were discerned.

- Generally speaking, individual projects or sub-measures of a program are developed separately as stand-alone goals, and not as part of a larger economic development strategy. When two lines of funding are implemented at the same time, potential synergies are lost because the programs are not correlated in terms of mechanisms and priorities\(^{25}\).
- Rigid appropriation systems can hinder the efficient allocation of resources, flexible matching funds or private-public partnerships;
- The preliminary selection of projects by the Romanian side is often poor, because of insufficient technical capacities. This leads to some incomplete projects being sent to Brussels (with unavoidable delays, back and forth circulation and the need to add more documents);
- The contracting authorities in charge with the projects or those which have to assist beneficiaries are oftentimes passive, in a defensive mood. Engaged and proactive project management, focused on finding solutions for the unpredictable problems which are inevitable, efficient management of funds or management based on objectives are rare birds in public institutions.
- There is still no strong system of institutional incentives to take into account the maintenance and operational costs at their real value in a capital improvement project. Generally speaking, the usefulness of

\(^{25}\) An interview with the official of RDA North-East, referring to the grant schemes for SMEs and professional training/retraining programs.
the capital investments tends to be underestimated, and the associated costs underrated, which leads to an exaggerated number of such requests.

- There is limited expertise in Romania for the certification of project payments for ISPA, SAPARD or in the investment part of PHARE, in the public or private sector. After 2007, together with the multiplication of the available funds, this lack may bring on payment delays.

- There is a deficit of qualified human resources, a high employee turnover and relatively small salaries in the public institutions implementing or supervising the EU projects. Over the past several years, the average time spent by a well-qualified youth in such an institution was 2-3 years, followed by a move to the private sector. This means the leaving individual took with them all the tacit experience and investment made through training. There are some signs of improvement in 2006, and we hope to have more stable staff after the government decided to raise the salaries of the staff involved in EU projects.

- Although everybody admits that any existing institutional resource, with competence and expertise to work on foreign projects should be fully used in order to improve absorption, this doesn’t happen in real life. There are well established and operational structures like FRDS which couldn’t find a place in the architecture of EU funds, because they were not subordinated to one of the ministries which will receive management authority after 2007. Because FRDS is not part of such a governmental hierarchy, it was not included among the intermediaries or even among the implementers, although it has a wide network of community facilitators and is well experienced in managing domestic and foreign public funds. This is, probably, the only public agency with people deployed in the field that can go to poor communities and help them directly to generate and manage projects throughout the management cycle – which SAPARD, for instance doesn’t have. Moreover, ministries without any capacities now strive to create territorial offices from scratch, but only in several county seats, and they cannot find experienced staff.

As if this was not enough, some additional complications will come after 2007:

a. The absolute level of available amounts will increase gradually until the peak years 2009-2010, as against the pre-accession time;

b. The funding rules will be applied more drastically, which hasn’t been the case until now, when the status was more relaxed for “pedagogical” reasons. One of the most important rules is the “n+3”, meaning that the money allocated in one year must be committed to

26 The Romanian Social Development Fund, a public agency running small projects in isolated rural communities, with money from the state budget or the World Bank.


28 N+2 until the European Council of December 2005.
a project in almost 36 months, or they are lost. Until now, in some big projects, the actual commitment time was n+4, so the money would have been lost if the rule had been applied to the letter.

**Encouraging Developments**

As the government was dutifully warned about the absorption problems, it sped up the preparations lately, especially at the institutional level. Sustained efforts have been made to finalize the structures of fund management bodies, especially at the subnational level. As we said, the remuneration policy for the staff involved in EU projects has changed; steps have been taken in SAPARD to assist the farmers who want to access funding on the accredited measures; and it looks like the portfolio of projects for the environment is well set for the next years.

The most promising developments are those made at the **European Council in December 2005**, when certain decisions were made which will smoothen the absorption of funds in Romania and Bulgaria. These decisions did not change the actual amounts – and, therefore, were not much discussed by the public in the two countries – but the allocation rules, helping to ease the real bottlenecks. This is actually a matter of increased flexibility and reducing the burden of the matching funds for the poorer EU members.

**Recommendations**

Therefore, there is much to do in order to provide Romania with a good absorption of EU funds, and part of these measures are already on the government’s agenda. Our proposals would make up a list of simple, inexpensive measures which could be put in practice starting next week, without much institutional change.

- The key word should be **transparency**: not only with regard to strategies, the content of projects and the initial budgets, but also regarding the implementation and the performance indicators, physical and financial. So far, no such information is available to the public from the Romanian authorities.
- In order to understand the area of EU funds and identify issues earlier, the Romanian authorities must apply the good practice of commissioning independent assessments of the status of absorption, globally or for each field of activity.
- The concerns and uncertainties at the subnational level (regional, county, local) must be considered with greater attention, as many future beneficiaries of structural funds still don’t know how the funding will be carried on, or what the institutional arrangements will be.
- Horizontal, inter-sectoral communication – among post-2007 POSs in EU terms – is not the main strength of Romanian administration. Lack of coordination won’t affect the absorption figures in these “soft” areas too much, but they may reduce the final impact of the projects.
• Generally speaking, it would be recommended to put to better use the current institutions, which already have experience in running programs, and be more conservative with the building of new institutions from scratch.