# Structural and Cohesion Funds ABSORPTION IN ROMANIA. BALANCE OF THE 2007-2013 FINANCIAL EXERCISE AND LESSONS FOR THE CURRENT PERIOD

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***Abstract**: The balance of the 2007-2013 SCF financial exercise revealed an absorption rate of 27% in the case of Romania. This ratio, the lowest among CEE countries, has been under the influence of various causes, within the system of SCF accessing, i.e. at the level of beneficiaries and MAs and also outer causes, mainly the legal framework weaknesses and the global crisis effects. The study highlights the net beneficiary position of Romania relative to the EU budget, but the macroeconomic impact of SCF was found as having rather poor significance. The more result-oriented EU Cohesion Policy for the period 2014-2020, along with the lessons learned by Romania could address most of the factors that are meant to improve the ESI funds absorption, a significant impact being also expected.*

Keywords*: EU Cohesion Policy; absorption rate; macroeconomic indicators; Structural and Cohesion Funds impact*

JEL Classification: *E22, F15, F36, F43, O19*

## 1. Introduction

Promoting economic and social cohesion by reducing disparities in order to achieve the Member States convergence represents one of the main objectives of the EU Cohesion Policy. The convergence objective includes as eligible the

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NUTS 2 regions where GDP per capita (by the purchasing power standard - PPS) is less than 75% of the EU average and is characterized by weak infrastructures, investments and related business services.

The EU Cohesion Policy for the period 2007-2013 was supported by a budget of 347 billion EUR, which was allocated by three financial instruments as follows: 201 billion EUR from European Regional Development Fund (ERDF), 76 billion euros from the European Social Fund (ESF), also known as Structural Funds (SF), and 70 billion EUR from the Cohesion Fund (CF).

The Structural and Cohesion Funds allocated to Romania amounted to 19.2 billion EUR, of which 9 billion EUR from ERDF, 3.7 billion EUR from ESF and 6.5 billion EUR from CF. Per capita, this amount represented about 900 EUR, much lower compared to other CEE countries which benefited from SCF per capita about twice as high.

Under the circumstances of an unfavourable international environment and due to various internal causes which are to be examined in this study, low absorption rate has been below expectations, including their macroeconomic impact.

The paper is organized as follows: the absorption rate of Structural and Cohesion Funds in the case of Romania and the main causes of its low level, the relationship between SCF and the macroeconomic indicators, including the “catching up” process, and lessons for the current programming period.

## 2. The SCF absorption rate in Romania

The cash flow of accessing SCF is relatively complex, but synthetically, it can be summarized in two phases:

I. **EU Payments,** i.e. the transfer of amounts (advances + interim payments) from EU budget to Member Countries, used by the management authorities of the various programs in these countries in order to support the start of projects (pre-financing and interim payments to beneficiaries). The magnitude of these amounts depends on the real situation of projects implementation pace.

II. **EU Reimbursements,** i.e. the financial execution of interim payments from the EU budget, representing the amounts reimbursed after the approval of payment applications submitted by the member states, based on eligibility control and expenditures certifying of project beneficiaries declarations. The interim payments (non-executed) amounts in Phase I are in a direct proportionality relationship with the interim payments executed in Phase II. As a consequence, the real financial absorption rate is revealed by dividing the EU Reimbursements by EU Allocations.

Based on this methodological approach, from data provided by the Romanian Ministry of European Funds an absorption rate of 26.5% at the end of 2007 to 2013 financial exercise resulted (Table 1).

The level of SCF absorption rate in the case of Romania was the lowest compared to other CEE countries (Bulgaria, Czech Republic, Hungary, Poland, Slovakia) which have recorded absorption rates between 40-58% (European Commission, 2014d).

**Table 1 - The absorption rate of SCF per financing programmes in Romania, cumulative in the years 2007 to 2013**

| **Operational Program** | **EU Allocations** (EUR) | **EU Reim-bursements** (EUR) | **Absorption rate** (%) |
|---|---|---|---|
| **Regional** | 3,966,021,762 | 1,646,565,915 | 41.52 |
| **Environment** | 4,412,470,138 | 1,052,139,677 | 23.84 |
| **Transports** | 4,425,937,295 | 876,207,675 | 19.80 |
| **Increase in Economic Competitiveness** | 2,554,222,109 | 447,006,603 | 17.50 |
| **Human Resources Development** | 3,476,144,996 | 948,109,892 | 27.27 |
| **Administrative Capacity Development** | 208,002,622 | 83,322,994 | 40.06 |
| **Technical Assistance** | 170,237,790 | 35,259,919 | 20.71 |
| **T O T A L** | **19,213,036,712** | **5,088,612,674** | **26. 49** |

**Source:** *The status on 31 December 2013 of submission and approval of projects, of financing contracts signed and of payments to beneficiaries*, The Ministry of European Funds, Romanian Government, February, 2014.

As regards the annual payment flows during 2007-2013, Romania represented again a special case of EU funds absorption, this time in a favourable sense. The absorption rate of 15% achieved in 2013 by Romania contributed in a proportion of more than a half to the figure of 26.5% recorded for the whole programming period, which attenuated to a certain extent the dramatic picture at the beginning of the year.

The improvement of SCF absorption rate in 2013 is explained mainly by the exit of the country from the excessive deficit procedure allowing increased budgetary allocations for co-financing; by unlocking the suspended operational programs, by increasing access to short-term pre-financing and treasury loans to support projects and by speeding up the cash flow for accessing SCF both in Romania and in relation with EU.

By Operational Programs, higher absorption rates (40-41%) were recorded for OP Regional and SOP Administrative Capacity Development (Table 1). SOP Increase in Economic Competitiveness and SOP Transports have recorded absorption rates below 20%, for the latter being also significant the modest value terms: 876 mil. EUR reimbursements compared to 4.4 bn EUR allocations, among others, also due to causes that led to the temporary suspension of OP in general.

Amid the general low EU funds absorption rate and the objective nature of their differentiating by various operational programs, the problem of the unacceptable size of differences between the absorption rates of these programs (42% vs. 17%) remains.

Also, the issue of identifying the factors that lead to realistic estimates of absorption rates taking into consideration the specifics of various operational programs deserves special attention.

According to data published by the Ministry of European Funds, during the period 2007-2013, over 41,600 projects were submitted for granting SCF co-financing, of which only 14,876 were approved. The average promotion rate was relatively low, i.e. about 35 % (Table 2).

Higher promotion rates were found for OP Technical Assistance (88 %) and SOP Environment (71 %), which is explained by a smaller number of projects submitted (171 and 656, respectively).

Programs with a larger number of submitted projects recorded a low promotion rate; thus, for OP Regional and SOP Increase in Economic Competitiveness the percentage was below 50% and for SOP Human Resources Development only 20%, almost 9,000 projects under evaluation on end-2013 being concentrated almost exclusively in these three programs.

The value of approved projects differs significantly by various programs (the average of 2.2 mil. EUR per project whereas SOPs IEC and HRD an average of about 1.2 mil. EUR, respectively, SOP Environment about 16.6 mil. EUR and more than 61 mil. EUR at SOP Transports).

**Table 2 - The promotion rate of projects co-financed by SCF in Romania during the period 2007-2013**

| Operational Program | Number of projects* | | | Approved projects | |
|---|---|---|---|---|---|
| | **Submitted** | **Rejected** | **Approved** | (as % of projects submitted) | Average value (thou. EUR) |
| **Regional** | 8,555 | 3,132 | 4,098 | 47.9 | 1,798 |
| **Environment** | 656 | 172 | 466 | 71.0 | 16,606 |
| **Transports** | 175 | 41 | 104 | 59.4 | 61,468 |
| **Increase in Economic Competitiveness** | 15,820 | 6,815 | 6,521 | 41.2 | 1,162 |
| **Human Resources Development** | 14,982 | 5,252 | 3,084 | 20.6 | 1,190 |
| **Administrative Capacity Development** | 1,371 | 787 | 452 | 33.0 | 670 |
| **Technical Assistance** | 171 | 17 | 151 | 88.3 | 1,627 |
| **T O T A L** | **41,640** | **16,216** | **14,876** | **35.7** | **2,230** |

* Including the number of projects under evaluation on 31 December 2013.

**Source:** *The status on 31 December 2013 of submission and approval of projects, of signing financing contracts and of payments to beneficiaries*, The Ministry of European Funds, Romanian Government.

Not considering the extension rules n +1, n +2 and even n +3 for Romania and Slovakia, the above-mentioned relatively large discrepancy raises several questions:

- Were the allocations estimated so much overvalued compared to the real absorption capacity of the recipient countries?;
- Was the impact of financial crisis triggered in 2008 so severe that it significantly overturned the initial estimates of funds absorption?;
- Has the resilience ability of EU countries to external shock of the crisis been so much reduced that the expected favourable effects (benefits) of structural and cohesion funds could be achieved only in a proportion of 50-60% of allocations?;
- Equally important, to what extent was the European economic integration, including structural and cohesion funds a shield against the crisis impact?

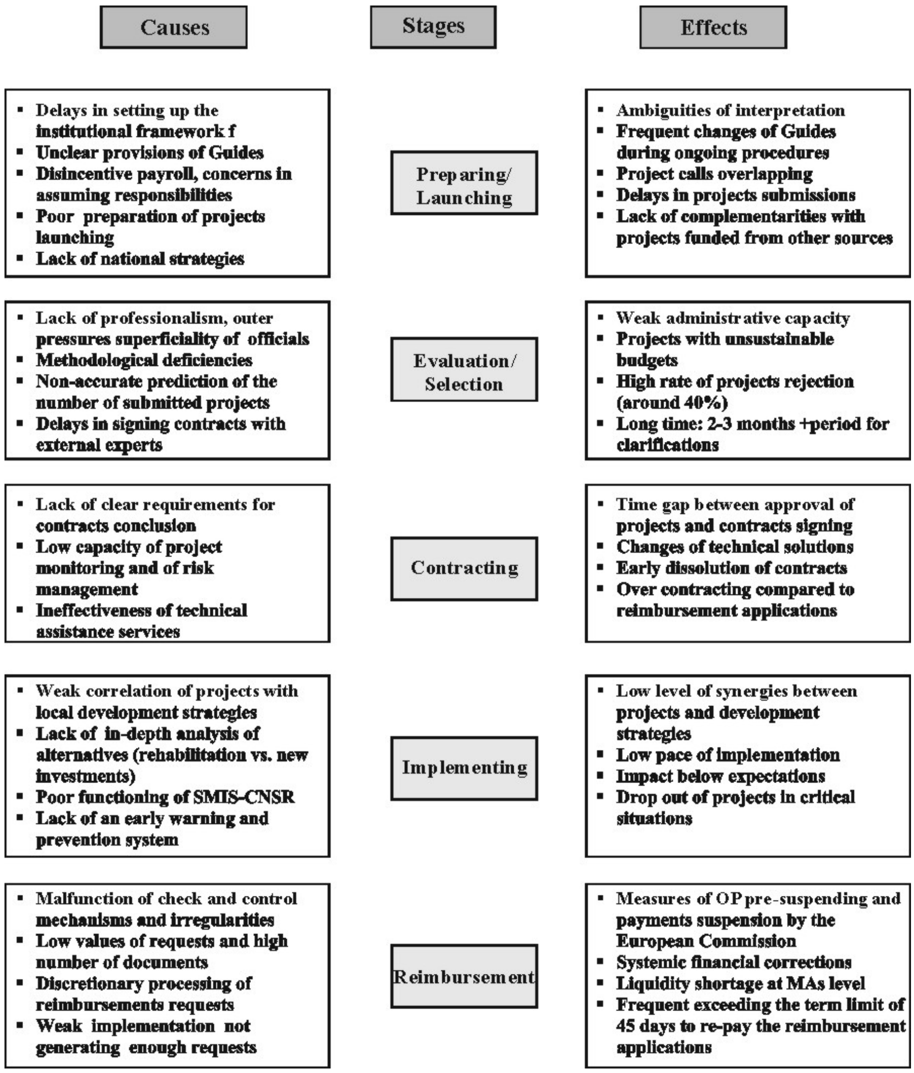
## 3. Romania's low absorption of EU funds: an early curable illness?

The low degree of SCF absorption in Romania over the period 2007-2013 undoubtedly was marked by the difficulties inherent in any new unprecedented endeavour. The spectacular recovery in the last year of the programming period was however a proof that things can be improved. We intend to analyse a series of causes of low absorption rate identified at the level of applicants / beneficiaries and Management Authorities, to which some legislative barriers and the deterioration of the macroeconomic context were added.

We are further referring to some **common causes** for all Operational Programs, causing a low absorption capacity at the level of the MAs (see Figure 1), particularly in the first stages of accessing SCF:

- ✓ The regime of civil servants has been violated, in a more or less transparent manner, by political interventions as a result of changes in the government structure or in elections; therefore many specialists, including the ones from MAs left the system and were replaced by a new political clientele, suffering from lack of knowledge and expertise.
- ✓ Disincentive payroll, staff fluctuation and procrastination (temporary) due to the fear of MAs officials not to commit errors that could be sanctioned further by the EU or control/audit authorities in Romania which led to delays/rejection of projects.
- ✓ Unclear provisions of guidelines, methodologies and standards related to the procedures/regulations regarding the carried out projects and the accessing of funds (mainly in the field of procurement and public tenders) led to ambiguous interpretations, submitted applications incompatible with the requirements of EC or the institutions that endorse/approve them.
- ✓ Lack of coordination and transversal interface between different operational programs and projects, not connected organically by common criteria (smart specialization, green and sustainable economy, social inclusion) that should transcend virtually all projects. For example, the smart specialization and the environmental impact were not reflected at all levels and stages of the elaboration and implementation, as well as at the overall level of the EU.
- ✓ Low effectiveness of technical assistance provided by the authorities in the field, and also by the specialized consultancy companies or external experts, non-motivated by the "success fee" practice.

*Figure 1 - The main causes and effects of difficulties encountered at the MAs level in SCF accessing during 2007 – 2013*




✓ The bureaucratic burden of documentation related to the projects application and implementation, mainly generated by excessive number of approvals, signatures, exacerbated by red tape issues at national and EU levels.

- ✓ Insufficient monitoring of financial situation risks during project implementation and sustainability of objectives. For example, except for projects that have proven effectiveness after implementation, many others did not have any impact; more than that, they entailed maintenance expenditures (social or medical facilities without ensuring financial/human operating costs) or price increases of services provided, especially in rural areas (sewerage infrastructure, water supply, natural gas) not afforded by the local population.
- ✓ Inadequate functioning of SMIS-NSRF (the National Management Information System) as a centralized tool for monitoring and financial reporting.

These causes mainly manifested in the stages of Preparing/Launching of project calls, Evaluation/Selection and Contracting have resulted in a high rate of project rejection (40%), subsequently leading to low absorption rates.

The malfunction of check and control mechanisms have favoured irregularities in accessing funds, suspicions of fraud prompting the European Commission in 2012 to take exceptional unprecedented measures, namely the suspension of SOP HRD and total or partial suspension of other operational programs (SOP IEC, ROP, SOP T), including the related interim payments, placing MAs in liquidity shortages, with direct negative effects on reimbursements and funds absorption. In order to improve this critical situation, in 2014, the Romanian Ministry of European Funds took over two programs (SOP IEC and SOP HRD), including the related MAs.

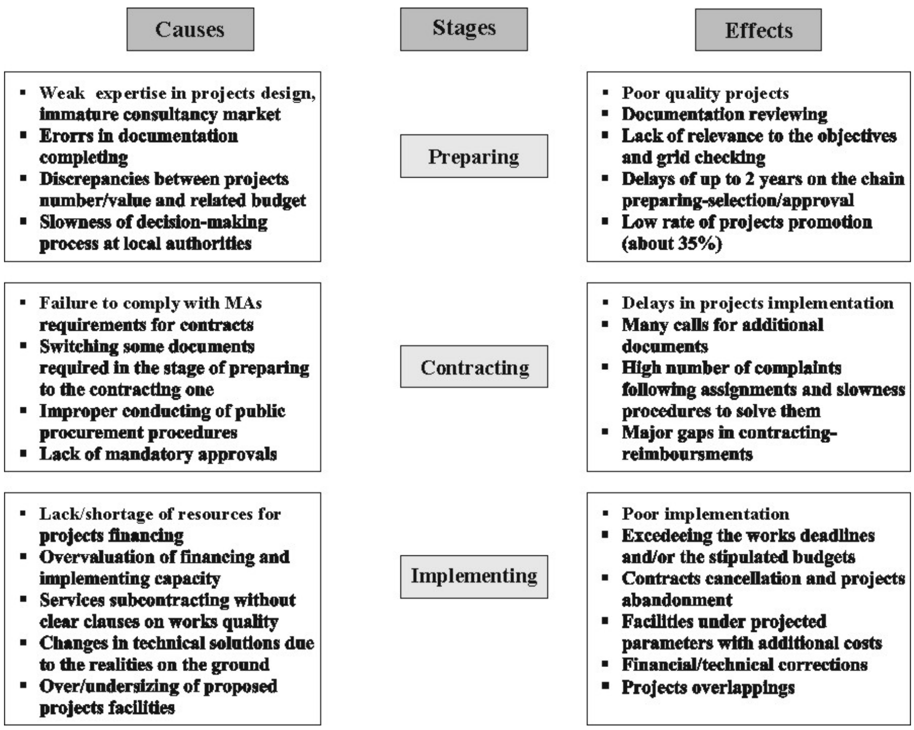
Other causes explaining the low level of SCF absorption in Romania is generated by the problems encountered at the level of beneficiaries, many of them common to all programs, albeit at various intensities and sometimes correlated with those of the AMs or of other factors in the stage of project preparation, submission, contracting and implementation (Figure 2). We are further presenting some of the most relevant shortcomings in this respect:

- ✓ The immature consultancy market and the poor expertise of applicants in projects drafting has led to deficiencies (failure in complying with administrative and eligibility criteria, lack of relevance in relation to objectives) and errors related to data included into submitted documents (financing requests, feasibility studies, technical projects, cost-benefit analysis, environmental impact assessment), which caused delays due to the requests for corrections, and led to a low project promotion rate (about 35%).
- ✓ Ineffectiveness and even adverse effects of measures taken to reduce red tape, to simplify procedures and to decrease waiting time, as proved by switching the request of some documents from the stages of project

Submission and of Evaluation/Selection to the stage of Contracting, complicating and lengthening the duration of the latter in fact.

- ✓ The bureaucracy of decision-making process at the level of beneficiaries-local authorities, grouped into various associative structures, have caused delays in the approval of priority investments list and the eligibility documents for identification of proper areas for investments, making them available to projects as well.
- ✓ Major discrepancies between the number/value of projects submitted, their related budget and the real absorption rate. Paradoxically, over the period 2007-2013, the cumulative EU contribution related to submitted projects exceeded 2.5 times the total EU allocations, in the case of SOP HRD over 3.6 times and of SOP IEC over 4.1 times.

*Figure 2 - The main causes and effects of problems encountered by beneficiaries in SCF accessing during 2007 – 2013*



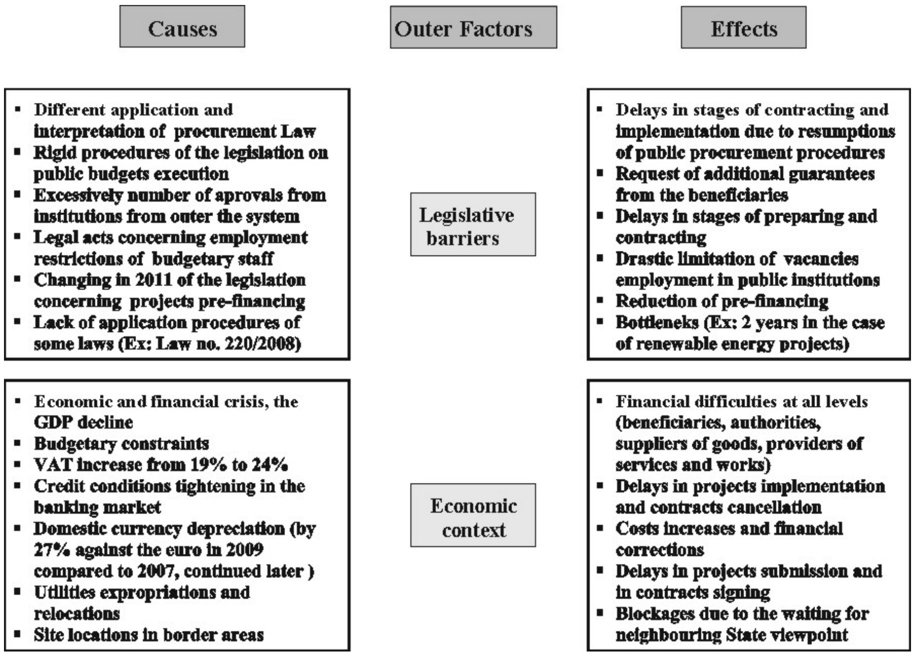
- ✓ The inappropriate conduct of public procurement procedures and legislative changes has resulted in repeated tender resumptions, complaints, appeals, addenda, financial corrections which led to delays in the project submission, contracting and implementation.
- ✓ Overvaluation of financial strength and of projects implementing capabilities by many beneficiaries, causing difficulties in securing resources to finance projects (own contribution, non-eligible expenditures, the conditioning of pre-financing by guarantee covering, cash flow ensuring) leading to the early cancellation of a large number of contracts and to project drop-outs. To give one example, in the case of SOP IEC, in 2011-2013 a number of 475 contracts worth over 2.1 billion lei (almost 500 mil. EUR) was cancelled, representing about 20 % of the EU allocations for all projects contracted under this OP, thus also explaining the lowest absorption rate of all programs (about 17%).
- ✓ The limited capacity of many beneficiaries regarding the appropriate management of works/services subcontracts within projects, without ensuring such clauses in terms of complying with quality requirements and timetable, which caused delays and/or inadequate implementation of projects, generating additional costs for completion/operating.

Beside causes occurred within the SCF management system, the low absorption rate was also due to the impact of outer factors that can be grouped into two categories, namely legislative barriers and economic context (Figure 3). Among them, a more pronounced negative impact on the absorption capacity of EU funds, we mention the weaknesses in law enforcement, overwhelming number of approvals, restrictions of budgetary staff, global crisis:

- ✓ Differences in the application and interpretation of Public Procurement Law because of the lack of uniform standards and methodologies to be applied. The rechecking of public procurement tenders following the Order no. 509/2011 issued by the National Authority for Regulating and Monitoring Public Procurement (ANRMAP) concerning the qualification and selection of criteria and the inconsistency of this institution in order to substantiate its own views on beneficiaries requests, which has led to delays and blockages caused by different interpretations of the same cases. The procurement procedures documentation judged as irregular according to the above mentioned Order, included requirements for qualification and/or evaluation in a manner that nearly led to restriction of participation in the tender of most of the interested economic operators. The imposition of verifying the documentation related to public procurements by ANRMAP and the launch of public procurements through the publication in ESPP (e-auction) created major delays in 2012, the documentation being repeatedly rejected without a unitary motivation, which led in many cases to documentation reviewing and wasting several months in the procurement timeline.

- ✓ Browsing too many phases and the need to get an excessive number of approvals from outside the SCF management system extends significantly the waiting time during preparing and contracting stages. In the case of beneficiary public authorities, before getting the endorsement of a higher budgetary supervisor, approvals from various support structures (procurement, finance, legal, etc.) are required and the documents flow often had to be repeated, when even only one of the entitled structures has not agreed with certain contractual provisions.
- ✓ Enactments issued in 2009 imposing restrictions on budgetary staff employment as well as wage cuts, including bonuses for civil servants, has affected the administrative capacity of the MAs, as well as central and local authorities, who encountered difficulties in meeting tasks in all stages of SCF accessing, both because of specialists departures from the system (of which some have turned to consulting companies but maintaining informal connections with MAs and breaking the fair competition rules) and the severely limiting of vacancy filling.
- ✓ The global crisis hit Romania in 2009, when a sharp decline in the economy has been recorded, the macroeconomic stabilization being ensured by an agreement for financial assistance from the IMF-EU imposing measures for severe budgetary austerity. Most of project beneficiaries among companies experienced a deterioration of their financial situation, which affected directly, and immediately their capacity to ensure project co-financing, non-eligible expenditures, to obtain pre-financing, leading to difficulties in implementing projects, including for subcontracting parties. The beneficiary-local authorities suffered on both the revenue side, due to lowering taxes incomes on account of the local economy decline and on the expenditure side, due to spending cuts as a result of austerity measures, affecting their financial resources for co-financing the European projects. In the period 2010-2011 and partially in 2012, when the economic crisis continued, albeit with less intensity, a side effect on many potential beneficiaries due to their limited financial support for carrying new projects.

*Figure 3 - The main causes and effects of problems created by external factors of SCF management system during 2007 – 2013*




- ✓ The increase in the VAT quota from 19% to 24% in 2010, also as a result of the measures agreed under the financial assistance package from the IMF – EU, has led to the deterioration of the business climate and hence price increases that affected the projects co-financed by EU. Thus, numerous addenda to the contracts have been made. Even if VAT expenditures related to projects financed from European funds became eligible in 2012, the EU allocations remaining unchanged, they affect the total value of projects that can be implemented.
- ✓ The persistence of inflationary pressures and the national currency depreciation, exacerbated by the crisis, have also led to increases in costs, and also in prices that have affected projects financed from structural funds, complicating and delaying the process of fund accessing, especially in the stages of contracting and implementation. Meanwhile, the worsening credit conditions on the banking markets increased the deficit of companies in providing the necessary resources to cover the co-financing or ineligible

expenditure, which slowed the implementation of projects and made many potential beneficiaries to give up investments.

In a letter of January 2014 from DG REGIO-European Commission, Romania received a number of warnings, the most severe being that if not completed by the end of 2015 for newly released and already approved projects, it will be required to finance the completion of projects from budgetary and financial resources of the beneficiaries, followed by financial corrections, i.e. by returning to EU Budget the reimbursed funds related to commenced but unfinished projects. Thus, it is recommended for MAs to decide as soon as possible upon the projects to be commenced or continued and on those that need to be adjusted or phased out.

At the same time, it points out that if Romania intends to absorb the funds allocated for 2007-2013, according to the n +2 and n +3 rules, it should speed up the submission in 2014 of those projects with real potential for implementation by the end of 2015, the authorities having the obligation to discern well between the lists of projects and the programming periods to be funded (the previous or the current one).

In December 2011, the Council of the EU decided that a total of six countries most affected by the crisis and in financial difficulty (including Romania) benefit from an important temporary facility (applied retroactively from January 2010 to end of 2013), regarding the increase in the maximum rate of co-financing by the EU structural funds by 10 percentage points (in the case of Romania from 85% to 95%) in order to increase the absorption capacity and to stimulate in this way the economic recovery and job creation. (Council of the EU, 2011).

In January 2012, the European Commission signed agreements with Romania and Bulgaria, enabling them to benefit from technical assistance in the management of EU funds and in reducing bureaucracy from the experts of the World Bank, EIB and EBRD. By the decision of the European Parliament of 20 November, 2013, Romania, along with Slovakia, countries with low absorption rate, enjoys n +3, which offers the opportunity to use European funds allocated in 2011 and 2012 by the end of 2014 and 2015, respectively (Ministry of European Funds, 2013).

As a concluding remark concerning the causes and difficulties encountered by Romania in accessing SCF in the 2007-2013 financial exercise, we have to point out the necessity of improving knowledge and expertise of Romanian specialists in this field in parallel with more stability and predictability of business environment, legal framework and efficient political governance.

# 4. The macroeconomic impact of structural and cohesion funds: optimism vs reality

## 4.1. Brief literature review

Until recently, the EU Cohesion Policy and budgetary allocations to different targets that support it has treated the issue of SCF impact as secondary. Its major importance became obvious as a result of post-crisis budgetary restrictions, the concerns regarding the efficiency of public expenditures tending to be operational in the 2014-2020 exercise.

Vignetti and Florio (2003) emphasized, for a decade, the importance of new methodological approaches to the effectiveness of EU funds and the need to establish thresholds for the indicators of assessing the projects quality (co-financing rate, discount rate, return on investment, social costs and benefits, etc.), taking into account the sectoral criteria and the specific features of different countries/regions. An incentive mechanism for projects with the best results in the implementation from a reserve fund up to a limit of 10% of the allocations was also proposed. There is little evidence to support the implementation of these recommendations/proposals for the 2007-2013 programming period.

In most studies, some of them financed even by European funds, the issue of SCF impact is addressed *ex ante*, usually in a positive manner, based on optimistic assumptions and expectations where the estimated positive effects are implicit. These studies lack a rigorous scientific approach that would imply the risk assessment in the cases of various scenarios, followed by *ex post* comparative analysis of the extent to which the predictions were confirmed, including their correction in case of divergence, and explaining the causes behind.

According to Marzinotto (2012, p.12), the research, both empirical and based on econometric models and simulations focusing the assessment of the EU funds macroeconomic effects on economic growth, led to results rather inconclusive, the methodological problems encountered proving extremely difficult. Regarding the macroeconomic models, Marzinotto showed that, for the most part, they revealed the positive effects of SCF, larger or smaller, depending on the assumptions considered, but he rightly states that they actually mean a potential impact.

A way to separate the cohesion policy effects of the market forces dynamics could not be found, assuming a complementarity ratio and a partial or total substitution of public investment by the SCF. Appropriate times to measure the impact in the short, medium and long run, and the degree of differentiation between the types of projects are still questionable. Problems of data accuracy and availability were added to all these.

In fact, for various reasons, these effects can be compromised by a poor management capacity of EU funds, their use for inappropriate investments, the lack of a supportive institutional environment at the regional level, the results depending on the existence of a minimum industrial tissue or services for agriculture. In most cases, the studies approach the SCF impact independently from other policies (budgetary redistribution, state aids, and industrial initiatives).

The report prepared under the direction of Fabrizio Barca (2009) during the peak of the crisis, highlighted the weaknesses of EU cohesion policy due to the nearly exclusive focus on the financial absorption and neglecting the effects on welfare both at EU and local level, the lack of prioritization and of fund effectiveness monitoring, other methodological and operational issues. Regarding the impact of cohesion policy, this report pointed out that the studies did not draw clear conclusions, the use of the same data sometimes revealing positive effects, sometimes negative ones (Barca, 2009, p.87). Their inconsistency can be attributed to the complexity of growth and convergence processes and to the failure of their modelling in time and for different countries and regions, with specific economic, social and institutional features.

The HERMIN model, built in 1989 by John Bradley and further developed by him and other authors, was one of the most used in econometric simulation of the European funds impact on economic processes, including its adaptation to specific country cases (Ireland, Poland, Hungary, Romania, etc.). The HERMIN macromodels or different versions are multisectoral growth models, the SCF from the EU budget being assimilated to investments (infrastructure, human capital, supportive investments in industry, market services and agriculture), estimating their impact on macroeconomic aggregates ( GDP, employment, productivity, FDI, foreign trade, etc.).

Taking into account the practical difficulty of individualization - out of all investments - of flows related to SCF disseminated on multiple channels throughout the economy, with projects in various stages of execution and a complex financial circuit, the projections were based on the simplistic hypothesis of alternative scenario (without funds and with funds, including national co-financing), possibly taking into account different absorption rates.

The use of this model, based on SCF allocations for 2007-2013, assumed to be fully absorbed by the Member States, led to significant potential outcomes

(Bradley, Untiedt and Mitz, 2007, pp. 44-50). Thus, in the case A (SCF without application of n+2 rule) a cumulative GDP growth of 30-40 % was estimated for Bulgaria, Hungary, Poland (Romania 37.7%) and even about 60 % for the Czech Republic; in the case B (SCF with application of n+2 rule) a similar cumulative increase was estimated, but for the period 2007-2015.

These projections were totally invalidated later; besides the crisis effects and the manifestation of internal causes specific to Member States, the degree of error has been influenced by the questionable assumptions of the model related to the scenario “with funds”. Among them: the assumption of 100 % SCF absorption rates, which proved unrealistic (in this regard see also the critical analysis of HEROM, the Romanian version of HERMIN, by Zaman and Georgescu, 2009); the use of elasticity coefficients of manufactured goods and services production to the increase in capital stock (infrastructure) and of the related productivity unconfirmed by the developments in Member States’ economies; overvalued cohesion policy multipliers for Member Countries.

Considering some shortcomings of this model, other authors have tried to assess the impact of EU funds based on GIMF model (Global Integrated Monetary and Fiscal), i.e. an inter-temporal dynamic general equilibrium model (DGE) used by the IMF, and also on a derived model, QUEST, having microeconomic foundations, which became standard in macroeconomic modelling.

The application of GIMF model by Allard *et al.* (2008) for new EU Member Countries showed a lower impact of European funds than the ones resulting from HERMIN model, the scenarios on the horizon of 2033 revealing a process of convergence in terms of GDP per capita. Romania was excluded from the calculations because of high inflation rates over the period 1995-2005.

J. Varga and in 't Veld J. (2010 ) applied a QUEST III model, with a higher degree of detailing the human capital accumulation and technological change endogeneity, the results indicating a lower potential impact of cohesion funds on short term, but more significant and consistent on long term. In the case of Romania, the cumulative increase in GDP due to the absorption of these funds was estimated at 13 % by 2016 and 34 % by 2025.

The degree of attracting European funds, as their effective absorption depends to some extent on the balance of receipt and payment flows related to the EU budget, i.e. on the annual programming accuracy. From the analysis of the SCF annual execution it resulted that the payment requests from the Member Countries are getting crowded by the end of the year, mainly due to de-commitment fears under the n +2 /n +3 rules. Thus, from the amount of 14.6

billion EUR requested in the last two months of 2012, the most part of requests (13.3 billion EUR) was sent in December, with a peak in the last decade, which created some payment constraints to the EU budget.

In order to meet the financial balance requirements, according to the European Commission regulations, the authorities of Member States should submit to the Directorate General for Budget, not later than 30th April, the payment requests estimated for the current year and the next year forecasts for each program and fund. The analysis of the SCF budget execution for 2012 showed that, compared to 58.4 billion EUR which were projected, the payments executed amounted to 50.6 billion EUR, i.e. a programming financial error in the amount of 7.8 billion EUR at the EU27 level. Approximately 20 % of this error belonged to Romania which, besides being the only EU Member State that did not meet the deadline for submission (June instead of April) has forecasted payments of EUR 3.1 billion and requested instead only 1.6 billion EUR, hence a difference of more than 1.5 billion EUR (European Commission, 2013, p 23).

In recent years, it became obvious that pressures aimed at increasing the SCF absorption rates, for some countries (including Romania) being a condition of financial assistance from the EU and a sizing criteria of fund allocations were made at the expense of pursuing their effectiveness (Katsarova, 2013, p.5).

The latest report of the European Commission concerning the implementation of Structural and Cohesion Funds (European Commission, 2013), based on national reports show that they contributed to a lesser extent than expected to the economic growth and job creation. Despite the accelerating pace of SCF absorption in the last years of the period, their impact was not significant, mainly because of the crisis effects, especially in the EU periphery, where macroeconomic imbalances persisted and the economic recovery delayed, due to the austerity programs too.

At the EU27 level, the period 2007-2013 was marked by a severe drop in GDP (-4.5% in 2009). After a slight recovery in 2010 and 2011 (GDP growth of 2% and 1.7% respectively), in 2012 the EU economy fell back into recession (-0.4 %), and in 2013 has virtually stagnated. Over the period January 2007 to June 2012, the ERDF and CF contribution to the creation of jobs was estimated as modest, which is about 400 thousand jobs (European Commission, 2013, p 38), of which in Romania 6,200 (compared to over 32,200 in Poland, over 17,600 in Hungary, over 15,400 in the Czech Republic). As for convergence, the central objective of the Cohesion Policy, the European Commission report warns of side effects occurrence, i.e. growing regional disparities.

One factor of the absorption rate increase and also of improving the SCF effectiveness would have been a more active involvement of the banking system in EU fund accessing. The advantage of commercial banks, which faced a deleveraging process in the post–crisis period, would consist in increasing the lending opportunities. For beneficiaries of European funds, especially SMEs, the involvement of banks would have facilitated, on the one hand, the access to pre/co-financing and, on the other hand, the acceleration of EU financial transfers, especially in the case of reimbursements.

The procedures of project assessment using specific banking tools and criteria would have led to the implementation of viable projects, with a significant impact, both at the beneficiaries and macroeconomic levels. Despite the positive approach to coordinate the European banks, backed by IMF, EBRD, EIB under the Vienna Initiative, the contribution of the banking system to the absorption of EU funds, at least in Romania, remained insignificant, the main priority being rather the systemic risk monitoring, threatened by a sharp increase in non-performing loans (EBCI, 2011; EBCI , 2014).

Another effect of the Structural Funds concerns the relation with public investment due to the conditionality of projects by their co-financing from Member States' public expenditures. The calculations made by Gonzales (2010, p. 29) using a linear model with autocorrelation of errors, based on data for 15 EU countries over the period 1993-2005, led to the conclusion that only 60% of the Structural Funds received by the governments were used to increase public investment (*crowding-in* effect), the remaining amount being directed to alternative uses (*crowding- out* effect), such as public consumption.

*Crowding-in* effect may extend, in a favourable economic environment, by increasing the impact of public investment on the increase in private investment (Afonso and Allegre, 2008). On the other hand, the *crowding-out* effect can occur also by the partial substitution of public expenditures by the EU transfers, despite the principle of additionality of structural funds (Sierhej and Rosenberg, 2007).

Although not explicitly, in order to increase the SCF effectiveness (and implicitly of the *crowding-in* effect, i.e. the increase in the contribution to public investments in a manner that will promote private investments growth), the mentioned studies reveal the need for more attention from the EU authorities in negotiating the allocations to Member States, at least at the level of major investment projects co-financed from the national budget (*lump-sum* vs. *matching*). At the same time, from national authorities, maintaining the fiscal soundness, avoiding the fiscal expansion trap and appropriate restructuring of budget expenditures so as to ensure the co-financing of projects by structural funds are expected.

The importance of a sound macroeconomic and fiscal framework as a prerequisite for increasing the Cohesion Policy effectiveness is highlighted by Tomova *et al.* (2013), who constructed an index of socio-economic development SEDI (Socio Economic Development Index). The authors concluded that the effectiveness of EU structural instruments, in terms of contributing to the economic development of Member Countries, can be affected by macroeconomic imbalances, particularly high levels of external debt and of public indebtedness, including significant government budget deficits.

This explains the generalization for all structural and cohesion funds of fiscal conditionality, relating these funds to macroeconomic imbalances by the EU procedure regarding the prevention of phenomena that threaten the stability of the Member States' economy, with potential spill over effects (Tomova *et al.,* 2013, p. 37).

Looking in the future, the major change of the perspective regarding the impact of EU funds was expressed by one of the most authorized voices of the European Commission, Johannes Hahn, Commissioner for Regional Policy. In December 2013, he stated that the Cohesion Policy is basically the investment policy of the EU, implying a radical change, his position being supported by both the European Parliament and the European Council (European Commission, 2013).

In this context, it was highlighted that, in the 2014-2020 programming period, *ex ante* conditionalities are introduced for the first time that must be met by Member States and regions that will benefit from EU funds, in order to ensure the maximum impact of these investments. To sum up, these conditions are related to the fiscal framework strengthening, business environment reforms, transport strategies, public procurement improvement, and compliance with environmental legislation.

As shown in a recent paper on EU Funds monitoring and impact assessment published by the European Commission (2014c, p.7), the fundamental question is non bi-factual (e.g. how things develop with/without funds or of "made a difference" type) with a response consisting of quantitative estimates of the impact, but it rather refers to the conditions under which effects are occurring (e.g. if things develop as expected so that desired changes occur), which logically generates a narrative response in qualitative terms.

## 4.2. The relationship between SCF and relevant macroeconomic indicators for Romania

Since we believe that, because of multiple causes of which the most important ones have been mentioned above, the use of econometric models do not produce satisfactory assessments of the real SCF impact, we intend to address this issue by studying the relationship between these funds and relevant macroeconomic indicators for Romania compared to other EU Member States, with the following theoretical and methodological observations:

- the need for an analysis of SCF size and of macroeconomic performance indicators, in quantitative terms, so that a better relationship could be established;
- the need to take into account the qualitative factors regarding the SCF impact on short, medium and long term, which, due to calculation difficulties in terms of quantities and values, would rather fit with qualitative assessments, having implications especially for processes and phenomena effects regarding structural changes, *sensu lato* competitiveness, sustainable development and convergence requirements.

Our research is conducted according to the first methodological observation mentioned above and focuses primarily on the magnitude of the SCF in relation with gross fixed capital formation (GFCF), based on data for Romania and some EU Member States in Central and Eastern Europe, cumulated over the period 2007-2013.

**Table 3 - The relationship between SCF and GFCF over the period 2007-2013**

| Country | SCF (EUR mil.) | | GFCF (EUR mil.) | SCF/GFCF (%) | |
|---|---|---|---|---|---|
| | EU Allocations | EU Payments | | EU Allocations | EU Payments |
| **Bulgaria** | 6,673.6 | 3,225.3 | 64,139.6 | 10.4 | 5.0 |
| **Czech Republic** | 26,539.6 | 12,973.8 | 254,681.3 | 10.4 | 5.1 |
| **Poland** | 67,185.5 | 44,784.4 | 504,026.2 | 13.4 | 8.9 |
| **Romania** | **19,213.0** | **7,055.9** | 244,272.0 | 7.9 | 2.9 |
| **Slovakia** | 11,498.3 | 5,523.6 | 101,223.3 | 11.4 | 5.5 |
| **Hungary** | 24,921.1 | 14,584.9 | 133,713.3 | 18.6 | 10.9 |

**Source:** *Financial execution by period-fund-country*, European Commission Inforegio; figures regarding GFCF calculated based EUROSTAT data.

From the analysis of data presented in Table 3, it results that:

- the SCF allocations from the EU budget for Romania accounted for 7.9% of GFCF cumulatively over the period from 2007 to 2013, and the reimbursements for only 2.9% of GFCF, the lowest proportions compared to the other CEE selected countries;
- the small size in absolute and relative terms of SCF for Romania shows that these grants do not represent a factor which can have a decisive or even significant role in providing necessary and sufficient investments resources for the sustainable development of the country or to counteract the effects of the prolonged economic crisis in Europe. It is worth underlining this because a number of decision makers in Romania, instead of a responsible, objective and balanced assessment of the contribution of this external factor together with the internal ones to the economic growth of Romania, are overvaluating the importance of grants. In our opinion, a professional and realistic approach would require more the setting, as accurately as possible, of the contributions of all economic growth factors, highlighting of what is the extent of their complementarity, of the synergies between national efforts and European funds.

Otherwise, in the case of other selected countries, the proportion of SCF in relation to GFCF has not much higher levels than in Romania, which supports the assertion that, without denying their contribution or importance, the EU grants are not the only most important factor of achieving sustainable economic growth.

The annual ratio of SCF reimbursed to GDP ranged from 0.1 % in 2009 and 2% in 2013 and in relation to GFCF between 0.3 % and 8.9 % in the same period (see Table 5). It is worth mentioning that the increase in the absorption rate of SCF in the last two years of the period in Romania has had favourable effects in terms of their contribution to investments.

Assuming that, overall, the SCF can be considered as an investment spending, we calculated the ICOR (Incremental Capital Output Ratio), which is seen as relevant in literature for assessing the capital effectiveness highlighting, in marginal terms, the investment needs (additional to the stock of fixed capital) to achieve an increase of one supplementary unit of GDP. In the calculation of ICOR, the number of countries which have been selected included both countries in Central and Eastern Europe and some developed countries (Table 4).

**Table 4 - ICOR* in selected EU Member Countries over the period 2005-2013**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Bulgaria** | 4.0 | 4.2 | 4.5 | 5.4 | - 5.2 | 57.0 | 11.9 | 26.7 | 23.0 |
| **Czech Republic** | 3.8 | 3.7 | 4.7 | 8.6 | -5.5 | 9.8 | 13.4 | -23.1 | -24.6 |
| **Germany** | 24.7 | 4.9 | 5.6 | 16.9 | -3.4 | 4.3 | 5.5 | 25.1 | 43.0 |
| **Italy** | 23.2 | 9.7 | 12.6 | -17.5 | -3.5 | 11.4 | 38.2 | -7.2 | -9.1 |
| **Poland** | 5.1 | 3.2 | 3.2 | 4.4 | 13.2 | 5.1 | 4.5 | 10.0 | 11.5 |
| **Romania** | 5.6 | 3.2 | 4.8 | 4.4 | -3.7 | -22.4 | 11.9 | 37.6 | 6.7 |
| **Slovakia** | 4.0 | 3.2 | 2.5 | 4.3 | -4.2 | 4.8 | 7.7 | 11.2 | 21.2 |
| **Hungary** | 5.7 | 5.6 | 21.8 | 24.1 | -3.0 | 16.9 | 11.2 | -10.2 | 16.5 |

* ICOR – *Incremental Capital Output Ratio* is a metric of capital effectiveness, i.e. the additional capital required to generate an additional output unit; ICOR can be computed by dividing the share of investment in GDP by the GDP growth rate.

**Source:** calculations based on EUROSTAT data.

Across the decade 2005-2013 a clear upward trend of ICOR in all analyzed countries was recorded, marked by the effects of the prolonged economic crisis triggered in 2008-2009 (the GDP contraction generated negative values of ICOR, except Poland). In Romania, the ICOR increased from 2.6 in 2004 to 37.6 in 2012, which means a sharp deterioration in investment effectiveness parameters, including those provided from SCF. A certain improvement of this indicator occurred in 2013.

According to some authors (Piketty and Zucman, 2014) who analysed the historical trends revealing an ICOR increase in developed countries along with capital share and a decrease in capital income, which implies a capital-labour elasticity of substitution larger than one; Karabarbounis and Neiman (2014) reached the same conclusion.

Although controversial, the level and dynamics of ICOR, especially on long term, we believe that on medium term, the GDP growth trends in a country with a lower development level as Romania does not necessarily mean a favourable outcome of investment spending. Hence, the need for SCF to represent an investment input for Romania, with beneficial effects and higher and sustainable performances.

Further we shall analyze the evolution of SCF in terms of relevant macroeconomic indicators for Romania. In order to ensure a high level of comparability, the macroeconomic indicators expressed in value terms (national currency) were converted in EUR at the average exchange rates of the respective years.

**Table 5 - SCF in relation to Romania's macroeconomic indicators over the period 2007-2013**

| **INDICATORS in value terms (EUR bn)** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
|---|---|---|---|---|---|---|---|
| **GDP** | 121.3 | 139.7 | 115.9 | 124.4 | 131.4 | 131.8 | 142.8 |
| **GFCF** | 37.7 | 45.6 | 30.8 | 27.7 | 34.3 | 34.6 | 32.7 |
| **Exports** | 29.5 | 33.6 | 29.1 | 37.3 | 45.3 | 45.1 | 49.6 |
| **Imports** | 51.3 | 56.3 | 38.9 | 46.8 | 55.0 | 54.7 | 55.3 |
| **Employees** (number) | 4.885 | 5.046 | 4.774 | 4.376 | 4.349 | 4.443 | 4.520 |
| **External debt:**: | 58.3 | 72.4 | 80.1 | 92.4 | 98.7 | 99.7 | 96.5 |
| **- short term** | 19.8 | 20.6 | 14.6 | 19.5 | 22.8 | 20.9 | 19.5 |
| **- medium-long term** | 38.5 | 51.8 | 65.5 | 72.9 | 75.9 | 78.8 | 77.0 |
| **Government debt** | 22.8 | 27.2 | 31.5 | 43.3 | 49.6 | 51.3 | 54.0 |
| **SCF allocated** | 1.3 | 1.8 | 2.5 | 3.0 | 3.3 | 3.5 | 3.8 |
| **SCF reimbursed** | 0 | 0 | 0.1 | 0.2 | 0.7 | 1.2 | 2.9 |
| **FDI net inflows** | 7.3 | 9.5 | 3.5 | 2.2 | 1.8 | 2.1 | 2.7 |
| **International reserves** (excluding gold) | 25.5 | 26.1 | 27.3 | 31.6 | 32.7 | 31.1 | 32.5 |
| **INDICATORS in relative terms (%)** | | | | | | | |
| **SCF allocated/GDP** | 1.1 | 1.3 | 2.2 | 2.4 | 2.5 | 2.7 | 2.7 |
| **SCF reimbursed/GDP** | … | … | 0.1 | 0.2 | 0.5 | 0.9 | 2.0 |
| **SCF reimbursed/GFCF** | … | … | 0.3 | 0.7 | 2.0 | 3.5 | 8.9 |
| **GDP/External debt** | 208.1 | 193.0 | 144.7 | 134.6 | 133.1 | 132.2 | 148.0 |
| **GDP/Public debt** | 532.0 | 513.6 | 367.9 | 287.3 | 264.9 | 256.9 | 264.4 |
| **Exports/MLT External debt** | 133.2 | 108.7 | 59.4 | 64.2 | 72.5 | 69.4 | 71.8 |
| **GDP/Imports** | 236.5 | 248.1 | 297.9 | 265.8 | 238.9 | 241.0 | 258.2 |
| **External debt/ International reserves** | 228.6 | 277.4 | 293.4 | 292.4 | 301.8 | 320.6 | 296.9 |

**Source:** Calculations based on data regarding macroeconomic indicators published by National Commission of Prognosis and balance of external payments published by National Bank of Romania.

Based on indicators presented in Table 5, the following can be stressed:

- the sharp GDP decrease in 2009 due to the crisis impact was not recovered until 2013, which basically meant 5 years of quasi-stagnation of the Romanian economy;
- the GFCF has significantly decreased after 2008, failing to reach the pre-crisis levels, mainly due to the contraction of the economy, of bank lending and of FDI inflows, the latter from 9.5 billion EUR in 2008 to 2.7 billion EUR in

2013; because of the low absorption rate, the SCF could not represent a compensating factor, which contributes to the investment recovery during this period;

- in the case of exports, it was found that, after the severe decline in 2009, they recorded a fast recovery in the post-crisis period, which did not exclude the increase of the poor export component (*immisering exports*), i.e. of raw materials, intermediate and semi-finished products at low prices or due to the repositioning of Romania in the value-added global chains; the SCF did not have any contribution, as the projects under SOP IEC, which could have a favourable effect on exports, registered the lowest absorption rate among all Operational Programs in Romania (17.5 %), the related EU reimbursements being situated below 0.5 billion EUR.
- the imports decreased in 2009 to about two thirds compared to 2008, after which they registered a growing trend, less dynamic than exports, and keeping the overall trade deficit; concerning the imports, we can assume that some of the 5.1 billion EUR reimbursed from SCF to Romania were spent on importing machinery, equipment, office supplies, and others, but the statistics do not provide any information about this;
- Romania's foreign debt rose sharply over the period 2007-2011, in the years 2012 and 2013 recording a flattening trend around 100 billion EUR; in 2013, the medium and long-term external debt almost doubled compared to 2007, i.e. from 38.5 billion EUR to 77 billion EUR; the public debt recorded a fast increase, reaching 54 billion EUR at the end of 2013, compared to 22.8 billion EUR in 2007; Romania’s indebtedness has reached unsustainable levels, requiring to rollover the maturing debt, without being possible, therefore, to assert that the SCF would have mitigated the increase in financing gap;
- on the other hand, the international reserves (excluding gold) witnessed an increase from 25.5 billion EUR in 2007 to 32.5 billion EUR at the end of 2013, a much lower dynamic as compared to adverse developments of effort variables, mainly recorded by the public and foreign debt, non compensated by an absolute and relative consistent size of the SCF reimbursements; the international reserves, in terms of use, have the disadvantage of restrictions that constrain the possibility of their utilization as temporary source to cover external financing gaps or peaks for due debt payments.

A more analytic approach of the SCF impact requires an examination of macroeconomic effectiveness indicators, in which the **outcome** variables (GDP, exports, international reserves) are compared to the **effort** ones (external debt, public debt, imports). Such analysis highlights a tendency of macroeconomic effectiveness decline, revealed by the decrease in GDP to external debt ratio from 2.08 EUR in 2007 to 1.48 EUR in 2013, which is about 30 %. An even more drastic decline was registered in the GDP to public debt ratio, from 5.32 EUR in 2007 to 2.64 EUR in 2013, i.e. at half. Regarding the relationship between exports and medium and long-term external debt, the ratio fell from 1.33 EUR to 0.72 EUR in the same period, i.e. almost two times.

On the other hand, the GDP to imports ratio improved from 2.4 EUR in 2007 to 3.0 EUR in 2009, explained by a more severe drop in imports than the GDP. In 2012, the ratio decreased to 2.4 EUR, followed by a slight recovery in 2013 to 2.6 EUR. If, in 2007, the ratio of international reserves to medium and long-term external debt stood at 0.44 EUR, in 2013 it fell to 0.34 EUR, which is about 25 %.

Given the deterioration of effectiveness macroeconomic parameters in Romania, one cannot assert that the SCF had have a significant contribution to mitigate the negative impact generated by overlapping the global crisis external shock on the domestic vulnerabilities.

## 4.3. Romania: the balance of amounts paid and reimbursed from the EU budget over the period 2007-2013

The position of **net beneficiary** or **net contributor** to the EU budget is one of the most disputed and of highest interest for all countries. Regarding Romania, we will try to assess the position of net beneficiary or net contributor, based on two distinct methodological approaches so that we can reach conclusive results on both positions and explaining its magnitude depending on the method of calculation.

According to the first approach, we have considered all amounts reimbursed from the EU budget, including the Funds for Agriculture and Rural Development (EAFRD); in this case, the reimbursements received from the EU budget, amounting to 14.53 billion EUR over the period 2007-2013 compared with 8.91 billion EUR contribution to the EU budget, show a net beneficiary position of Romania, in the amount of 5.63 billion EUR (Table 6).

The second methodological approach took into account only the amounts reimbursed from the EU budget from structural and cohesion funds, which are the subject to our study. It is worth mentioning that EU budget revenues come mainly from three sources: the contribution of Member States (0.73% of GNI), custom duties revenue from Extra-EU imports and a percentage of the VAT revenues of the member countries. To ensure the comparability with the SCF reimbursements from the EU budget, Romania's contribution to the EU budget related to SCF was estimated by applying a percentage of 37.5% corresponding to the share of amounts allocated to SCF out of the total EU budget expenditures. This resulted in an amount of 3.34 billion EUR as contribution of Romania to the EU Budget related to SCF, which, compared with 5.09 billion EUR reimbursements from the EU over the period 2007-2013 from SCF, shows a position of net beneficiary, with a positive balance of 1.75 billion EUR, but 3 times lower than in the first approach.

**Table 6 - Indicators of net beneficiary position of Romania relative to the EU Budget cumulated for the period 2007-2013**

| Indicators | | 2007-2013 |
|---|---|---|
| **Payments to the EU Budget** | EUR mil. | 8,910.3 |
| **Reimbursements from the EU Budget*** | EUR mil. | 14,535.4 |
| **Total balance (net beneficiary)** | EUR mil. | +5,625.1 |
| **Payments to the EU Budget related to SCF**** | EUR mil. | 3,341.4 |
| **EU Reimbursements related to SCF** | EUR mil. | 5,209.8 |
| **Balance related to SCF (net beneficiary)** | EUR mil. | +1,868.4 |
| **GDP** | EUR mil. | 907,300 |
| **GFCF** | EUR mil. | 244,272 |
| **Total balance / GDP** | % | 0.61 |
| **Balance related to SCF / GDP** | % | 0.19 |
| **Total balance / GFCF** | % | 2.31 |
| **Balance related to SCF / GFCF** | % | 0.71 |

* Including EU reimbursements from the Agriculture Fund for Rural Development.

**Own estimations, by applying a percentage of 37.5% to Romania's payments (corresponding to the share of SCF allocations out of the total EU27 Budget for 2007-2013).

**Source:** Calculations based on European Commission DG BUDGET data, *Financial Programming and Budget* (Interactive chart: EU expenditure and revenue), and Table 5.

Following our approaches, the order of net beneficiary position magnitude of Romania is not significant, both by relating to GDP (0.61 % and 0.19 %) and GFCF (2.31 % and 0.71 %). If we focus only on the SCF, taking into account the population and the number of years of the period, it results in a net benefit on average of about 12 EUR per capita and per year, which is obviously a negligible amount.

The net benefit of Romania appears to be more than modest also in relation to internal macroeconomic parameters and compared with other countries. According to calculations made by Jedlička (2014, p. 21), the net beneficiary position of Romania over the period 2004-2012 reached 10.07 billion EUR (including the pre-accession funds), while Hungary registered 1.7 times more, Spain 2.4 times, Greece and Portugal 2.5 times and Poland about 5 times.

Despite its overall position of net beneficiary, in some fields Romania could be a **net contributor**, such as, for example, the case of the EU Seven Framework Programme 2007-2013 for research, technological development and innovation where Romania contributed with considerably higher amounts than the accessed ones.

However, given the possibility of extending the SCF absorption (according to n+1, n+2 and n+3 rules for Romania) for the financial execution of funds allocated for 2007-2013, it is possible that our country's net beneficiary final situation to have a more advantageous position than previously revealed.

According to our calculations, the convergence process suffered from a number of shortcomings in Romania over the period 2007-2013, due to the negative impact of the economic and financial crisis and other factors of influence.

**Table 7 - GDP per capita (PPS) compared to the EU 27 average (100.0) on NUTS 2 Regions in Romania over the period 2004 - 2011**

| NUTS 2 Regions | Period average (%) | | Relative gap with Bucharest-Ilfov (=1.00) | | Differencies 2008-2011 compared to 2004-2007 |
|---|---|---|---|---|---|
| | 2004-2007 | 2008-2011 | 2004-2007 | 2008-2011 | |
| (0) | (1) | (2) | (3) | (4) | (5) = (4) - (3) |
| **North-West** | 35.5 | 42.5 | 0.44 | 0.37 | -0.07 |
| **Center** | 37.0 | 45.3 | 0.46 | 0.39 | -0.07 |
| **North-East** | 24.5 | 29.5 | 0.31 | 0.25 | -0.06 |
| **South-East** | 31.8 | 38.5 | 0.40 | 0.33 | -0.07 |
| **South** | 30.8 | 39.8 | 0.38 | 0.34 | -0.04 |
| **Bucharest-Ilfov** | 80.3 | 116.3 | 1.00 | 1.00 | 0.00 |
| **South-West** | 29.5 | 36.3 | 0.37 | 0.31 | -0.06 |
| **West** | 42.8 | 52.8 | 0.53 | 0.45 | -0.08 |

**Source:** Calculations based on EUROSTAT data.

Although it is difficult to separate the crisis negative impact from the inherent difficulties in the first programming period for Romania regarding the SCF accessing, we believe that the analysis of two indicators reflecting the core of EU Cohesion Policy at regional level, i.e. the GDP per capita expressed in PPS, that is the poverty risk, can help elucidate to a greater extent the issues related to the convergence process.

As compared to the pre-accession years, a favourable trend in all NUTS 2 regions was recorded in the post-accession period in Romania, particularly in Bucharest-Ilfov, which exceeded the EU average (Table 7).

In contrast, the comparative analysis of inter-regional disparities between Bucharest-Ilfov and other regions in Romania highlighted a process of divergence of GDP per capita in PPS in the post-accession period, the worst cases occurring in North-East, South-West and South-East.

Regarding the risk of poverty rate breakdown by Romania's regions over the period 2010-2012 compared to 2007-2009, one can observe increasing inter-regional disparities in spite of a favourable trend of reducing the proportion of people at risk of poverty in all regions (Table 8).

**Table 8 - People at risk of poverty by NUTS 2 Regions in Romania over the period 2007 - 2012**

| NUTS 2 Regions | **Period average** (% in total population) | | **Relative gap compared to Bucharest-Ilfov (=1.00)** | | **Differencies 2010-2012 compared to 2007-2009** |
|---|---|---|---|---|---|
| | **2007-2009** | **2010-2012** | **2007-2009** | **2010-2012** | |
| (0) | (1) | (2) | (3) | (4) | (5) = (4) - (3) |
| **North-West** | 19.6 | 16.8 | 2.93 | 5.41 | 2.48 |
| **Center** | 19.0 | 18.7 | 2.84 | 6.03 | 3.19 |
| **North-East** | 33.5 | 31.9 | 5.00 | 10.30 | 5.30 |
| **South-East** | 26.7 | 28.0 | 3.99 | 9.03 | 5.04 |
| **South** | 24.0 | 22.0 | 3.58 | 7.10 | 3.52 |
| **Bucharest-Ilfov** | 6.7 | 3.1 | 1.00 | 1.00 | 0.00 |
| **South-West** | 36.9 | 29.8 | 5.51 | 9.61 | 4.10 |
| **West** | 14.1 | 19.0 | 2.10 | 6.12 | 4.02 |

**Sursa:** Calculations based on EUROSTAT data.

Thus, as in the case of GDP per capita, the same regions North-East, South-West and South-East registered higher percentages of people at risk of poverty (an average between 28-32% over the period 2010-2012) and a significantly wider gap compared to the Bucharest-Ilfov.

# 5. European structural and investments funds in the period 2014-2020: Expectations and new challenges for Romania

At the end of the financial exercise 2007-2013 there were no satisfactory results in achieving the Member States convergence, the main priority of the EU Cohesion Policy. The lack of progress in reducing disparities between regions within the EU, and the fact that just opposite trends have occurred, i.e. the increase in regional disparities (European Commission, 2014b) determined Brussels authorities to make major shifts in the Cohesion Policy for the programming period 2014-2020, in order to achieve a greater impact in terms of growth and jobs. The new approach of the EU Cohesion Policy is seen also in renaming the financial instruments, that is from Structural and Cohesion Funds (SCF) into European Structural and Investment Funds (ESIF).

The main elements of the EU Cohesion Policy reform in 10 points (European Commission, 2014c) which need to be considered by the Managing Authorities of the Member Countries can be summarized as follows:

- adjusting the amounts of financial support allocated to regions by their level of development, along with the related co-financing from national budgets;
- priority allocation of financial resources to key sectors for economic growth; for example, the investments from the European Regional Development Fund (about 100 billion EUR) will focus on four key areas: innovation and research; Digital Agenda; support for SMEs; low carbon economy;
- establishing of clear, transparent and measurable objectives and targets, in terms of accountability and results, enabling the monitoring of the financial resources use, a performance reserve fund to stimulate good projects being created;
- introducing *ex ante* conditionalities in order to increase the efficiency of investment, such as: the smart specialization strategy; reforms to improve the business environment; transport strategies; compliance with environmental legislation; measures to improve public procurement systems; strategies to combat youth unemployment;
- establishing a common strategy in order to achieve a better coordination, avoiding overlapping between EU policies and financial instruments, based on the Common Strategic Framework ;

- reducing bureaucracy and easing the fund accessing by establishing a uniform set of rules for all EU financial instruments, simplifying accounting rules, the wider use of digital technology (e-Cohesion);
- strengthening the urban dimension of Cohesion Policy by priority allocation of ERDF amounts to integrated projects at the city level;
- enhancing cross-border and interregional cooperation, achieving a larger number of projects and providing support through national and regional, macro-regional and sea-basin strategies, such as those on the Danube and the Baltic Sea;
- ensuring a better connection of Cohesion Policy with economic governance so that the Operational Programmes financed from the EU budget be linked to the National Reform Programmes, having to comply with the European Commission's country-specific recommendations under the European Semester on economic and tax coordination at EU level; according with the clause of "macroeconomic conditionality" the EU Commission may require countries to change their programs in order to ensure a stronger support of structural reforms, and if they do not comply with the requirements, the funds can be suspended;
- encouraging greater use of EU financial instruments by SMEs by facilitating their access to credit (loans, guarantees, risk capital) supported by European funds based on common rules, diversification of funds purposes and providing incentives (for example higher rates of co-financing); in that regard, more emphasis on loans and less on grant aims to improve the quality of projects and to discourage the dependence on grants and subsidies.

The total allocations from the EU budget for the Cohesion Policy over the period 2014-2020 amounts to 351.8 billion EUR. If we take into account that to the new entrant Croatia, an amount of 8.6 billion EUR was allocated (Table 9), then the total EU allocations are slightly reduced compared to the 347.5 billion EUR in the period 2007-2013, mentioning that the EU budget setting considered probably their relatively low absorption rate in the previous financial exercise.

Estimating as similar the size of the total EU allocations in the two multi-annual programming periods, regarding the SCF distribution by country, some changes due to a new Cohesion Policy approach have been found.

Thus, excepting 12 countries which, for 2014-2020, have received allocations close to those of the previous period (including Portugal, Cyprus, Austria, Finland, Sweden, the Baltic countries), a number of 8 countries (including Spain, Italy, Germany, Greece, Czech Republic, Hungary) received smaller allocations, the reductions cumulating an amount of about 25 billion EUR. This allowed higher allocations for a total of 7 countries, including Poland (+10.3 billion EUR), Romania (+3.7 billion EUR), Slovakia (+2.5 billion EUR)

**Table 9 - Total EU allocations of Cohesion Policy for 2014-2020**

| | **Total allocations** | | **Allocations per capita** | |
|---|---|---|---|---|
| | (mil. EUR) | % | (EUR) | (Romania=100) |
| **Belgium** | 2283.9 | 0.65 | 204.7 | 17.8 |
| **Bulgaria** | 7588.4 | 2.16 | 1042.4 | 90.8 |
| **Czech Republic** | 21982.9 | 6.25 | 2091.6 | 182.1 |
| **Denmark** | 553.4 | 0.16 | 98.8 | 8.6 |
| **Germany** | 19234.9 | 5.47 | 238.9 | 20.8 |
| **Estonia** | 3590.0 | 1.02 | 2719.7 | 236.8 |
| **Ireland** | 1188.6 | 0.34 | 259.0 | 22.5 |
| **Greece** | 15521.9 | 4.41 | 1403.4 | 122.2 |
| **Spain** | 28559.5 | 8.12 | 611.2 | 53.2 |
| **France** | 15852.5 | 4.51 | 241.7 | 21.0 |
| **Croatia** | 8609.4 | 2.45 | 2021.0 | 176.0 |
| **Italy** | 32.823.0 | 9.33 | 550.0 | 47.9 |
| **Cyprus** | 735.6 | 0.21 | 855.3 | 74.5 |
| **Latvia** | 4511.8 | 1.28 | 2233.6 | 194.5 |
| **Lithuania** | 6823.1 | 1.94 | 2297.3 | 200.0 |
| **Luxembourg** | 59.7 | 0.02 | 112.6 | 9.8 |
| **Hungary** | 21905.9 | 6.23 | 2210.5 | 192.5 |
| **Malta** | 725.0 | 0.21 | 1726.2 | 150.3 |
| **Netherlands** | 1404.3 | 0.40 | 83.7 | 7.3 |
| **Austria** | 1235.6 | 0.35 | 146.2 | 12.7 |
| **Poland** | 77567.0 | 22.05 | 2013.2 | 175.3 |
| **Portugal** | 21465.0 | 6.10 | 2048.2 | 178.3 |
| **Romania** | **22993.8** | **6.54** | **1148.5** | **100.0** |
| **Slovenia** | 3074.8 | 0.87 | 1492.6 | 130.0 |
| **Slovakia** | 13991.7 | 3.98 | 2586.3 | 225.2 |
| **Finland** | 1465.8 | 0.42 | 270.4 | 23.5 |
| **Sweden** | 2105.8 | 0.60 | 220.3 | 19.2 |
| **United Kingdom** | 11839.9 | 3.37 | 185.3 | 16.1 |
| **EU 28** | **351854.2** | **100.00** | **695.9** | **60.6** |

**Source:** EUROSTAT.

Although one might expect a significant improvement of Romania' position in terms of ESI fund allocations for 2014-2020, as shown in Table 6.1, the level of about 1150 EUR per capita remains (along with Bulgaria) marginal compared to other countries of Central and Eastern Europe: as against Romania, the EU allocations per capita are 2.3 times higher for Slovakia, 1.9 times for Hungary, 1.8 times for the Czech Republic and Poland. Jedlička (2014, p. 5) also noted that, compared with other countries in Central and Eastern Europe with higher economic performances, Romania and Bulgaria received fewer grants - expressed per capita – than it would be needed to accelerate their convergence. One explanation, asserts Jedlička, consists in the fact that the other countries have been more successful in negotiations with the EU, which, subsequently, refers to the low level of absorption rate in the previous period and to the poor ability of the Romanian and Bulgarian authorities in arguing the necessary funds size during the dialogue with the European Commission.

The Romanian Government sent to Brussels, in April 2014, the Partnership Agreement for the 2014-2020 programming period which included the main measures to be taken to comply with the Europe 2020 Strategy on smart, sustainable and inclusive growth and to the use of structural instruments in order to achieve the EU objectives regarding the economic, social and territorial cohesion of Member States.

This important document, elaborated in accordance with the new results-oriented EU Cohesion Policy, based on principles of efficient implementation of funds and of *ex ante* conditionalities, started from the analysis of Romania's existing gaps, growth potentialities and sustainable development needs. In this context, key development challenges that require strategic investments in areas of competitiveness and local development, transport and ICT infrastructure, natural resources, especially energy, administrative capacity of public institutions were identified. In order to reduce the economic and social disparities between Romania and EU countries, including at regional level, and taking into account the macroeconomic situation, the national and sectoral policies and strategies, the setting up priorities for the use of EU allocations becomes a sine-qua-non condition.

As shown in Table 9, an amount of 23 billion EUR has been allocated to Romania for 2014-2020. According to the Partnership Agreement estimates, based on the R-GREM macroeconomic model, regarding the potential impact for Romania due to the investments of ESI funds in three categories of interventions (infrastructure, human capital development and private investments, promotion in innovation), in the case of a realistic scenario (assuming a 40% absorption rate) an annual upward GDP rate is foreseen, reaching 4.15 % in 2020, double compared to 2014. Other estimates, made by using the HEROM model, according to the scenario 1 (with EU fund allocation predominantly in infrastructure, considered the most effective), show a cumulative GDP increase of 15.1% in 2014-2020 compared to the scenario without funds, which allows for achieving in 2020 a level of GDP per capita representing about 65-70 % compared to the EU average (Ministry of European Funds, 2014a, p.10). Even if these predictions will prove to be optimistic rather than realistic, the fact that these funds can support national efforts and policies is obvious.

The Partnership Agreement is lacking a more detailed analysis of Romania's expectations from the impact of ESI funds and an assessment of political, economic and financial risks on medium and long term (under preparation at national level, as mentioned in PA) which could significantly affect the estimates.

There are many lessons learned in the 2007-2013 period to be used to increase the absorption rate, with potential positive outcomes for both the actors in the system (management authorities, beneficiaries of private sector, NGO, public authorities) and the economy, at overall and regional levels.

In the context of local development, more important lessons are regarding: the demand deficit in less developed regions that hampers the economic growth; the difficulties in corporate development and market economy functionality; the weaknesses of the business support systems; the fragmentation of R&D sector and the lack of consistency of its connection to the business sector; the absence of financial instruments tailored to R&D needs.

Reducing development gaps and the entry into a convergence trend require the priority orientation of European funds to disadvantaged regions, which have a lower capacity to absorb funds. In this respect, due to the lack of a national strategy for Romania's social and economic development on medium and long term, the correlation with the Convergence Programme, the National Reform Programme, Romania's development territorial policies, National Programme for Rural Development and sectoral/local strategies becomes essential.

In the 2014-2020 period, a better coordination of projects aimed at infrastructure, transport, employment and social inclusion, rural population at regional/county level with sectoral strategies for investment in education and social infrastructure, and including the between different EU funds complementarity.

Starting with the greater emphasis on performance and results over the period 2014-2020, establishing a flexible framework (*simplified cost option*) allowing a greater degree of targets achievement and a higher absorption rate is crucially important. As concerns possible difficulties of beneficiaries to ensure all the financial resources (co-financing, non-eligible expenditures, working capital) a greater involvement of the banking sector and/or the public budget is expected in order to sustain their completion.

Although the Ministry of European Funds took the decision to comply with the *ex ante* evaluation as an independent method to improve the consistency and quality of the Partnership Agreement, until its publication (March 2014 Official Version), the group of external evaluators will share the results more likely to the end of this year. The same for the *ex ante* evaluation of Operational Programs (Large Infrastructure, Competitiveness, Human Capital, Administrative Capacity, Regional Operational Programme and Technical Assistance) which are still waiting for results from external evaluators.

The analysis of the main influence factors of the European funds absorption has highlighted the importance of depoliticize the public administration, restoring the professionalism of institutions' staff, including the MAs, reducing bureaucracy and simplifying the procedures for European funds accessing, increasing the transparency and restoring the confidence among the various levels of central and local governments.

## 6. Concluding remarks

The absorption rate of structural and cohesion funds allocated to Romania in 2007-2013, calculated as a ratio of EU reimbursements to EU allocations, stood at a low level compared both to authorities' and people's expectations and to the other Member States, including from Central and Eastern Europe.

Among the causes manifested at the Management Authorities level, the study identified as having a major impact on the absorption capacity specific on different stages of accession; non-observance of the civil servants legislation and staff fluctuation; non-stimulating wages; ineffective technical assistance; unclear provisions of guidelines, standards, methodologies; lack of coordination and correlation between the Operational Programs; excessive bureaucracy; failure in pursuing the objectives sustainability; malfunction of *ex ante* and *ex post* financial monitoring system. To these were added irregularities discovered in the process of funds accessing, leading to temporary suspension or to total or partial pre-suspension of Operational Programs, by the European Commission.

As for beneficiaries, the study has revealed a number of causes explaining the low degree of SCF absorption in Romania in the stages of preparation, submission, contracting and implementation: weak expertise in drawing up projects; adverse effect of measures to reduce bureaucracy; slowness of decision-making process of local government beneficiaries; improper conduct related to public procurement procedures; overvaluation of project financing and implementation capacity by many beneficiaries; the limited capacity of management of works/services within projects and the lack of clauses in terms of complying with quality and timetable requirements.

The SCF absorption capacity has been negatively affected by factors from outside the system, mainly the different ways of legislation application and interpretation, particularly the public procurement, and the extension of global crisis effects, especially the financial situation deterioration of project beneficiaries, including the public local authorities, under the low involvement of the banking system in covering the financial shortages.

In value terms, Romania received reimbursements related to SCF from the EU budget amounting to 5.1 billion EUR over the period 2007-2013. The impact of these funds on the economy was not significant, representing only 0.5% of the GDP over the period and about 2% of the gross fixed capital formation. The evaluation of the SCF impact by different authors using macroeconomic models and simulations have proved totally unrealistic, if considering only the cumulative additional GDP growth between 13% and 37% estimated in scenarios with European funds.

Our analysis of the SCF impact in terms of macroeconomic indicators as well as result variables compared to the effort ones have revealed a deterioration of most of them, especially in terms of the internal and external indebtedness. The small size of the European funds allocated to Romania and the low degree of absorption did not substantially diminish the economy vulnerabilities or the increase in financing gap.

The net beneficiary position of Romania related to the EU budget, identified in the study by two methodological approaches, i.e. totally and corresponding to the SCF, showed an order of its magnitude insignificant in both versions, both in relation to GDP and the GFCF, respectively.

Although the convergence process in the period 2007-2013 saw a favourable trend in all 8 NUTS 2 regions, two indicators that reflect the core of EU Cohesion Policy, namely the GDP per capita in PPS and the risk of poverty, revealed increasing interregional disparities compared to the more developed region, Bucharest-Ilfov.

For the programming period 2014-2020, the EU Cohesion Policy has a new vision, being result-oriented, in order to achieve a greater impact in terms of economic growth and job creation, under the context of Europe 2020 Strategy. The new approach, which renamed the financial instruments as European Structural and Investment Funds (ESIF) is characterized by a reform in 10 points, including: adapting the level of regions' support to their level of development together with the co-financing from national budgets; a better coordination between EU policies and ESI funds and avoiding overlapping based on the Common Strategic Framework; introduction of *ex ante* conditionalities; reducing bureaucracy and simplifying procedures; setting uniform rules for all ESI funds.

According to ESI fund allocations by country, Romania will receive EU grants amounting to 23 billion EUR in 2014-2020. The level of about 1150 EUR per capita remains marginal compared to most other countries in Central and Eastern Europe and less than the financial needs of Romania in order to accelerate the convergence process.

From the lessons learned in the previous period, in order to increase the absorption rate and effectiveness of ESI funds in the financial exercise 2014-2020, we believe that the key recovery solutions can be divided into two categories:

## I. Theoretical and Methodological Aspects

Clarifying some theoretical and methodological aspects regarding the most appropriate tools for assessing the ESI funds contribution to the convergence process and sustainable development, also by considering spill over effects in time and space, emerges as a priority. Given the divergence of views and/or evaluations of various authors in the literature, the importance of this issue justifies the setting of an European Commission own methodology, with a uniform application and comparable results for all Member States.

In order to have a more comprehensive assessment, able to capture the gap size and to reveal the real path of the Member States' convergence and the EU Cohesion Policy end, an inter- and trans-disciplinary approach proves to be necessary to assess the ESI fund impact, which, by its complexity, is affecting basically all socio-economic activities and sectors.

The various dimensions of the Member States' real economy and the fact that countries with different development levels benefit in varying degrees from the integration advantages cause an asymmetry of the significance and importance of intra-EU economic relations at the level of individual countries as well as at the regional one. Therefore, as for the ESI funds, the EU authorities are in a position to decide on the acceptance of continuing the current general trends (the central regions, with a higher degree of development, receive also higher absorption rates) or, as expected, on adopting a set of policies/measures for prioritizing the allocation of funds to peripheral regions, less developed, lacking the support structures for increasing the absorption rates.

The increasing socio-economic and financial interdependences between EU Member States and the context of intra-EU complementarities depletion (mainly in trade and capital flows) should be considered as an asset by converting them into a factor of strengthening relations with extra-EU countries, under the requirements and needs of capitalizing the opportunities created by globalization.

In order to improve the functionality of the management and fund accessing system, of a particularly importance is the setting up of effectiveness thresholds tailored by country, at the level of Operational Programs, priority axes, intervention areas, based on a coherent system of indicators.

In this context, the clarification of theoretical and methodological elements of the economic, social and environmental efficiency, the drawing-up of projects based on feasibility studies and the adequacy of discount rates size used at the level of investment project to the specific of business related to Operational Programs are equally of major importance.

The Partnership Agreement with EU does not represent the sovereign attribute of the government and the ESI funds management should not be part of the exclusive competences of MAs. In our opinion, the social dialogue and the involvement of social partners could contribute to the accession of ESI funds closer to real development needs of Romania, increasing also their macroeconomic and social impact.

## II. Practical Aspects

The lessons of the financial crisis according to the expectations of Romania that the EU membership would ensure a safety belt have revealed a discrepancy compared to realities, i.e. between the advantages of integration and the crisis effects, among which, in quantitative terms and time duration, the economic decline and the deterioration of social parameters prevail. Regardless of the potential positive impact of ESI funds, the importance of creating a national system of resilience to external shocks, adapted to the benefits of EU membership became clear for Romania.

The 2007-2013 National Strategic Reference Framework related to SCF programming, set in 2006, has provided figures which were significantly invalidated later by the real economy developments, especially under the impact of the crisis triggered in 2008, without operating the necessary corrections. Therefore, the objectives, priorities and actions based on the EU Common Strategic Framework and set out in the Partnership Agreement for the programming period 2014-2020 requires at least an annual updating to take into account the major changes that may occur, focusing mainly on revising quantitative estimates.

The large share of rejected projects, of about 40%, is meaning a waste of time, human and material resources to beneficiaries. This could be a factor of weak participation in fund accessing for the current period. At the same time it shouldn't be neglected the importance of the rejected projects portfolio that could be used for increasing the absorption rate in the future.

Decoupling the European funds accessing process from the electoral cycles, could be a favourable factor for economic and social positive impact of ESI funds. The subjective political intervention promoting narrow personal or group interests in the field of Operational Programs implementation proved itself a counterproductive and ineffective factor for a better SCF absorption. That is why we consider that warning and fighting against this type of behaviour remain a challenge of crucial importance for Romania's success in accessing EU financial assistance.

The increase in ESI funds absorption and in their effectiveness during the current financial exercise depends on the outlining a clear long term vision which underpins the elaboration of a National strategy for sustainable development of Romania in line with interconnected sectoral strategies and consistent with Europe 2020, including also a contingency plan. Under these circumstances, in order to achieve the critical mass suitable for unleashing the development potential, the prioritization of priorities is needed, based, among other, on *ex ante* conditionalities: smart specialization, digital growth, state aids and public procurement, NGN infrastructure, entrepreneurship promotion, business creation, energy efficiency, risk prevention and risk management, active labour market, active ageing, youth employment, poverty reduction.

In order to increase the ESI funds absorption and the efficiency of their implementation, a stronger foundation of project proposals in terms of their impact assessment on regional/national level, but also through a comparative analysis of effects at the EU level is needed.

Given the significant recovery in 2013 of the situation of European funds absorption, continued in the first months of this year (the absorption rate reach 33.8% at end-March 2014 (Ministry of European Funds, 2014b), the prospects of the 2014-2020 financial exercise seem favourable for Romania, the expectations of a major contribution of ESI funds to reducing disparities and improving macroeconomic and efficiency parameters, having an increased proportion of realism.

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