

## **A CRITICAL APPROACH OF THE EUROPEAN FUNDS ABSORPTION FOR THE 2007-2013 PROGRAMMING PERIOD: CASE STUDY - REGIONAL OPERATIONAL PROGRAMME OF ROMANIA**

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**Abstract:** *For Romania, 2015 represents the year in which new programming documents are enacted, among which the Regional Operational Programme is the one that focusses on the harmonious development of the regions in terms of GDP/inhabitant and number of new jobs created. During the 2007-2013 period, 19% of the total EU contribution of EUR 19,667 million were allocated for this programme and about a third of the total allocation for 2014-2020 is provided for it. This shows that regional development was and is still considered one of the main objectives, after the improvement of the transport and environment infrastructure. In this context, the authors analyse, in a comparative manner, the results obtained on each axis and by each region during the 2007-2015 time-span, through the projects financed under the Regional Operational Programme 2007-2013 of Romania, trying to identify the main problems and bottlenecks and the way they were dealt with during these years, as well as the changes envisaged for the new ROP 2014-2020. For this analysis the monitoring and the evaluation reports were taken into consideration.*

**Keywords:** regional operational programme; regional development policy; European Regional Development Fund

**JEL Classification:** O18; R58

### **Introduction**

Regional economic development is influenced and depends on the quality of transport, health, educational and social infrastructure and services, which have a positive effect on a region's attractiveness, by increasing its accessibility, the health of the population, the qualification level and the participation in the labour market. The presence of business support structures is also an important factor for the attractiveness of a region, stimulating the regional and local business environment and promoting it as a good location for investment in economic, social and cultural activities.

The regional policy of the European Union (EU) aims at reducing the structural disparities among the EU regions, by promoting a balanced development at EU level and equal opportunities for all its inhabitants. The objectives of the regional policy are based on solidarity, economic and social cohesion and are put into practice through a series of financing operations, funded by structural and cohesion funds. This policy is the second largest receiver of EU budget. The allocated budget for

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economic, social and territorial cohesion is 325 bn. Euros (2011 prices) for 2014-2020, a little less than it was for 2007-2013 (355 bn. Euros, 2011 prices)<sup>1</sup>.

The Regional Operational Programme (ROP) for the 2007-2013 programming period was the main instrument that Romania used in order to reach the objectives set in the National Development Plan and the regional development policy. It was intended to solve the development problems identified in the National Strategy for Regional Development and all 8 development regions (NUTS 2) of Romania<sup>2</sup> could access this programme. Between 2007 and 2013, 19% of the total EU contribution of EUR 19,667 million were allocated for this programme and about a third of the total allocation for 2014-2020 is provided for it. This shows that regional development was and is still considered one of the main objectives, after improvement of the transport and environment infrastructure.

The strategic objective of the programme was to support an equally balanced economic, social and territorial growth of all parts of the country, in accordance with their specific needs and resources. ROP's purpose was to ensure that all areas have a minimum level of business, social and human capital infrastructure to allow growth to take place. The Managing Authority (MA) for the ROP was the Ministry of Development, Public Works and Housing (at present the Ministry of Regional Development and Public Administration) and there were 8 Intermediate Bodies designated one for each region, within the Regional Development Agencies (RDAs). The ROP was financed by national and local budgets, private sources and co-financed, up to 85% of the total public expenditure, by the European Regional Development Fund (ERDF). Indicative financial allocations were made at regional level based on their development level measured through GDP/capita and population density. Less developed regions proportionally received higher amounts of financial allocation.

### **1. Implementation stage of ROP 2007-2013**

The programme proposes an integrated approach by combining investments in local infrastructure with active policies for business stimulation and support of the local resources capitalization. ROP could be seen as a sectoral programme without regional specificity. The difference between the 8 development regions was determined by the financial allocation as mentioned before (higher allocations for poorer regions, with North-Est region having the highest allocation – 16%, and Bucharest-Ilfov region the smallest - 9%).

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<sup>1</sup> According to the information available on DG Budget's website: [http://ec.europa.eu/budget/mff/figures/index\\_en.cfm](http://ec.europa.eu/budget/mff/figures/index_en.cfm)

<sup>2</sup> Established by Regional Development Law no. 151/1998, which was later amended by Law no.315/2004.

According to the Regional Operational Programme document (October 2013), the programme was structured on six priority axes and 15 key intervention areas and was used to finance projects that had in view the support of urban poles, rehabilitation and modernisation of local transport infrastructure, education, health and social care infrastructure, strengthening the business support structures, creation of micro-companies, valorisation of the local tourism, cultural and natural patrimony through the development of tourism infrastructure and related entrepreneurial initiatives.

The objective of the first axis was to increase the quality of life and to create new jobs in cities and their surrounding areas. This objective should have been reached by supporting investments in the rehabilitation of the urban infrastructure, the improvement of services (including social services), and the development of business support structures and entrepreneurship.

Axis 2 had as objective the increase in the accessibility of the regions and the mobility of population, goods and services in order to foster the economic development of the regions. This axis supported investments in the rehabilitation and modernization of the county roads and urban streets network (including ring roads) in order to ensure fluent urban traffic, reduce journey time, eliminate bottlenecks and ensure safe crossing of localities.

The objective of axis 3 was to create the premises for better access of the population to essential services. This was to be done by supporting the rehabilitation / modernization / equipping of the health services' infrastructure, of social services infrastructure, of pre-university, university education and continuous vocational training infrastructure and the improvement of the equipment of the operational units for public safety interventions in emergency situations.

Axis 4's objective envisaged to facilitate the creation of jobs and sustainable economic growth by supporting a friendly entrepreneurship climate in the local communities. There were more types of interventions supported, in order to achieve this objective, such as: creation and development of business support structures of regional and local importance, rehabilitation of the industrial sites, stimulating and assisting new and existing entrepreneurial initiatives (micro-enterprises) at local and regional level.

Axis 5 aimed to capitalize and promote the cultural heritage and natural resources with tourism potential in a sustainable manner and to improve the quality of accommodation and leisure infrastructure. This objective could have been reached by supporting the restoration and valorisation of cultural heritage and related infrastructure, the creation / development / modernization of the tourism infrastructure and the promotion of tourism potential (tourism brand) and setting-up of the needed infrastructure (tourism information and promotion centers).

The Technical assistance axis is aimed at providing support for transparent and efficient implementation of the programme, the effective use of the funds and a high quality and coherence of actions. The objective was meant to be reached by supporting the implementation, management and evaluation of the ROP and the publicity and information activities.

The ROP for the 2014-2020 programming period (draft) proposes 12 priority axes, but at the level of intervention areas there are many resemblances with the ROP 2007-2013. ROP maintains its integrated approach offering support for investments directed to improvement of the economic environment (axes 1 and 2 which were transferred to ROP from Increased Economic Competitiveness SOP), environment protection and climate change (axis 3), sustainable urban development (axis 4, but this time the beneficiaries are all county capital cities, except for Bucharest and Tulcea), protection and capitalization of cultural patrimony (axis 5), improvement of the regional transport infrastructure (axis 6), tourism development (axis 7), development of health, social and educational infrastructures (axes 8 and 10), economic and social regeneration of disadvantaged communities (axis 9, new integrated approach to local development) and extension of the geographical system of property registration in cadastre and land registry (axis 11, new).

19.68 billion Euros have been allocated to Romania through structural and cohesion funds for the 2007-2013 period, representing approximately 892 euro/inhabitant and 2.3 % of PIB. For ROP there have been 4.66 billion Euros allocated, out of which 3.96 billion Euros represented the European co-financing. 15% was represented by the national financing. The highest amount was allocated for supporting sustainable development of cities (30%), followed by supporting the local and regional transport infrastructure (20%). Smaller amounts were allocated for social infrastructure and tourism. Approximately 3% of the funds were destined for technical assistance. The annual distribution shows an increasing trend with higher amounts towards the end of the period.

Until the end of February 2015<sup>3</sup>, 4,630 projects have been contracted, with a total value of 32.78 billion RON, out of which 20.33 billion RON from European Regional Development Fund (over 60%), 3.12 billion RON from the national budget and 2.51 billion RON own contribution. The rest of the sum (20%) represented ineligible expenditure.

There is a high level of application for the allocated funds (approximately 200%) in all 8 regions a fact that underlines the high needs of the regions for improved infrastructure supported by ROP. The contracted rate represented approximately 115% of the allocated funds with higher levels for urban centres and road, health and social care infrastructures.

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<sup>3</sup> List of contracted projects, 28<sup>th</sup> of February 2015.

The total number of projects submitted by beneficiaries was 10,070 (22% of the total projects submitted through the 7 operational programmes<sup>4</sup>), but only 5,142 have been approved and 46% were contracted. The current absorption rate<sup>5</sup> was 58.57%, the second highest, after ACD OP (77.54%). At a national level, the current absorption rate was 52.59%. This rate registered an important increase in the last years, due to the measures taken by the MA regarding the simplification of the procedure, the acceleration of the processing process of the reimbursement applications, the introduction of the system of payment application for beneficiaries and the assurance of payment reserves through loans from Treasury and also due to the changes made in the ROP's financial plan after the transfers from TSOP and ESOP<sup>6</sup>.

Taking into consideration the number of projects submitted, the ROP was the third one after IEC SOP and HRD SOP. The high popularity of the programme could be attributed to the information and publicity measures and to the fact that the ROP's objectives responded to the real needs of the regions and of the potential beneficiaries.

In what concerns the number of contracted projects, one can notice that 30% were contracted on ROP, overrun only by IEC SOP, with 5,557 contracted projects. But the contracted rate was higher for ROP than for IEC SOP (46%, respectively 32% of the total submitted projects).

If one looks at the ERDF sums contracted, one can observe that 22% of the total was contracted through the projects submitted on ROP. The only programme that reached a higher contracted amount was ESOP.

### ***1.1. Analysis on priority axes of ROP***

The highest interest of the beneficiaries was in regional and local transport infrastructure, showed by the highest value of requested funds recorded by axis 2 (three times higher than the allocated funds), which was followed by axis 1. *Support to sustainable development of urban growth poles*, for which the highest interest was also in urban infrastructure, mostly transport infrastructure.

Axis 2. *Improvement of regional and local transport infrastructure* registered the highest level of internal payments and reimbursement from the European Commission. Axes 4 and 5 are the ones

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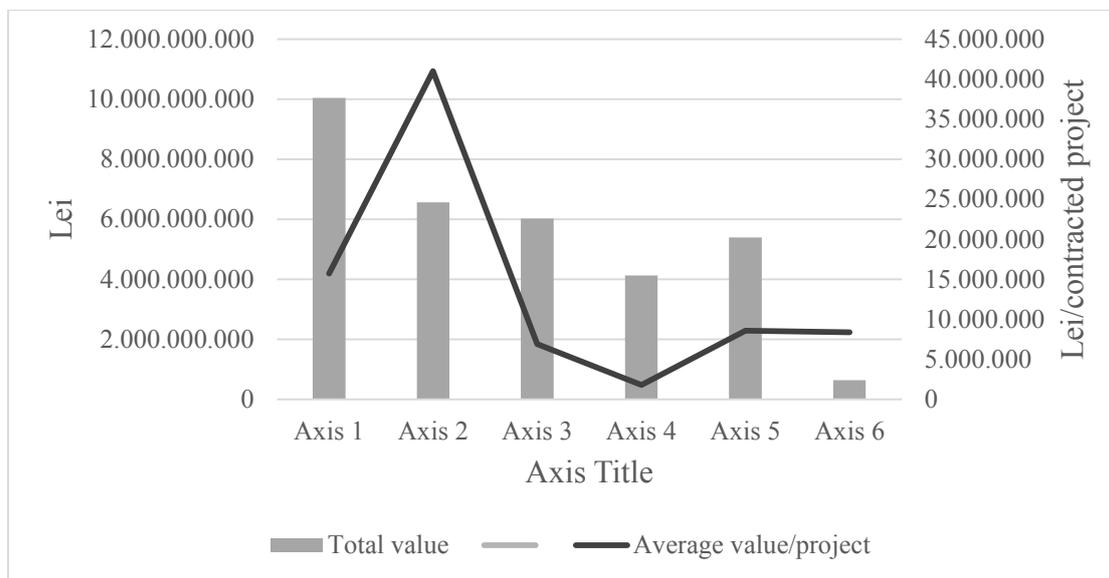
<sup>4</sup> Regional Operational Programme, Environment Sectoral Operational Programme (ESOP), Transport Sectoral Operational Programme (TSOP), Increasing Economic Competitiveness Sectoral Operational Programme (IEC SOP), Human Resources Development Sectoral Operational Programme (HRD SOP), Administrative Capacity Development Operational Programme (ACD OP) and Technical Assistance Operational Programme (TA OP)

<sup>5</sup> Calculated by the Ministry of European Funds as the amount of expenditure transmitted to the European Commission out of the total amount

<sup>6</sup> According to Updated Interim evaluation of the ROP 2007-2013, April 2014

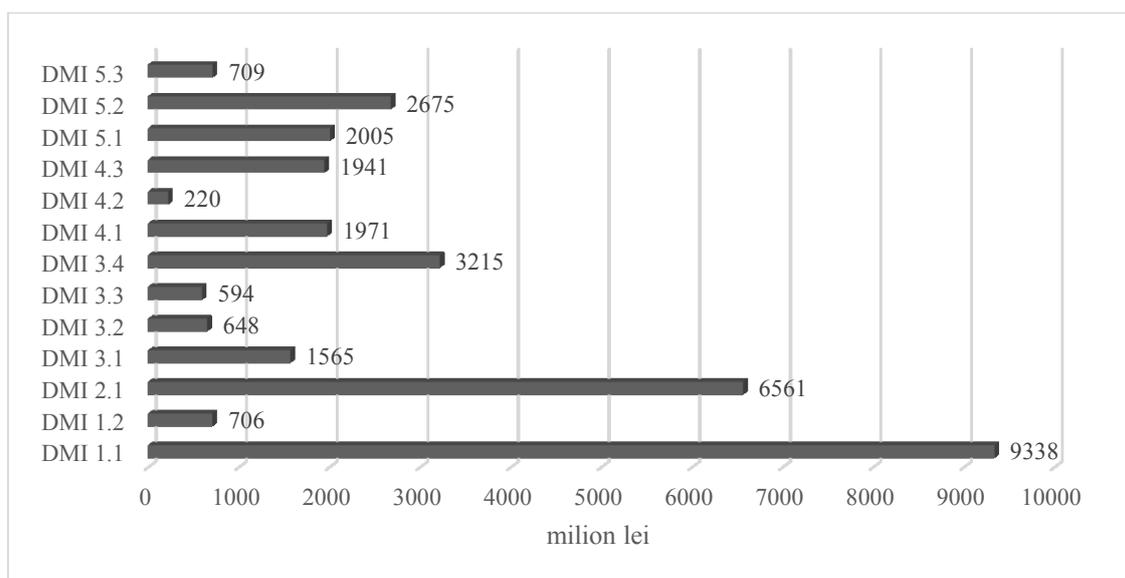
that contracted lower values than the allocated funds. Two key intervention areas covered almost half of the total contracted funds: 1.1 Integrated urban development plans and 2.1 Improvement of regional and local infrastructure.

**Figure 1 - Value of contracted projects by priority axis of ROP**



Source: Own calculation based on the List of contracted projects, 28<sup>th</sup> of February 2015, MA for ROP

The highest number of contracts were signed within axis 4. *Strengthening the regional and local business environment* (2.259 projects, representing 49% of the total projects contracted on ROP). This shows a high interest of the private beneficiaries in receiving funding for investments in business development and increased competitiveness on the domestic and international markets. Within axis 2, only 160 projects were contracted (3.5% of the total contracted projects), but this is due to the fact that these projects are big infrastructure projects, with high values. However the situation is inverted when looking at the average value per contracted project: projects funded by axis 2 registered an average value of 41 million RON/project, in comparison with only 1.8 million RON /project in the case of axis 4. A high average value was also registered for the projects financed under axis 1, especially due to the complex projects in urban infrastructure. The average value per contracted project within axis 3 and 4 are lower than the average value per project registered at programme level (7 million RON /project).

**Figure 2 - Value of contracted projects on key intervention areas**

Source: Own calculation based on the List of contracted projects, 28<sup>th</sup> of February 2015, MA for ROP

Analyzing the value of the projects contracted on each key intervention area, one can observe that the largest values were registered by the projects contracted within key intervention areas 1.1 Integrated urban development plans (9.3 billion RON) and 2.1. Rehabilitation and modernization of the county roads and urban streets network (6.5 billion RON). Looking at the value registered by the projects contracted on the other three axes (except technical assistance), one can notice that higher values were registered by the projects contracted on the key intervention areas 3.4 Rehabilitation, modernization, development and equipping of pre-university, university education and continuous vocational training infrastructure, 4.1 Development of sustainable business support structures of regional and local importance, and 5.2 Creation, development, modernization of the tourism infrastructure for sustainable valorisation of natural resources and for increasing the quality of tourism services. The lowest value of attracted funds was in the case of the projects financed within key intervention area 4.2 Rehabilitation of unused polluted industrial sites and preparation of new activities. This is due to the fact that this type of intervention was not considered attractive by potential beneficiaries. There were contracted only 6 projects in Centre and West regions.

The key intervention areas that proved to be most attractive for beneficiaries, as shown by the high number of projects that were contracted are 4.3 (with 2,169 projects), 1.1 (with 526 projects), 3.4 (with 525 projects). This shows that micro-enterprises were interested in increasing their competitiveness and public administrations were interested in improving urban environment especially through investments in urban infrastructure and in improving education infrastructure.

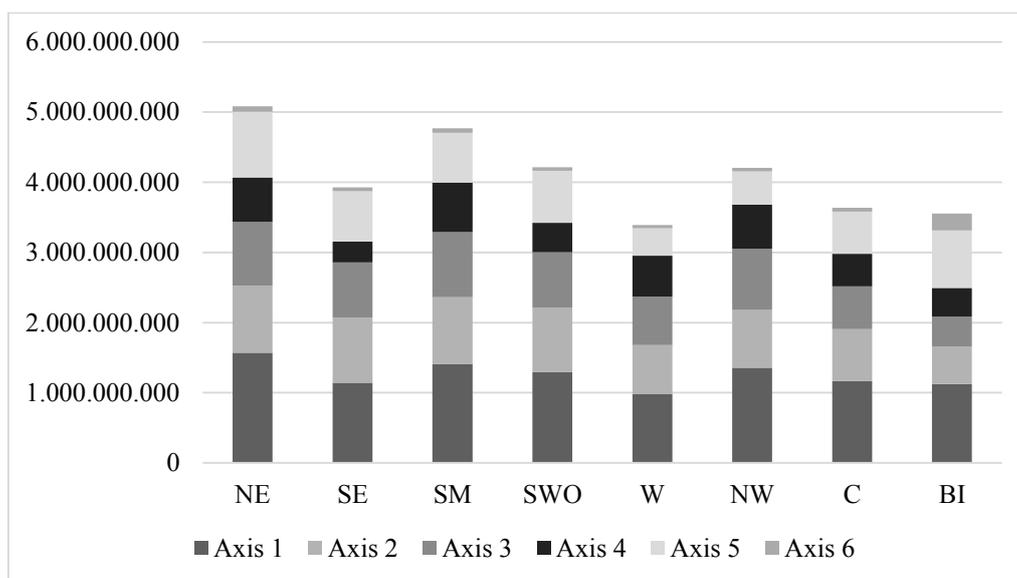
These investments have important contribution to both the quality of life of the inhabitants and the economic development of communities, generating new jobs or maintain the existing ones.

### *1.2. Territorial analysis*

In the last two years there has been an important increase in the contracted rate for growth poles, which registered a low level in the previous years due to late launch of the call for projects and the complexity of the integrated plans necessary for these poles. The cities that registered the highest contracted funds were Bucharest, Iasi, Craiova, Cluj-Napoca, Timisoara, Ploiesti, Braila, Targoviste, Brasov, Oradea, Constanta, Pitesti, Alba Iulia and Piatra Neamt, all of them with over 50 million EUR contracted.

The North-East region contracted projects with the highest values, reaching 5 billion RON. This region is also on the first place taking into consideration the value of the contracted projects on axis 1, axis 2 and 5, a fact that is justified on the one hand by its low development level and the high needs that it had in what concerns infrastructure (axis 1 and 2) and on the other hand by the high potential it has in what concerns tourism (axis 5). At the other end of the regional hierarchy, based on the total value of the contracted projects, stands the West region with only 3.3 billion RON, but this region is at the top when it comes to average value per contracted projects with 8.1 million RON /project (lowest number of contracted projects, only 414), over ranked only by Bucharest-Ilfov region with 8.5 million RON /project. South-Muntenia and North-West regions registered the highest number of contracted projects. South-Muntenia region was on the first place from both value and number of contracted projects within axes 3 and 4. In North-West region was recorded the lowest average value per contracted project.

**Figure 3 - Territorial distribution of the contracted funds on priority axes of ROP (lei)**



Source: Own calculation based on the List of contracted projects, 28<sup>th</sup> of February 2015, MA for ROP

Taking into consideration the number of contracted project, one can notice that North-East, South-Muntenia and Center regions showed more interest in developing tourism infrastructure than in urban development. As opposed to the other regions, West and North-West regions contracted more funds for strengthening business environment than for tourism infrastructure.

At the end of 2013<sup>7</sup>, North-East, Center and South-East regions were the ones that, registered the highest proportion of finished projects from the total contracted (around 30%) and Bucharest-Ilfov region only finished 10% of the projects it had contracted. The rest of the regions finished about one quarter of the projects.

## 2. Main problems encountered during the implementation of the programme

According to the Implementing Annual Report 2013, the level of achievement of the ROP targets through finished projects was high for the number of rehabilitated/modernized urban infrastructure and the number of inhabitants benefiting from this, number of rehabilitated km of county roads, number of people that benefit from improved health, educational and social care infrastructure, and number of supported micro-enterprises and jobs created in micro-enterprises. On the other hand, there are low levels of achievement in what concerns the number of rehabilitated/modernized health, educational and social care infrastructure, km of rehabilitated urban

<sup>7</sup> ROP Implementation Annual Report 2013

streets, number of projects regarding energy efficiency, urban business infrastructure, cultural heritage and tourism infrastructure and promotion.

The payment rate was low and holds back the implementation of the projects, having a negative impact on the level of achievement of all projects' specific indicators. The low level of payments could be explained by the reduced capacity of covering the necessary amounts that should be reimbursed to the beneficiaries. Small rates were also registered for approval and contraction which led to delays in the programme's implementation and funds absorption.

In the last years, the Audit authority identified errors related to the SMIS (Single Information Management System) such as: incorrect registration of the debits of the projects for which expenses have been declared to the European Commission; related to elaboration and evaluation process such as: insufficient verification in what concerns the conflict of interest for private beneficiaries; lack of coherence, at projects' level, between physical and financial indicators; related to public procurement, such as: unequal treatment for the bidders; the winning bidder didn't satisfy the minimum requests for qualification and selection; restrictive requests in the tender documentation in what concerns the qualification criteria; and related to the implementation stage, such as: unjustified increase of the initial value of the contract by using additional acts to the contract.

Problems could be grouped into more categories, taking into consideration different stages in the preparation and implementation of a project. Thus problematic issues were connected to the elaboration of the project and of the requested financial documentation and the launching and implementation of the calls for application (which were more frequent at the beginning of the programming period); project evaluation and contracting, project implementation and institutional capacity of the beneficiaries and of the financing authorities (which are still an issue).

Specific problems have been encountered for certain priority axes of the ROP:

- for axis 1 there have been important delays in the implementation plan of some individual projects financed within growth poles' integrated urban development plans which led to a low level of reimbursement; and some beneficiaries had difficulties in elaborating large enough grant applications, for more blocks of flats, in order for the project's value to meet the requirements;
- lack of correlation between interventions financed through ROP and interventions financed within other programmes, for example the frequent overlapping of the road infrastructure rehabilitation projects financed by ROP and creation/rehabilitation of the water and waste water networks projects financed by ESOP;

- in the case of axis 3, a lack of funds for financing reserve projects for health and education infrastructure was noticed, but the problem was solved by reallocating funds from ESOP and TSOP; different NGOs complained about the quality of the services offered by the rehabilitated/modernized social centers which led to reviews and improvement of the verification and monitoring activities; and restrictive eligible expenses that didn't cover the needs in the field of emergency interventions;
- axis 4 registered a high level of contract termination requested by the beneficiaries;
- for axis 5, there was a sub-contracting risk of the funds registered as savings or coming from terminated projects in the field of tourism infrastructure; and low level of contracted projects in what concerns the creation of national centers for touristic information and promotion, but reallocations among regions and key intervention areas have been done.

In the implementation stage there were some problems connected to: delays in the contracting phase due to the lack of evaluators or delays in the public procurement of the design services; difficulties for the private beneficiaries in assuring the necessary cash-flows for the implementation of the projects; difficulties for the public beneficiaries in fulfilling the target regarding the jobs created; underestimation of the resources needed for project implementation (in terms of time, people, money); multiple additional acts to the initial financing contract and the time taken for them to be approved and also multiple additional acts to the works contracts; heavy process in what concerns the verification and approval of the reimbursement applications.

Public procurement still represents an important blockage factor, generating big delays in the implementation process. Deficiencies in the public procurement process, fraud and conflict of interests generated the application of financial corrections and even pre-suspension of the programme. Some examples of problems generated by public procurement are: inadequate specifications due to the lack of good practice models or contract models and interpretable legislation led to many contestations which are time consuming; the use of some evaluation criteria such as execution time or price that led to the selection of low quality, unrealistic proposals; designers' obligation to offer technical assistance during the implementation of the works contract was not included in the design services contracts; lack of allocation of funding for contingency expenses.

### **Conclusions**

Regional policy is considered one of the most important policy at the EU level, a fact showed by the high amounts of money allocated from EU budget.

The quality of life in the regions is influenced by the level of available infrastructure and services. Good infrastructure is a vital factor for the location of people and companies, development of business environment and tourism.

The main instrument used by Romania in order to achieve the regional policy's objectives is the Regional Operational Programme. The specificity of this programme is given by the integrated approach it proposes. It is the only programme in Romania that supports investments not only in local infrastructure, but also in business stimulation, environment protection, social infrastructure (education, health, social care) and local resources capitalization (tourism).

Out of the 19.68 billion Euros that have been allocated to Romania for 2007-2013, 3.96 billion euros represented the sum from the European Regional Development Fund that was allocated for the implementation of ROP. The programme generated a high interest among beneficiaries, but the contracted projects represented under half of the total projects that were submitted

. The programme also registered a high absorption rate compared to the other operational programs of Romania. Around 50% of the ROP's budget was ment to support investments in sustainable urban development (axis 1) and local and regional transport infrastructure (axis 2). The projects contracted on these two axis brought the highest funds in the regions. Axis 4 and 5 are more problematic, because the value of contracted projects reported to the allocated funds remains low in comparison with the other axes. The more developed regions (eg. West, North-West) presented a higher interest in developing economic environment, while poorer (eg. North-East, South-Muntenia) regions focused more on transport and urban infrastructure and promotion of touristic potential.

It was noticed that for certain programme indicators such as: the number of rehabilitated/modernized health, educational and social care infrastructure, km of rehabilitated urban streets, number of projects regarding energy efficiency, urban business infrastructure, cultural heritage and tourism infrastructure and promotion, there is the possibility that the targets would not be reached.

Taking into consideration the projects that were finished at the end of 2013, the following results were obtained as mentioned in the ROP Implementation Annual Report (2013):

- 1,171 km of rehabilitated/modernized roads
- 111 km of rehabilitated streets
- 22 km of built ring roads
- 22 created/extended business support structures
- 2.036 jobs created in business support structures
- 1,358 supported micro-enterprises

- 6,404 jobs created in the supported micro-enterprises

The updated Interim Evaluation of the ROP presents an analysis of the efficiency and effectiveness in the use of funds contracted within the programme. Two main conclusions underline that the regional contribution to the programme's targets were not proportional with the allocated funds due to different effectiveness of the expenses. Some of the regions managed to reach the output or results indicators with lower costs than others. In general, the effectiveness of ROP is considered to be good. The contracted funds show that the targets set for the programme's indicators will be reached for most of the key intervention areas.

Although the absorption of EU funds is a priority for Romania, there are still many problems within this process. The main problems during the implementation phase are connected to low payment and reimbursement rates and public procurement process. However, during the time a series of measures have been taken in order to eliminate these problems.

The authors consider that many of the issues that appeared in all stages of the programme's implementation could be solved through a series of actions like: development of standard procedures for all operational programs, including only where is necessary, specific procedures and developing a manual which include standard models and even examples of best practice, reducing the number of justification documents, financial corrections should be charged directly from beneficiary and not from the project, so that attracted European funds are not lost; adoption of a law on public procurement; the design contract should include clauses through which the designer is charged if during the implementation of the works contract design errors or omissions are found; high penalties and even the prohibition, for a determined period, for those who execute fraud actions against EU projects; salary motivation, based on performance, for staff responsible in projects implementation (both in the institutions with coordinating role and managing European funds and also, potential beneficiary institutions of structural and cohesion funds); hiring qualified staff with experience in the implementation of projects financed by European funds, especially for those operational programs for which long delays in assessment or reimbursement are found.

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