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FACTORS THAT INFLUENCE THE LOW RATE OF STRUCTURAL FUNDS ABSORPTION IN ROMANIA

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Abstract: *In the Strategic report for 2010 concerning the application of the programmes for the period 2007 – 2013, it can be observed that Romania is situated on the penult place regarding the allocation of the amounts for the selected projects, with a percent of 14% comparing to the EU average of 27,1%. This low rate generates a series of questions: “why?”, “who is responsible?” This considerable gap is sustained by several internal and external factors, which block us from having encouraging results: **internal factors**, at the beneficiary’s level and **external factors**, at the level of the institutions responsible with supervising and implementing the projects.*

With this essay, by identifying the factors which influence the absorption rate of the Structural Funds in Romania, we intended to make a first step in solving this problem, which requires a special attention.

Keywords: Structural Funds, absorption rate, financial contribution, reimbursement request, Management Authority, Intermediary Organism

JEL Classification: F35, O52

It happened several times to have at disposal an important amount of money which we wanted to invest. The first thing that comes to our minds is: “What should we do with this money?” Some people would like to buy houses, others desire a car or even think about investing in professional performance. The important is the moment when we think about a real need, which we could satisfy with an available amount of money. If we consider the goal and not the existence of that money, then we take into account the circulation and the efficiency of that amount in assemble.

Similar to the facts presented above is the case of the Structural Funds. Most people consider the Structural Funds as a “money avalanche” and they forget the real reason of this opportunity.

Lately, lots of people, journalists, politicians, managers of small and medium enterprises, magistrates have been preoccupied so much by the Structural Funds absorption, that the real

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purpose of this money became a secondary interest. They all insist on the great opportunity that Romania has in accessing billions of Euros in a context characterized by economic and social gaps, poverty and catastrophic infrastructure.

The economic, financial and social situation of Romania should generate a high rate of Structural Funds absorption. But, unfortunately, we have a proportional relationship between the absorption rate and the economic development degree of our country. The worse gets Romania's situation, the lower will be the absorption rate.

The very low rate of Structural Funds absorption in Romania, of 12,41 %, after the first 3 years since the adherence, causes a series of questions: "Why is Romania situated on the penult place, followed by Greece, in absorbing Structural Funds? Which are the factors that accentuate this low rate? Why isn't there a good relationship and communication between the institution responsible of implementing the projects and the beneficiaries willing to help reducing the existing economic disparities?"

In order to understand who or what generates the low rate of Structural Funds absorption in Romania, we must analyse their positive and negative elements. The positive part consists in a great number of financing requests sent for approval by applicants – almost 15.000 projects presented during the last 3 years. The negative parts seems to be the winner, being represented by the effective payments and the number of contracts – only 2.200 projects have been contracted during 2007 – 2010, almost seven times less than the number of the presented projects and the values of these projects cover 55% of the allocated sums. If we talk about the sums paid effectively, they represent 10% of the allocated amounts.

This low percent is caused by several factors, such as: the difference between signing the contracts and the actual start of the projects, incorrect documents presented when reimbursing the expenses, a reduced number of persons specialised in checking the technical and financial aspects of the projects approved, very few monitoring visits at the beneficiary's office, the disregard of the financing contracts closed between the beneficiaries and the Management Authority.

In our opinion, there are two types of factors that influence the Structural Funds absorption in Romania: **internal factors** - related to the beneficiary - and **external factors** - related to the institutions, which monitor the implementation of the projects.

The internal factors, which contribute to a low rate of the Structural Funds, are emphasize in the two stages of the management cycle of a project: in writing the financing requests and in implementation.

The greatest disappointment appears when we acknowledge that the project has not been written to solve a problem, which could not be handled by the applicant by himself, with his own

funds. When the Management Authority observes that the applicant has the financial resources for satisfying the purpose and would not need irredeemable financing, the project is rejected.

When writing some projects, the needs of the target groups, the chosen means and the necessary resources are ignored. This factor can be exemplified by the attitude of a company manager who urgently needs to modernise some tools, but he prefers to write a project for chances equality at the working place. What is the reason why the manager does not consider the real need of the target group? Unfortunately, the evaluator does not know this situation and approves the project for respecting the chances equality at the working place, when the real need would be to buy/modernise the tools.

Another negative factor would be the partners' lack of involvement in writing the projects. They find out after the signing of the financing contract that they are partners and that they have to collaborate in reaching the indicators. Most of them, after signing the contract, they start to impose some conditions, they are discontent, they start threatening to leave the project and all these facts generate divergences and problems concerning the implementation of the project by the beneficiary. These revolts constitute a perturbing factor, which generates panic and stress for the beneficiary and blocks the optimal development of the activities planned when writing the project.

The lack of efficient communication with the institutions offering consultancy, during the writing phase, leads to rejection but also to approving some projects with wrong goals or irrelevant sections, which would require a lot of time and stress for correction. Unfortunately, there are no sanctions when offering such incorrect information, because most of them are communicated verbally, by phone. The institutions avoid offering information in writing, by email for instance, for a better protection.

Another factor, which is reminded often, is the fact that the potential beneficiaries don't know how to write projects. In our opinion, this affirmation is sustained by the institutions responsible with the informing and the publicity of these funds and it is not entirely true. But, from real cases, there are managers who have managed to write successful projects only after project management training. It is intolerable to continue saying that, after 3 years since the adherence, Romanian people don't know how to take advantage of the irredeemable financing. It is possible, indeed, that they wouldn't assume the responsibility in implementing the projects, if they start from the premise that the writing of a project is followed by the easy part. Totally wrong! What had been written into the project must be accomplished exactly with responsibility and correctitude.

In the category of internal factors we could include also the beneficiary's attitude, from the moment he signed the financing contract with the Management Authority. Some are scared, others have exaggerated when writing the projects, knowing the fact that if they impress, their project will be approved for sure and this is reflected in a negative manner when implementing.

If you are just a little nervous when writing the project, at the implementing phase you will experience some sensations never known before. But all these are caused by the beneficiary's attitude and by the institutions that manage the survey of the contracts in progress as well. The most obvious mistake, which leads to making the implementation difficult, is the fact that the beneficiary and the management team do not know, do not read carefully the financing contract. This makes the work harder for the implementing team and for the Intermediary Organism as well, the last one has always the task to remind the first ones what is written into the contract.

Some applicants discover the mistakes they made during the writing only at the implementation stage. A relevant example would be taking some too pretentious commitments, the indications being impossible to achieve. And, in this case, they have to present some pertinent arguments before the Intermediary Organism, for justifying the impossibility of reaching the target group and the planned indicators.

The most important factor, which contributes to the low absorption rate, is represented by the applicant's own financial contribution. In time, this became a real burden for the beneficiary and there were cases in which he/she was forced to cancel the financing contract with the Management Authority. Lots of voices ask how is it possible to get here if we are talking about irredeemable financing. The explanation is simple. For the majority of projects, beside his own contribution, the beneficiary has to own funds for developing the activities, until the eligible expenses will be reimbursed. Until this point things seem simple, but the problem starts when sending the reimbursement requests, when the money arrive effectively to the beneficiary after several months.

As an internal factor we will remind the negligence and the impassibility manifested by the beneficiary. The necessary documentation for the reimbursement requests is incomplete, has mistakes or does not follow the rules imposed by the Intermediary Organism. This way, the applicant receives letters asking for clarification and the date for sending the reimbursement request is delayed. If the Management Authority is obliged by contract, to reimburse the expenses in 45 days, this date is NEVER respected. From that moment, the beneficiary discovers that he does not have in his own safe the necessary funds to continue the project and he has to turn to loans (for which the rate of interest is not an eligible expense) or he is forced to give up the project. One case like this is enough and if the news is spread it generates an atmosphere of fear and doubt concerning the irredeemable financing.

The **external factors** that influence the absorption rate appear in all the stages of the project management but especially during the selection and implementing phases.

During the selection phase, a serious problem, generated by the institutions delegated with this task, is the time gap between the moment of presenting the financing request and the selection result. This mistake should be assumed by the institutions, because they should verify if the project

could still be developed or not, if the applicant has kept his technical and management capacity to run it. Maybe during this period modifications had occurred, people had been dismissed, the management team had changed, or even the idea that generated the project is no longer a necessity. This factor affects the ones who determinate it as well. All the modifications indicated above must be declared, with justifying documents, tones of paper consumed for nothing, making the work of the Intermediary Organism even more difficult.

The Management Authority/The Intermediary Organism justifies this delay by the reduced number of staff inside these institutions. They claim that they have a lot of unoccupied or inactive jobs because of the low salary. They have a fixed norm and don't get paid according to the performance or the number of projects approved so it is not in their interest to make things work better. It is curious that we want as many projects approved as possible, but the institutions assigned with their supervision complain about the too big number of requests and the impossibility of answering to all the requests. And, in this context, it has been decided that the Intermediary Organism should take over some of the attributions of the Management Authority. But the positive effects are delayed.

Another factor is represented by the lack of a strategic plan at the institutional level. The beneficiaries observe permanently on the website of the institutions the appearance of new instructions, without them being informed previously. The majority of instructions only make the optimal development of the activities more difficult. For instance, the projects presented during the year 2009 had to follow the directives of the decree no. 3/185/2008 regarding the eligible expenses for POSDRU, but a new instruction presented by the decree 1117/2170/August 2010 has appeared regarding the eligible expenses inside POSDRU (published by the Official Monitor, Part I, nr. 596/23 August 2010) which is mandatory to be followed also by the beneficiaries who had established their budget according to the initial document. Indeed, the new decree brings many improvements, but the beneficiaries who had already decided the budget should not be obliged to modify the activities and the specific expenses as well. Though at the institutions level, the beneficiaries have addressed many complaints, they receive answers such as: if the new decree will not be respected, the eligible expenses will not be reimbursed.

Funny and not really funny is the situation when the beneficiary applies a new instruction and, after a week of work, another and totally different direction appears and he has to start everything all over again. From our point of view, we don't deserve this opportunity, this irredeemable financing, because the existing bureaucracy and the lack of interest place us where we belong: to the penult place, preferred by Romania, as it seems, for all the domains.

The beneficiary admits his mistakes and sends the corrected documents when he is asked for but in the moment when the responsible person for the reimbursement request answers that the

delay reason is a vacation and that it will take a while until he will receive the money, this only generates discouragement, stress and distress.

The idea of this essay was not to highlight only the negative part of the Structural Funds. These funds should be considered as a beneficial thing which is accorded to Romania for improving the economical, social and political situation. We wanted to prove that our country does not know how to take advantage from a “free of charge” opportunity. The lack of ambition, responsibility, honesty, trust, shows that Romania is not exactly that “land of choice” as some consider.

We all know how to express on paper what we don't have, our real needs, we know how to read a contract, an instruction, a clarification letter, we know the laws concerning the public purchase, the decree regarding the eligible expenses, but we are not able to apply all our knowledge with correctitude and seriousness. We should not complain about having one of the lowest rates of Structural Funds absorption rate, we should be glad that the mediocre amount that had been offered to us so far has not been retracted by the European Union.