

Assessing the Impact of European Funds Absorption in Romania in the Context of Financial Stability

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Abstract

The impact of the absorption of European funds in Romania, in the context of financial stability, is a complex subject, approached with the aim of balancing the associated benefits and risks. Absorption of funds contributes to economic growth, infrastructure development and job creation, supporting the private sector and innovation. However, administrative difficulties and the need to comply with EU rules pose risks. Transparent and efficient management is essential to prevent corruption. Overall, absorption of EU funds can strengthen national budgets and reduce regional disparities. It is crucial that Romania adapts to European requirements and manages funds responsibly to maximize the positive impact on the country's financial stability. The overall objective is to analyze the impact of these funds on economic growth, infrastructure, and the reduction of regional disparities. The aim of the research is to assess how the absorption of European funds influences financial stability in the context of compliance with EU standards and to propose directions for efficient and transparent management.

Key words: investments, sustainable finance, European funds

J.E.L. classification: G3, G4

1. Introduction

When evaluating the absorption capacity, it is essential to discern two primary facets: absorption capacity within the institutional framework of the state, responsible for fund management, and absorption capacity on the part of the ultimate beneficiaries. The latter pertains to the aptitude of potential recipients to formulate and fund projects. Nevertheless, appraising these attributes before the tangible execution of European programs often proves challenging, if not unfeasible.

On the institutional front, absorption capacity hinges on various factors. Firstly, macroeconomic capacity, gauged in relation to the gross domestic product (GDP), plays a pivotal role. The regulation also underscores the necessity to augment budgetary expenditures, particularly to fulfill commitments made during the European integration process. This augmentation encompasses the country's contribution to the EU budget and the funds required for co-financing initiatives supported by Community funds. The ability to absorb the macroeconomic repercussions of these additional expenditures is equally critical, impacting both aggregate demand and supply.

All these aspects are closely linked to nominal and real convergence. Nominal convergence refers to the stability of prices, interest rates and exchange rates, while real convergence aims at social and economic development and the reduction of the gap with the EU average. Assessing and managing these aspects is essential to ensure effective absorption of EU funds and to facilitate the convergence process.

The financial absorption capacity pertains to the competence of both central and local authorities to participate in co-financing programs and projects endorsed by the European Union. This encompasses the capability to strategically plan and secure internal contributions within multi-annual budgets, as well as efficiently gather these resources from the diverse stakeholders involved in each project or program.

The study analyses the sources of attracting European funds in the context of financial stability, covering mechanisms at the European Commission and the European Investment Bank. It explores the beneficiaries, sectors, and schemes for attracting funds, highlighting their contribution to financial sustainability.

The research also examines the amounts of European funds attracted by Romania until 2022, both from the European Commission and the European Investment Bank. The analysis provides details of the amounts and number of projects, highlighting their impact on economic development and sectoral structure.

Specific projects funded by the European Commission and the European Investment Bank are also analyzed, focusing on their impact on the economy at local, regional, and national level. The effects on the environment and social conditions are detailed, providing a comprehensive picture of the contribution of European funds to the country's sustainable development and financial stability.

Attracting European funds is a complex process, with the European Commission (EC) as the main source. The EC provides various forms of funding, such as grants, subsidies, and loans, with strict rules to ensure transparency and accountability in the use of funds. This funding is managed in three main ways: direct funding, shared management, and indirect funding. All these mechanisms require strict control of the funds and beneficiaries must comply with strict requirements to access these European financial resources.

2. Literature review

The literature on the absorption of EU funds initially comprises an extensive body of regulations, laws and decisions designed to govern the distribution of funds at European and national level. Over time, this sphere has been supplemented by studies focusing on absorption capacity, obstacles encountered at European level and in Member States, and the social and economic consequences of this process. Although this research provides insight into the problems of absorbing EU funds, there are significant limitations. These include the considerable diversity of funds, disparities between different countries and regions, and the difficulty in developing appropriate indicators for comprehensive analysis of the absorption capacity and impact of EU funds (Briciu *et al*, 2018).

A country's absorption capacity is affected by several factors at European and national level, and there is a correlation between a region's economic development and its capacity to absorb EU funds. According to studies, smaller countries and less developed regions face the greatest difficulties in absorbing EU funds, with common obstacles such as difficulties in securing co-financing, lack of staff experienced in managing EU funds and lack of cooperation between local partners (Constantin *et al*, 2017).

In the context of the absorption of EU funds, the influencing factors highlighted in the studies fall into three main categories: macroeconomic capacity, financial capacity, and administrative capacity. This capacity is closely linked to the country's GDP, the stability of prices, interest rates and exchange rates, and the ability of the economy to manage additional costs, including the impact on the labor market (Croitoru, 2018). Finally, administrative capacity reflects the extent to which the relevant institutions can facilitate the absorption of funds by having the necessary skills to effectively design and manage programs.

Knowledge management is an innovative approach in management science, aiming to optimize organizational competences by cultivating a culture of continuous learning. Applicable to both the public and private sectors, knowledge management is becoming crucial in public administration, given its socio-local nature and the broad societal development objectives (Gheorghe, 2016).

For public administration in Romania, the absorption of European funds is an essential solution to manage current challenges and the implementation of knowledge management principles can increase the absorption capacity. Principles such as continuous learning, evaluation, application of

learning in administrative practices, and knowledge transfer can improve administrative capacities and the effectiveness of the use of European funds.

These principles can be implemented by creating a culture of learning and knowledge exchange, documenting and transferring relevant knowledge, developing, and using knowledge management tools and platforms, promoting inter-organizational collaboration and learning, monitoring, and evaluating performance and continuous improvement (Ghișe, 2017). Identification and development of key competences, exchange of good practices and lessons learned, and participation in international networks and partnerships are also key aspects of this approach.

By adopting these measures and integrating knowledge management principles, public administrations can improve their capacity to absorb European funds, helping to maximize the efficiency and impact of project and program investments.

Since joining the European Union in 2007, Romania has undergone a significant process of economic and social transformation, stimulated by the non-reimbursable financial transfers granted by the EU through cohesion policy (Ivan *et al.*, 2016). These funds, managed according to the principles of strategic programming, partnership, and subsidiarity, have aimed to focus assistance on regions and areas most in need of support.

Through cohesion policy, Romania has benefited from significant financial resources, allocating them to projects in sectors as diverse as infrastructure, innovation, research, regional development, entrepreneurship, and environmental protection. These funds have helped to improve infrastructure, create jobs, and modernize economic sectors (Marchis, 2020).

The reform of cohesion policy after 2007 brought significant changes, consolidating the Structural Funds into three separate entities (ERDF, ESF and Cohesion Fund). Through this process, Romania remains eligible for two main objectives: Convergence and European Territorial Cooperation (Năstase, 2014).

A notable aspect of the reform has been the simplification of the planning process, bringing a strategic approach focused on the Lisbon Strategy priorities. Programming documents, such as the National Strategic Reference Framework and Operational Programs, have become key tools for managing funds effectively and improving their absorption (Roșu, 2019).

In the context of financial sustainability, these changes have brought clarity and efficiency in the use of European funds, contributing to Romania's sustainable development.

3. Research methodology

The research method for analyzing the impact of EU funds absorption in Romania in the context of financial stability involves a complex approach, combining several research strategies and techniques. The case studies will involve in-depth analysis of individual projects financed by European funds, with the aim of assessing their impact on financial stability at local, regional, or national level. These detailed investigations will provide concrete insights into the influence of funds in different sectors. Quantitative methods, such as statistical data analysis, will be used to quantify the financial impact and identify trends in the absorption of EU funds. This may include assessment of economic performance, absorption rates and impact on macroeconomic indicators. Research will also include assessments of the financial sustainability of projects and their long-term impact. It will analyze the capacity of funded projects to continue to deliver benefits and how they contribute to sustainable development.

By combining these methods, the research will provide a comprehensive understanding of how the absorption of EU funds has influenced financial stability in the specific context of Romania.

4. Findings

Emphasizing the positive attributes of the Romanian tax system, noteworthy elements include the rise in Gross Domestic Product and substantial contributions from growth factors noted during the examined period. The research will explore the efficacy of operational programs in the European Union's consecutive 7-year multi-annual budgetary periods, specifically 2007-2013 and 2014-2020. The focus of the analysis will be on programs funded by the European Regional Development Fund,

the Cohesion Fund, and the European Social Fund. These initiatives have provided Romania with an opportunity to progress and synchronize with the developmental paths of other EU Member States.

According to the data presented in the table below, in the period 2007-2013, the lowest absorption was recorded in the Operational Programs focused on financing major infrastructure, such as the Transport Operational Program and the Environment Operational Program. This is worrying given the need for infrastructure development to reduce the gap with Western European countries. Another negative aspect highlighted is the underutilization of European funds for human resources, which have not been fully used, despite the significant need for professional skills in the country. This underutilization affects the achievement of the employment rate growth target.

Table no. 1 Performance of operational programs in Romania, 2007-2013 funding period

Romania's Operational Programmes 2007-2013	Financial allocation 2007-2013 (in billion euro)	Financial allocation (31.03.2017)
Regional Operational Programme	3,966	93.41%
Environment Operational Programme	4,412	84.48%
Transport Operational Programme	4,288	81.07%
Operational Programme for Economic Competitiveness	2,537	100%
Human Resources Development Operational Programme	3,200	90.81%
Operational Programme for Administrative Capacity Development	0,208	100%
Technical Assistance Operational Programme	0,170	100%
Total	18,781	89.08%

Source: own processing by methods used in the research undertaken

During the 2007-2013 period, Romania achieved an absorption rate of approximately 90%, resulting in a loss of around €2 billion. This significant amount could have been directed towards the construction of 400 kilometers of motorways, given an average cost of €5 million per kilometer.

Despite three operational programs (Operational Program for Economic Competitiveness, Operational Program for Administrative Capacity Building, and Operational Program for Technical Assistance) achieving a 100% absorption rate, they received lower allocations compared to programs supporting major infrastructure projects.

The 2007-2013 programming period brought significant investments to Romania, contributing significantly to economic growth and employment. Many projects within this timeframe led to the creation of new jobs, marking Romania's initial 7-year multiannual period as a European Union Member State. This phase served as an adjustment period for the country, preparing for the challenges anticipated in the 2016-2022 programming period and beyond 2020.

The limited uptake under the Transport Operational Program 2007-2013 was primarily attributed to excessive bureaucracy and a lack of competition among applicants for EU funds. This situation meant that major beneficiaries such as motorway, railway, or Bucharest metro companies had little incentive to enhance their administrative and project implementation capacities. Moreover, large infrastructure projects, particularly affected, entail a lengthy preparation period of 6 to 10 years, surpassing the duration of a 7-year European financial cycle. The absence of ready-to-implement projects in 2007 resulted in Romania losing approximately €2 billion during that programming period.

Table no. 2 Performance of operational programs in Romania in the 2014-2022 funding period

Romania's Operational Programmes 2014-2020	Financial allocation 2016-2022 (in billion euro)	Current absorption rate (03.04.2022)
Regional Operational Programme	6,860	22.86%
Large Infrastructure Operational Programme	9,219	26.42%
Operational Programme for Competitiveness	1,330	28.17%
Operational Programme for Human Capital	4,372	27.26%
Operational Programme for the Development of Administrative Capacity	0,553	23.57%
Sectoral Operational Programme for Technical Assistance	0,253	60.51%
Total	22,586	25.91%

Source: own processing by methods used in the research undertaken

The funds received by Romania from the European Union have triggered substantial changes in the country since its accession in 2007. It is crucial to highlight that the European Union imposes specific restrictions on allocating significant sums in areas such as research or climate change mitigation, domains where Romania initially lacked preparedness.

In the programming period of 2014-2020, there were no major alterations in the operational programs. A notable development was the amalgamation of the environment and transport programs, giving rise to the Large Infrastructure Operational Program. Regarding financial allocation for the 2016-2022 period, the Regional Operational Program witnessed a substantial 72% increase, providing regional development beneficiaries with €6.86 billion compared to the €3.96 billion allocated in the 2007-2013 funding periods.

A major cause of the low absorption of EU funds in 2007-2013 in Romania was excessive bureaucracy. However, on a positive note, for the period 2016-2022, red tape has been reduced, making it easier for project beneficiaries by eliminating excessive documentation. The My SMIS system has been introduced, allowing scanned documents to be uploaded for various stages of projects. However, the guidelines for applicants remain complex and the restricted eligibility conditions limit potential beneficiaries in applying for EU funds.

Absorption of European funds in Constanta County

The municipality of Constanta has 25 ongoing projects under the Regional Operational Program for the period 2014-2020. Constanta County ranks first in the South-East region in terms of the number of contracted projects, exceeding the average of 9 projects per county and the national average of 11 projects, recorded at the level of the 41 counties in Romania.

The municipalities of Eforie and Techirghiol lead in the top of contracting, with 6 ongoing projects, which represents 24% of all projects contracted in the county. This translates into an average of 3 projects per town across the county. Other towns that stand out in this context are:

- The town of Năvodari, contributing 18% of the total through its 3 projects, in line with the average.
- The town of Ovidiu, with 18% of the total through the 3 projects, equivalent to the national average.
- Municipality of Hârșova, involved in 3 projects, contributing 18%, like the average.
- Municipality of Cernavodă, with 12% of the total, with 2 projects, below the national average.
- Municipality of Negru Voda, contributing 12% of the total, with 2 projects, below the national average.

Table no. 3 Absorption rate of cities in Constanta County 2014-2022

Cities	Cities Total eligible budget (Euro)	Total non-reimbursable budget (Euro)	% of total non-reimbursable budget contracted within the county
Eforie	27.485.394	26.935.686	44.62%
Techirghiol	11.021.437	10.736.156	17.79%
Năvodari	6.855.916	6.718.797	11.13%
Negru Vodă	5.556.825	5.445.689	9.02%
Hârșova	3.954.916	3.875.818	6.42%
Cernavodă	2.481.286	2.431.660	4.03%

Source: own processing by methods used in the research undertaken

The City of Eforie managed to contract and use approximately 44.62% of the total non-reimbursable budget available within the county, signaling an efficient absorption of European funds and an adequate administrative capacity to implement funded projects. The town of Techirghiol absorbed approximately 17.79% of the total non-reimbursable budget of the county, indicating a significant effort in the use of European funds for the development of the town.

The town of Năvodari contracted and used approximately 11.13% of the total non-reimbursable budget available within the county, reflecting a moderate commitment in the absorption of European funds, with potential for further use of these resources. The town of Negru Voda has absorbed approximately 9.02% of the total non-reimbursable budget available within the county, indicating an effort to use European funds for local development.

The town of Hârșova used approximately 6.42% of the total non-reimbursable budget available within the county, showing a level of absorption of European funds and involvement in local development. The city of Cernavodă contracted and used approximately 4.03% of the total non-reimbursable budget available within the county, showing an effort in the use of European funds for local projects and initiatives.

The 7 cities mentioned have contracted a total eligible budget of € 20.287.997, of which a total non-reimbursable budget of € 19.767.264. The percentage of 53.17% of the total contracted in the South-East Region indicates a significant absorption of European funds in these cities.

It is also noted that the average budget contracted in the county is 8.62 million euros, and the amounts obtained by Eforie and Techirghiol are above average, suggesting a more sustained effort in the absorption and use of European funds in these two towns compared to the other mentioned localities. This data suggests that Eforie and Techirghiol performed better in attracting and using European funds, reflecting a more developed administrative capacity and a stronger commitment to local development through European funds.

Analyzing the field of Tourism, the largest budget was contracted under.

Regional Operational Program (ROP) 2014-2020, amounting to €21.66 million as total non-reimbursable budget. This represents approximately 35.88% of the total budget contracted in the county. Compared to the county average of €7.55 million, the priority allocation of European funds for the development and promotion of tourism in the area is evident, recognizing the importance of this sector for the county.

5. Conclusions

The absorption of European funds has had a significant impact on Romania's development, positively influencing infrastructure, employment, quality of public services and support to the private sector. These investments have contributed to the progress of the country's regional and economic development. In the context of sustainable development, issues such as the financing of local public authorities, the efficient absorption of European funds and their impact in Romania play a key role. Maximizing the benefits and generating a positive impact on communities and regions in Romania depends on the efficient use of EU funds and the development of administrative capacity.

In conclusion, Romania suffered a significant loss of more than €2 billion in the 2007-2013 programming period, highlighting the importance of drawing appropriate lessons to avoid such situations in the 2014-2020 period. Full absorption of EU funds is essential to reduce the gap between Romania and other Member States. We are seeing significant transformations in infrastructure, with more than 300% more kilometers of motorway in Romania since joining the European Union. However, the administrative capacity of beneficiaries and managing authorities needs to be increased to improve absorption of EU funds. In the past, excessive bureaucracy has been a major cause of low absorption, but efforts to reduce it in 2014-2020 are encouraging. The notable rise in financial allocation for the Regional Operational Program in 2014-2020 signifies a substantial progress, presenting a budget of €6.86 billion for regional development. However, it is essential to emphasize that this analysis exclusively concentrates on the absorption of structural funds in Romania. Subsequent articles will delve into absorption rates in other Central and Eastern European countries, as well as Western European countries, providing a more comprehensive comparison of results.

The efficient use of European funds is crucial for Romania's regional and economic progress. It is imperative to strengthen absorption capacity and local public authorities must have adequate sources of funding. The impact of investment from European funds is significant, generating both economic and social benefits in various regions of the country. To ensure optimal use of these funds and to promote sustainable development, continuous analysis and evaluation is essential.

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