

Analysis of Budgetary Decommitment Risk for the Programming Period 2007-2013

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Abstract

The first programming period implemented by Romania generated a lot of challenges for the administration system but also for the stakeholders. The novelties of the situation and a number of internal and external variables have affected how the programs were implemented and the results of each program. The objectives of the paper are analysing the dynamic and the absorption characteristics and last but not least identifying the quantitative risk of the financial decommitment for 2007-2013 programming period. The relevance of this paper is linked to the need of evaluating the decommitment risk and of avoidance the mistakes made in the first programming period in order to increase the absorption rate in the second programming period. The management and performance of the absorption rate carefully described in the paper are also relevant for the stakeholders of European funds.

Key words: *decommitment, eu funds, absorbtion,*

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1.Introduction

In 2015, as full Member State, Romania completed the first programming period 2007-2013. The principles that led to the harmonization of the European Commission's interests with the interests of Romania generated a number of challenges for the Romanian institutional system. These challenges were coupled with a number of issues of economic and geopolitical nature, namely the 2010 financial crisis and the tensions in Eastern Europe, generated mainly by the expansion of NATO and Russia, which affected the cohesion policy and thus, the absorption rate in Europe. Until recently, the EU cohesion policy and the budget allocations for various objectives to support it treated as a secondary issue the impact of structural and cohesion funds. The major significance of the latter became obvious when the post-crisis budgetary restrictions were implemented, as the concerns for efficient public spending tended to become operational in the programming period 2014-2020 (Barca, 2009, p.87). Bureaucracy, spending principles and the specific targets were the main variables that generated problems in most Member States. Among the weaknesses admitted by most Member States regarding the programming period 2007-2013 it is worth mentioning the long implementation period of the European programs, and the lack of flexibility in the resource expenses, particularly those resources linked to the cohesion policy. These elements were the main reasons mentioned by Member States in order to obtain procedural concessions towards the end of the programming period. A European Commission report on the implementation of Structural and Cohesion Funds (European Commission, 2013), based on national reports, shows that in general, they have contributed to a lesser extent than expected to economic growth and job creation. Despite the accelerated pace of implementation seen in recent years of the programming period the results were not very significant (due to the effects of the crisis) especially in Member States in southern part of the EU, where macroeconomic imbalance and delays in economic recovery persisted (also on account of austerity programs), (Zaman et al, 2014, p.31).

In Romania, the institutional reform of the administrative apparatus, the management and systemic errors affected directly the absorption rate dynamics throughout the entire programming period, affecting both the impact of the European funds and the objectives assumed under the operational programs. Romania had to set up a framework to manage the EU funds under the European laws and rules, to make sure that funds are spent correctly and help reduce the inequalities between EU regions. The organization of the European resources was based on operational programs, each one targeting specific sets of needs for a particular field. In recent years it was found that the pressure exerted in order to increase the absorption rate of structural and cohesion funds became, for some countries (including Romania), a condition for granting EU financial assistance, and a criterion of sizing the allocated funds. All this was done to the detriment of effective use of these funds (Katsarova 2013, p.5).

2. Research methodology

The research methodology involves an analysis of the expenditure statements submitted to the European Commission (EC), the amounts reimbursed by the EC and the projections of settlement developed by the Romanian Government for each operational program which is part of the programming period 2007-2013. Two indicators were used, namely the current absorption level (amounts submitted for settlement to the EC), and the actual level of absorption (amounts reimbursed by the EC based on the statements of expenditure submitted).

3. The absorption status

The 2007-2013 programming period was a difficult period because there were a number of financial corrections, suspensions of specific operational programs, as well as financial and administrative shortcomings. The main obstacles encountered in starting the implementation of operational programs and subsequently in the actual implementation of the projects were diverse in nature, since the difficulties in preparing project portfolio and launching calls for proposals, and delays in project evaluation and selection, difficulties in starting the implementation of projects to the beneficiaries, in particular major projects, legislative barriers, especially budgetary ones, but not only, and institutional issues (Government of Romania, 2013, p.71). Obviously, the consequences of the aforementioned situations were felt towards the end of the programming period, when the risk of budgetary decommitment has become obvious and could be quantified. To identify the risk of budgetary decommitment it is important to analyze the absorption situation at the moment. This image is depicted in the table below:

Table no.1 Absorption status, 30 September 2016

Operational Program	Allocation 2007-2013	Current absorption - euro	Effective absorption - euro
SOPIEC (Sectoral Operational Programme Increase of Economic Competitiveness)	2.536.646.054	2.377.677.852	2.179.933.761
OPTA (Operational Programme Technical Assistance)	170.237.790	193.092.021	146.404.499
SOPE (Sectoral Operational Programme Environment)	4.412.470.138	3.477.489.101	3.302.536.830
ROP (Regional Operational Programme)	3.966.021.762	3.372.862.138	3.372.867.345
SOPHRD (Sectoral Operational Programme Human Resources Development)	3.476.144.996	2.347.894.037	2.243.811.890
SOPT	4.288.134.778	3.314.972.970	3.007.751.462

(Transport Sectoral Operational Programme)			
OPACD (Operational Programme Administrative Capacity Development)	208.002.622	205.211.213	170.562.150
Total	19.057.658.140	15.289.199.332	14.423.867.937

Source: Ministry of European Funds/ Absorption stage OP 2007 – 2013, December 2015/data processed by author

The absorption status on 30 September 2016, as it is mentioned in the table no 1, stands at 80.23% - the current level (amounts declared to the European Commission for settlement) and at 75.69% - effective level of absorption (amounts disbursed by the European Commission). Between the current level and the actual level of absorption there is a difference of 4.54%, in absolute value of 865,331,395.00 euro, an amount that may be considered lost by Romania. Given that the effective implementation of the programs was finished, the likelihood of recuperating the aforementioned amount is zero. The sources of this loss are the budget corrections applied at program level or the statement of expenditure, as well as various ineligible costs that occurred during the implementation process. The OPs situation regarding the difference between the current level and the effective absorption make SOPE (1.109.933.308 euro), SOPHRD (1.232.333.106) and SOPT (1.280.383.316) the programs with the most significant differences. These differences show that the aforementioned operational programs recorded the highest level of ineligible expenditure during implementation. On the opposite side are the programs OPACD and OPTA that record a high absorption level, but we must keep in mind that these programs received the lowest allocations and their also have a low level of difficulty. Low number of actors involved in the implementation process, the small number of rules and a low diversity of funded operations, have ensured the consistent absorption. A different behaviour regarding differences between the current level of absorption and the actual level is seen in SOPIEC. Although the current absorption rate stands at 93.73%, the difference from the effective absorption rate is 7.8 percentage points. Budget corrections and the high level of ineligible costs affected in a direct manner the settlement with the EC. SOPIEC is a program that has faced both financial corrections and suspensions during the implementation period and this affected directly the uptake for this operational program.

4.The decommitment risk for 2007-2013

In July 2016, the Ministry of European Funds approved in a memorandum the projections of expenditure under the programming period 2007-2013. The statements sent to the EC were based on these spending projections. The projections covered the years 2016 and 2017 (Romanian Government, 2016, p.2). In this regard, we identified the risk of decommitment at the end of 2007-2013 by adding the projections advanced by the Government on the extent of absorption. Romania's projections are modest and at the same time, far too small to cover the deficit of unspent resources or at risk of decommitment. These are mainly focused on 2016, and the exact situation is depicted in Table 2, shown below:

Table no.2: Risk of decommitment at the end of the programming period

Operational Program	Current absorption euro - 30.09.2016	Effective absorption - 30.09.2016	Risk of decommitment at the end of the current programming period	Real risk of decommitment at the end of the programming period
SOPIEC	2.377.677.852	2.179.933.761	20.629.507,69	218.373.598,69
OPTA	193.092.021	146.404.499	-	16.477.611,51
SOPE	3.477.489.101	3.302.536.830	709.695.780,74	884.648.051,74
ROP	3.372.862.138	3.372.867.345	363.668.814,19	363.663.607,19
SOPHRD	2.347.894.037	2.243.811.890	909.583.808,98	1.013.665.955,98
SOPT	3.314.972.970	3.007.751.462	807.034.652,81	1.114.256.160,81
OPACD	205.211.213	170.562.150	-	32.390.915,92

Total	15.289.199.332	14.423.867.93 7	2.810.612.564,40	3.643.475.901,83
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Source: Ministry of European Funds/ Memorandum on estimates for 2016 and 2017/data processed by author

The actual risk of decommitment was maintained at the value of 3.643.475.901,83 euro, as shown in Table 2, representing 19.12% of the total amount allocated. The current risk of decommitment stands at the value of 2.810.612.564,40 euro, representing 14.75% of the total amount allocated. The difference between the current and the actual risk declined sharply compared to 4.37% on 30 September 2016. The analysis of the operational programs does not bring major changes compared to 30 September 2016. SOP ENVIRONMENT (884,648,051.74 euro risk of actual decommitment), SOP TRANSPORT (1.114.256.160,81 euro - risk of actual decommitment) and SOP HRD (1.013.665.955,98 euro - risk of actual decommitment) are operational programs showing the greater risk of decommitment at the level of the 2007-2013 programming period. It should be mentioned that all 4 categories of operational programs are aimed at complex projects. The complexity derives from the number of entities involved in the realization of project documentation, the implementation timeframe of the project, the number of beneficiaries, the number of documents deriving from the implementation, and the level of difficulty of the procurement documentation that is part of the project. ROP is the only operational program that kept on track the gap between the current risk and the actual risk of absorption. In the case of other operational programs such as SOP ENVIRONMENT (174.952.271,00 euro), SOP TRANSPORT (307.221.508,00 euro), SOP HRD (104.082.147,00 euro) the differences are considerable, meaning that the implementation errors have generated significant ineligible costs and Romania will lose these amounts. The analysis of discrepancies between the two types of risks is extremely important because it highlights the flaws of the management system. The larger the difference between the two types of absorption levels the bigger are the flaws related to the management system in the implementation process. This was the case of SOPIEC, which generated substantial expenses but these expenses were not made according to the European procedures and regulations. Therefore, the EC applied financial corrections or ruled the ineligibility of certain expenses submitted for reimbursement by Romania. SOP HRD is another program that was in a similar situation during the implementation period. Another important indicator for the absorption rate and by default, the risks of decommitment concerns the payments made to the beneficiary by Romania. The importance of this indicator derives from the fact that there were situations in which Romania has made payments to beneficiaries who were subsequently not included in the expenditure statements which were forwarded to the EC. Basically, the program was credited in a first phase by the beneficiary and later by the Member State. The need of lending is tied to the management errors made during the implementation of the program. This situation has several reasons, deriving in particular from the complexity of the program. Table 3 illustrates this situation very clearly.

Table 3. Payments to beneficiaries / spending projections

Operational Program	Current absorption - 30 September 2016	Projection 2016, euro	Projection 2017, euro	Value of payments to beneficiaries 31 December 2015, euro
SOPIEC	2.377.677.852	101.796.095,53	36.542.598,78	2.179.267.274
OPTA	193.092.021	7.355.679,49	-	124.985.233
SOPE	3.477.489.101	194.056.080,91	31.229.175,34	3.125.148.384
ROP	3.372.862.138	187.355.670,50	42.135.139,32	2.921.708.410
SOPHRD	2.347.894.037	99.185.947,33	119.481.202,69	3.012.548.303
SOPT	3.314.972.970	128.094.355,59	38.032.799,60	2.622.283.293
OPACD	205.211.213	4.421.807,63	627.748,44	176.708.501
TOTAL	15.289.199.332	722.265.636,99	268.048.664,18	14.162.649.397

Source: Ministry of European Funds/data processed by author

One of the programs in this situation is SOP HRD. On 31 December 2015 it recorded payments to beneficiaries amounting to 3,012,548,303 euro, representing 86.66% of the total allocation. However, the actual risk of decommitment, risk that takes into account all projections considered by the government, stands at 29.16% of the total allocation. The difference shows the expenses that

were not included in the expenditure statements and practically fuelled the losses of Romania within the SOPHRD. Regarding the remaining operational programs, it is easy to see the logical flow for settlement of the amounts for each operational program.

Projections for 2016 and 2017 placed the operational programs with the greatest risk of budgetary decommitment on top spots in terms of absolute values, as follows: SOPHRD (218 667 150 euro), SOPE (225 285 256 euro), SOPT (166.127 .155 euro). Conversely, the programs with the lowest risk of decommitment risk, targeting projections of lower intensity, are PODCA (5,049,556.00 euro), and POAT (7,355,679 euro).

5. Dynamics of the value of expenditure statements

2016 is the year when all projects related to the 2007-2013 programming period were concluded, and the submission of expenditure statements to the EC was next in line. The complexity of different operational programs generated a different dynamic from one program to another. This was also influenced by the complexity of the application related to expenditure submitted to the EC. Table 4 gives us an insight into the current absorption rate. It is important to analyze this indicator because it can provide an insight into the way in which each operational program was implemented. If the share of expenditure subject to settlement is larger in 2016 then this is a clear proof of the fact that the programs were more focused on the last part of the programming period, during which the current absorption actually took place. Focusing the uptake on the final part of the programming period attracts a number of risks that are difficult to manage, inducing effects in the absorption rate. These consequences cover at least the following issues: lack of cash flow, slow processing of reimbursement applications, weak project monitoring capacity and focus on absorption rather than achieving the targets. In fact, most OPs were in this situation. Mainly, the management system that integrates public institutions in Romania encountered major difficulties in adapting to the demands of the European Commission. In the mid-term of the programming period emerged a public institution whose role was to coordinate the system of European Funds, called the Ministry of European Funds. Another major impediment in delivering a generous absorption rate was the legal system. The harmonization of the national legislation with the European regulations, particularly regarding auditing, control and fraud lasted for about 3 years, and has considerably affected the absorption level. Looking at all these issues, the concentration of absorption was a natural reaction, as it is clearly shown in the table below:

Table 4. Dynamics of expenditure statements submitted to the EC in 2015/2016

Program	Allocation 2007-2013 - euro	Expenditure statements sent to the EC on 14 December 2015, euro	Expenditure statements sent to the EC on 30 September 2016, euro
SOPIEC	2.536.646.054	1.632.998.361	2.377.677.852
OPTA	170.237.790	123.801.091	193.092.021
SOPE	4.412.470.138	2.555.947.260	3.477.489.101
ROP	3.966.021.762	2.534.841.696	3.372.862.138
SOPHRD	3.476.144.996	1.712.351.257	2.347.894.037
SOPT	4.288.134.778	2.620.878.885	3.314.972.970
OPACD	208.002.622	185.548.761	205.211.213
Total	19.057.658.140	11.366.367.311	15.289.199.332

Source: Ministry of European Funds/ Absorption stage for OP 2007 – 2013/data processed by author

The growth rates of the amounts submitted for settlement to the EC are over 15% for most operational programs, the only exception being the OPACD. Analysis of operational programs provides premises for such a situation. Thus, POSCCE submitted for settlement expenses totalling 29.36% of the total allocation, in absolute value of 744 679 491 euro, POAT in percentage value of 40.70%, absolute value amounting to 69.290 930 euro, OPR in percentage value of 21,13%, absolute value 838.020.442 euro and SOPM in percentage value of 20.88% and absolute value amounting to 921.541.841 euro. The probability of errors in the process of spending and the

drafting of expenditure statements is very high since the absorption concentration is focused towards the last part of the implementation period.

The figures in Table 4 show that most operational programs focused the absorption towards the end of the programming period. From December 2015 to September 2016 the absorption increased by 20.58%. This situation was influenced also by the concessions made by the EC in relation to certain Member States, including Romania, regarding the possibility to increase the level of absorption. Phased projects and the retrospective projects stand for only two procedural elements that affected positively the level of absorption. Phased projects represent projects that were contracted during 2007-2013 and should have been finalized by the end of 2015 but due to various reasons they have not been finalized. The concessions made by the EC enabled the transfer of the project budget from the programming period 2007-2013 to the programming period 2014-2020. In this respect, the eligibility of expenditure is maintained. Typically, the phased projects were large infrastructure projects which are integrated in SOP TRANSPORT or SOP ENVIRONMENT.

Regarding retrospective projects, this type of projects have targeted in particular the SOP HRD and they concern the transfer of programs (programs that meet the requirements of the European regulations) funded from public resources to European funds. Basically, expenditure already made by Romania was settled by the EC which recognized the eligibility of expenditure. These two procedural elements have considerably affected the absorption rate. However, this justifies the high absorption level in 2016.

6. Conclusion

Romania's performance is modest considering the absorption rate of the first programming period since it became full EU Member State. Slow responses provided by the Romanian management institutions, antagonist content of the national legislation and European regulations, administrative reorganization of public institutions with responsibilities in the management of European funds – all these variables affected the smooth implementation of the operational programs. The natural consequences of the situation mentioned above concern the focus of absorption on the last years of the programming period, nonlinear nature of the settlement process and nonlinear need of cash, all with immediate impact on the rate of absorption, and hence, the risk of budgetary decommitment. Substantial differences between the current level and the effective level of absorption are practical steps to justify the errors in implementation of operational programs. Differences between the two indicators are quite high for certain operational programs. Operational programs that recorded serious difficulties show significant difference in the current level of absorption and the effective absorption. The risk of decommitment thus integrates both the differences between the amount allocated and spent, plus the value resulted from differences between the current level and the actual level of settlements made by the EC.

Projections of costs covered by the Government, although substantial, are not likely to cover the deficit of the unspent resources. The risk of decommitment is imminent, being generated on one hand by financial corrections applied, the ineligibility of certain expenses, and on the other hand by not spending the resources allocated within the operational programs.

7. References

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