

THE ANALYSIS OF THE EVOLUTION OF EUROPEAN FUNDS
ABSORPTION IN PANDEMIC CONTEXT IN ROMANIA

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Abstract

The pandemic context had major implications on most areas of activity around the world, and implicitly in Romania. Some of them were more or less affected depending on the branch of activity. This paper aims at studying the influence that the pandemic has had on the degree of absorption of European funds in Romania. In response to these complex threats, exceptional measures have been taken and major changes have occurred in the business environment. The lockdown periods affected the activity of most Romanian companies, so the entrepreneurs sought financing solutions and resorted to government assistance or European funding to survive. Also, Romanian companies were able to access European funds through the National Recovery and Resilience Plan (PNRR) as a way to mitigate the negative effects of the pandemic. Although the absorption rate of European funds is not yet satisfactory, its evolution in Romania between December 2014 and May 2022 was an upward one for all operational programs and throughout the country, but there were also a number of disparities between certain Romanian counties.

Keywords: *European funds; the capacity to absorb European funds; absorption rate; PNRR.*

1. Introduction

European funds are “essential for the development of the countries that later joined the European Union. In order to eliminate the differences between different regions of the European Union, it has been developed a regional development policy” (Managing Authority for the Human Capital Operational Program, 2022).

This regional policy aims at reducing disparities in various areas, such as:

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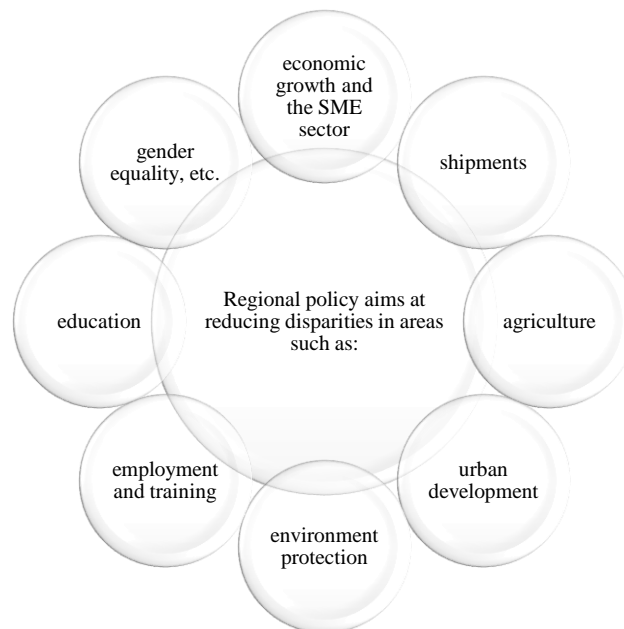


Figure 1. Reducing disparities through EU regional policy

Source: Authors' compilation

2. European funds - Literature Review

“The general concept of *European funds* refers to the financing instruments allocated to the Member States of the European Union (EU), in order to reduce the economic and social development gaps between them. European funds are managed jointly by the European Commission and each Member State. For Romania, the European Structural and Investment Funds (ESI Funds) are the main source of financing for Operational Programs whose main objective is the implementation of Economic and Social Cohesion Policy at national level. The general concept of European funds designates non-reimbursable financing instruments allocated to reduce the economic and social development gaps between them. European funds are managed jointly by the European Commission and each Member State. For Romania, the European Structural and Investment Funds (ESI Funds) are the main source of financing for Operational Programs whose main objective is the implementation of the Economic and Social Cohesion Policy at national level...” (European Union, 2022).

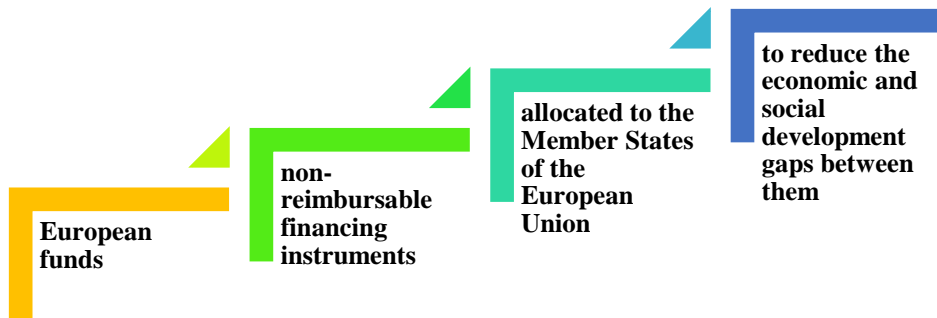


Figure 2. Definition of the concept of European funds

Source: Authors' compilation

“The framework documents agreed with the EU for the 2014-2020 programming period set clear priorities for investments financed from European funds” (Guvernul României, 2022), such as: health, education and culture; development of agriculture and aquaculture; modernization and development of transport, water and sewerage infrastructure; waste management; increasing the competitiveness of the national economy; research, development and innovation; eco-nano technologies; TIC; bioeconomy; social inclusion and the fight against poverty; increasing the capacity of public administration, etc.

“These funds are crucial for Romania's ability to meet medium and long-term development challenges. They have mobilized additional public and private funding for growth and jobs, reducing the existing regional and social gaps in Romania.” (Ianos, 2018, p. 24).

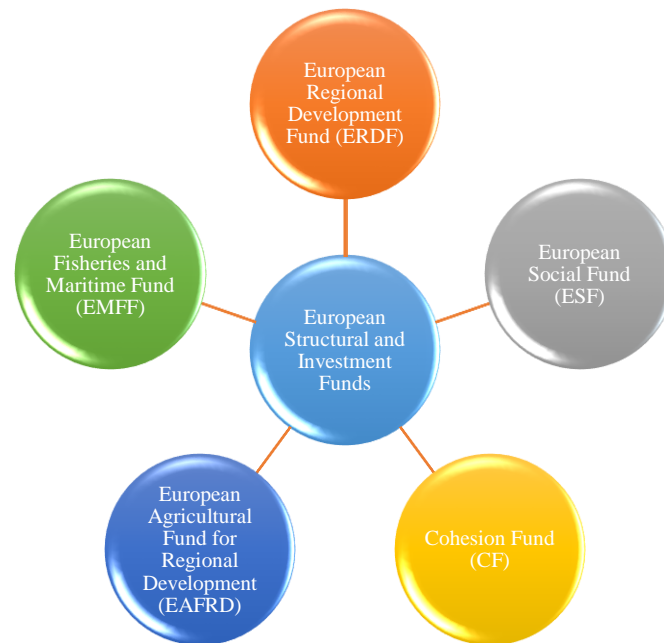


Figure 3. Types of European Structural and Investment Funds

Source: Authors' compilation

“A significant share of ESI funds has been allocated to the expansion and modernization of Romania's transport infrastructure, in accordance with the general plan for the future that will shape the existing network by 2030. In parallel, investments in the water, waste, wastewater sectors have continued, in order to comply with environmental requirements.”(Maier (coord.), Mituța, Moise, 2021, p. 27).

Between 2014 and 2020, Romania benefited from approximately EUR 22.4 billion in structural and cohesion funds and approximately EUR 8 billion for agriculture, rural development and fisheries.

3. Capacity and Absorption Rate of European funds

The absorption of European funds is a challenge for each of the EU Member States.

Capacity to absorb European funds refers to the extent to which a country is able to consume financial resources that have been allocated in the multiannual financial framework.

The absorption rate of European funds is calculated based on the amounts reimbursed by the European Commission to the Member State. These

amounts correspond to the expenditure incurred by the national beneficiaries of projects from European funds, validated and settled by the national administrative bodies.

The absorption capacity of a country depends on several factors. It was noticed that *there is a link between the level of economic development of a region and its ability to absorb European funds*. The most common obstacles in this regard include:

- difficulty in co-financing;
- lack of staff with experience in European funds;
- poor cooperation between local partners.

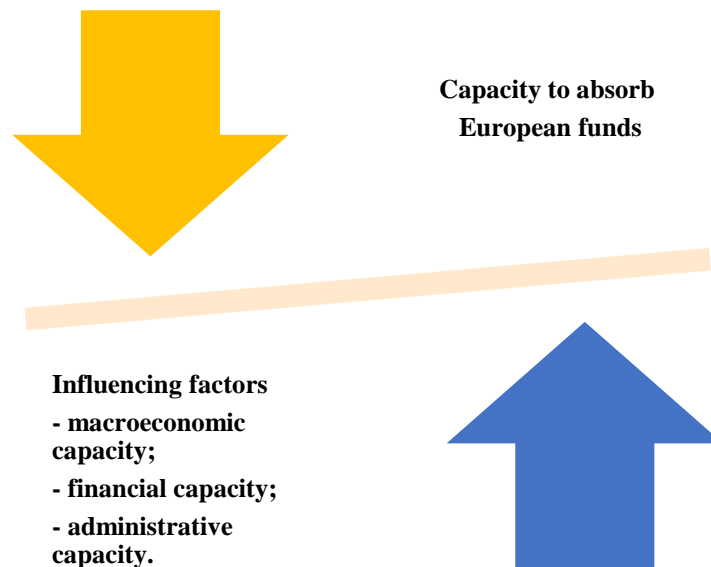


Figure 4. Factors influencing the absorption capacity of European funds
Source: Author's compilation

The absorption capacity of European funds in Romania was quite low, but between December 2014 and May 2022 its trend was an ascending one for all operational programs, throughout the country, with a number of disparities between certain counties of the country.

Romania is among the last countries in the European Union at the **rate of absorption of European funds**, being below the **European average**, but over the 15 years since accession, **more than 60 billion euros** have been acquired.

The last two years marked by the crisis caused by the COVID pandemic have been those in **which more than 17 billion euros** of EU support have been granted.

The general objective of the PNRR of Romania is in accordance with the General Objective of the Recovery and Resilience Mechanism within Regulation 241 of 2021 of the European Parliament and of the Council of Europe. Thus, **the general objective** of Romania's PNRR aims at supporting the Romanian economy in the post-pandemic period by making major investments and reforms to ensure increased **resilience and its ability to adapt in case of crisis**. **The specific objective** of PNRR aims at *attracting European funds through NextGenerationEU to achieve the proposed goals*.

4. The Evolution of the Absorption Rate of European Funds in Romania

The performance of each state in attracting and using these structural financing instruments can be measured by **the absorption rate** that indicates the actual cash flows entering the national economy through projects implemented and financed by the European Union.

The low absorption of funds in Romania was also influenced by the deficiencies in the organizational framework in accessing them, such as: excessive bureaucracy, insufficient or unskilled staff; difficult implementation rules; lack of transparency on co-financing regulations; lack of cooperation between the involved institutions.

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**Table 1. The evolution of the financial balance between Romania and the European Union in January 2007 - February 2022-
 SOLD - CFM 2007-2013 + CFM 2014-2020 + CFM 2021-2027
 - million euro -**

Indicator	Estimated 2022	Achieved 2007	Achieved 2008	Achieved 2009	Achieved 2010	Achieved 2011	Achieved 2012	Achieved 2013	Achieved 2014	Achieved 2015	Achieved 2016	Achieved 2017	Achieved 2018	Achieved 2019	Achieved 2020	Achieved 2021	Achieved 2022 (executed 28.02.2022)	Achieved 2007-2022 (executed 28.02.2022)
I. Amounts received from the EU budget (A+B+C)	7,699.18	1,599.71	2,642.24	2,900.24	2,293.63	2,621.59	3,442.13	5,557.21	5,981.02	6,438.42	7,360.88	4,818.74	4,444.42	5,160.10	7,122.52	6,339.16	1,780.42	70,532.55
A. Amounts received from CFM 2007-2013	0.00	1,599.71	2,642.24	2,900.24	2,293.63	2,621.59	3,442.13	5,557.21	5,932.51	5,493.30	4,540.14	13.30	100.55	-992.79	66.88	x	x	36,682.76
B. Amounts received from CFM 2014-2020	7,597.78	x	x	x	x	x	x	x	48.51	945.11	2,820.74	4,805.44	4,437.87	5,552.89	7,119.64	6,239.18	1,780.33	33,749.72
C. Amounts received from CFM 2021-2027	101.40	x	x	x	x	x	x	x	x	x	x	x	x	x	x	99.98	0.09	100.07
II. Amounts paid to the EU budget	2,786.66	1,150.89	1,268.93	1,364.43	1,158.91	1,296.24	1,427.77	1,534.77	1,619.89	1,456.25	1,504.70	1,499.53	1,677.48	2,047.31	2,241.11	2,757.46	510.61	24,516.29
III. Flow Balance = I - II	4,912.52	448.82	1,373.41	1,535.81	1,134.72	1,325.35	2,014.36	4,022.45	4,361.13	4,982.17	5,856.18	3,319.21	2,766.94	3,112.79	4,881.41	3,581.71	1,269.82	46,016.26

Source: processed by the author based on data from the Ministry of Finance, Evolution of financial flows between Romania and the EU on 28.02.2022, https://mfinante.gov.ro/documents/35673/920747/BFN_2022_02_28.pdf (Accessed 9 April 2022)

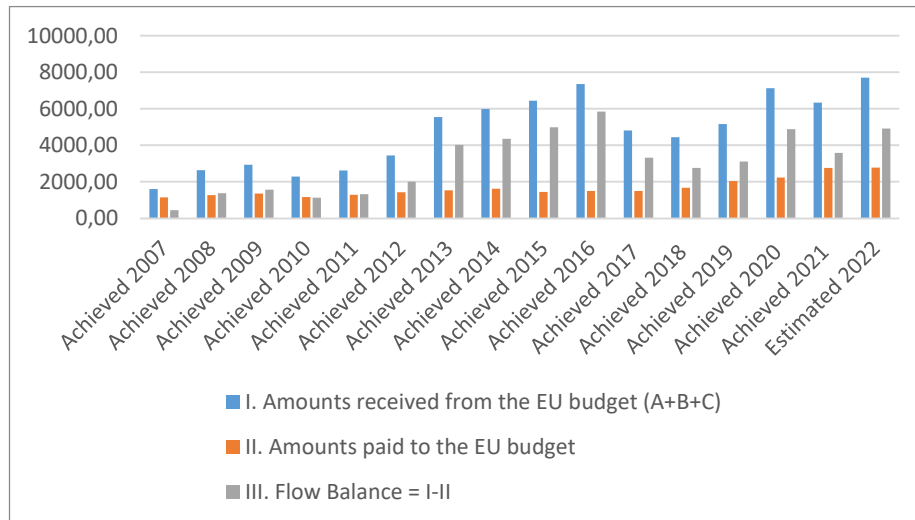


Figure 5. Evolution of the amounts paid to the EU budget and received from the EU budget, as well as the Balance of financial flows with the EU budget

Source: Processed by the author based on the data in Table 1

Figure 5 shows the evolution of the amounts paid to the EU budget and received from the EU budget, as well as the balance of financial flows with the EU budget. Thus, it is found that the balance of financial flows recorded the highest value during 2016, followed by a decrease in 2017, 2018 and then an upward evolution in 2019, and in the midst of the pandemic and a decrease and a return in 2021 and estimated for 2022. The same evolution can be shown as in Figure 6 below in which you can see the trend of the 3 indicators analyzed above.

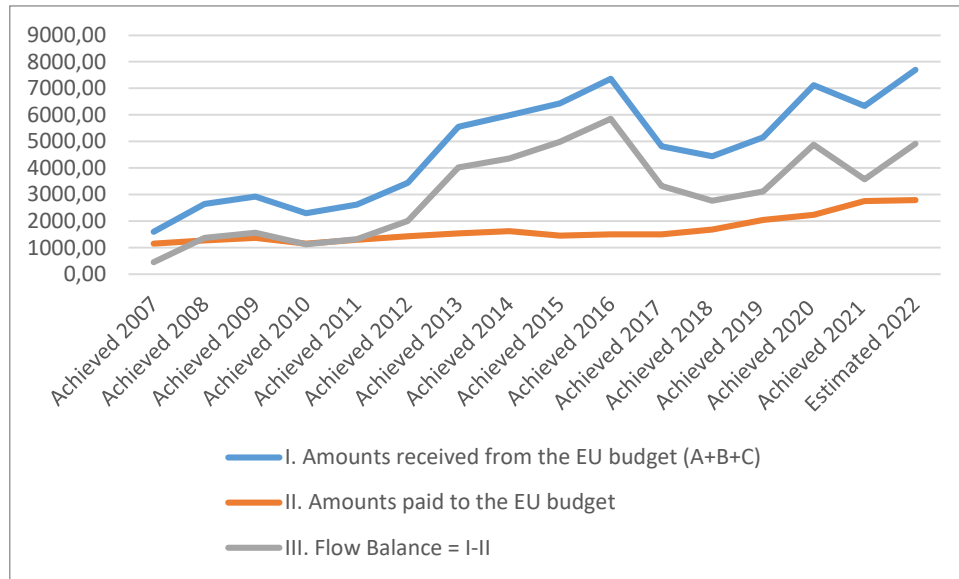


Figure 6. The trend of the amounts paid to the EU budget and received from the EU budget, as well as of the Balance of financial flows with the EU budget

Source: Processed by the author based on the data in Table 1

Table 2. Next Generation EU - Amounts received in 2021-2023

million euro

Indicator	Program 2021 - 2023	Estimation 2022	Achieved 2021	Achieved 2022	Achieved 2023	Achieved 2021-2023 (execution at 28.02.2022)
I. Amounts received from the EU - NGUE BUDGET of which:	17,440.84	10,608.32	1,974.03	25.74	0.00	1,999.77
A. Recovery and resilience mechanism (RRF) - grants	14,239.68	10,200.00	1,851.16	0.00	0.00	1,851.16
B. Recovery assistance for cohesion and the territories of Europe (ReactEU)	1,329.00	408.32	122.88	25.74	0.00	148.62
C. European Fund for Rural Development (FEADR)	692.10	0.00	0.00	0.00	0.00	0.00
D. The fund for a fair transition (JTF)	1,180.06	0.00	0.00	0.00	0.00	0.00

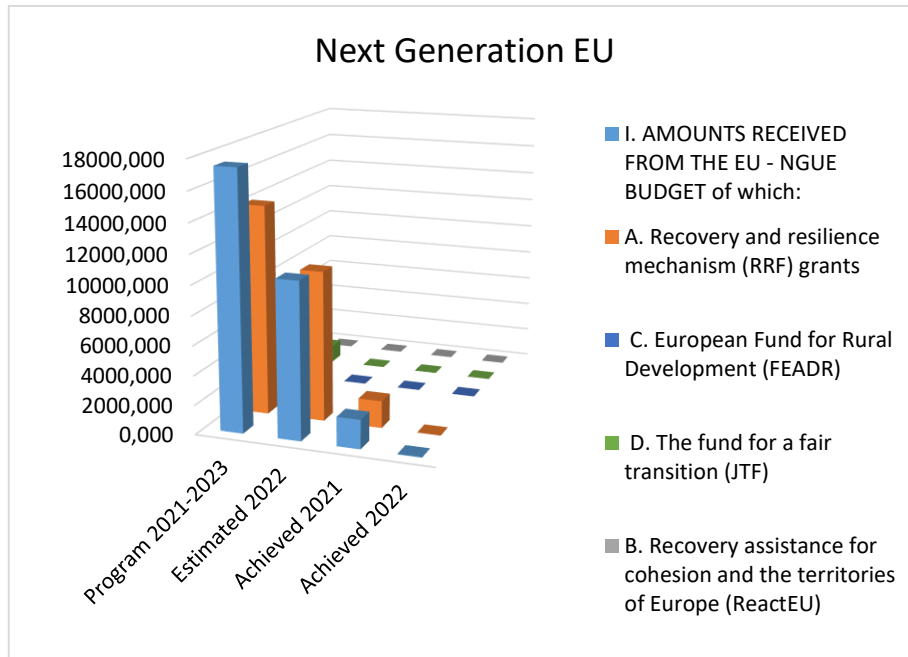


Figure 7. Evolution of amounts received from the EU budget through Next Generation

Source: Processed by the author based on the data in Table 2

According to official data, out of the total amount allocated to Romania by the EU, the overall effective absorption rate was only 50.34%. What is more significant regarding the absorption rate of European funds can be summarized as follows:

- The lowest effective absorption rate was registered within the Competitiveness Operational Program - only 24.01% of the allocated amount;
- The highest effective absorption rate was registered within the National Rural Development Program - 63.84% of the allocated amount;
- at the level of EAGF type funds the effective absorption rate in the period 2015-2021 was 94.89% (Table 3).

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Program 2014-2020	Allocation 2014-2020 (UE)	Payments to beneficiaries (UE)		Pre-financing received from CE ***		Amounts requested by the EC within the EU allocation of the OP (current absorption rate)		EC reimbursements (effective absorption rate)		Total amount received from the EC	
		Value (million euro)	% 3=(2/1)*100	Value (million euro)	% 5=(4/1)*100	Value (million euro)	% 6=(7/6)*100	Value (million euro)	% 9=(8/1)*100	Value (million euro)	% 11=(10/1)*100
Regional OP	6.860.000.000	3.838.955.133	55,96	641.117.100	9,35	3.642.278.464	53,09	3.120.010.290	45,48	3.761.127.389	54,83
Large infrastructure OP	9.338.581.661	4.997.869.379	53,52	977.401.300	10,47	5.233.311.703	56,04	4.465.982.337	47,5	5.413.983.637	57,97
Competitiveness OP	2.379.787.234	829.372.642	34,85	199.054.244	8,36	634.881.651	26,68	571.399.486	24,01	770.447.730	32,37
OP Human Capital	4.596.057.078	2.680.077.529	58,31	439.279.385	9,56	2.411.227.006	52,46	2.070.780.440	45,06	2.510.059.825	54,61
OP Administrative Capacity	563.588.476	272.376.254	48,33	54.618.890	9,69	280.057.674	49,69	245.422.888	43,55	300.041.778	53,24
OP Technical Assistance	332.765.938	222.839.067	66,97	35.073.071	10,54	232.375.835	69,89	207.300.996	62,3	242.374.067	72,84
SUBTOTAL	24.070.780.407	12.841.490.004	53,35	2.346.543.990	9,75	12.434.322.333	51,66	10.650.890.436	44,25	12.997.434.426	54
PN Rural Development ***	10.968.146.956	7.316.443.330	66,71	325.119.856	2,96	7.001.910.189	63,84	6.998.948.966	63,81	7.324.068.822	66,78
OPPAM	168.421.371	105.233.219	62,49	17.310.404	10,28	80.966.513	48,07	72.869.861	43,27	90.180.265	53,54
TOTAL FESI*	35.207.348.734	20.263.186.553	57,55	2.688.974.250	7,64	19.517.209.035	55,44	17.722.709.263	50,34	20.411.683.513	57,98
OPAD**	497.013.044	274.639.127	55,26	54.671.435	11	269.422.660	54,21	245.116.344	49,32	299.787.779	60,32%
FECA 2015-2021**	13.262.875.689	12.585.031.175	94,89			12.585.031.175	94,89	12.370.111.974	93,27	12.370.111.974	93,27%

Table 3. The evolution of the absorption rate of European funds in the period 2014-2020

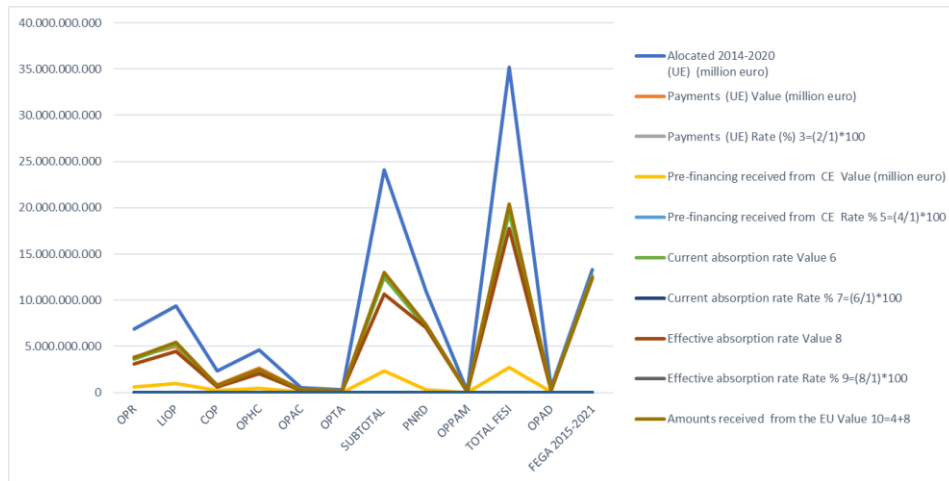


Figure 8. Evolution of the absorption rate of European funds on operational program in the period 2014-2020
Source: Processed by the author based on the data in Table 3

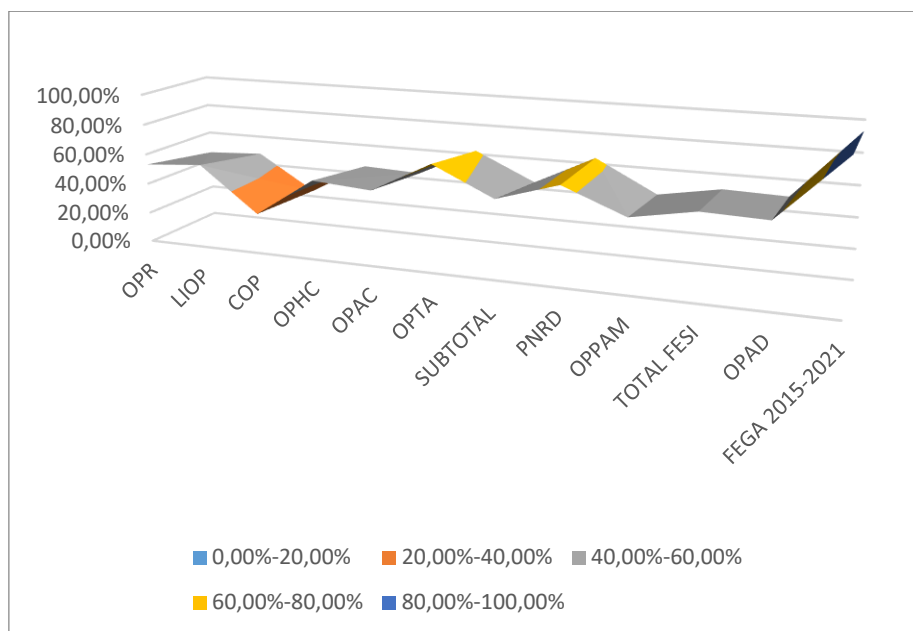


Figure 8. Evolution of the current absorption rate of European funds during 2014-2020
Source: Processed by the author based on the data in Table

Conclusions

The current crisis triggered by the pandemic is unprecedented. In addition to this, the current geo-political context in Eastern Europe, which determined an inflation rate in Romania of 13.8% in April, unprecedented since the 2008 crisis, many of the beneficiaries of European funds have difficulties in the completion of those projects because they are facing a very large increase in related costs, which could not be anticipated and cannot be accurately forecasted given the uncertainty about the duration and intensity of this shock affecting the economy and society.

Despite all the fiscal-budgetary measures adopted by the Romanian Government, to combat the effects of the COVID-19 pandemic, in 2020 there was a budget deficit of 9.2% of GDP (cf. Eurostat), ranking 6th in the EU on an equal footing with France. However, the Government has allocated approx. 46.3 billion lei representing approximately 4.45% of Romania's GDP for fiscal facilities and investments for companies affected by the pandemic.

National Resilience and Recovery Plan (PNRR) - With an allocation of 29.2 billion Euros, the national economy will benefit from about 5 billion Euros / year for the next 6 years (2021-2026), a level similar to foreign direct investment attracted by Romania annually. The funds allocated through the European Recovery and Resilience Mechanism will increase Romania's capacity to invest in public projects, including in small local communities, where the level of investments has decreased recently. Romania's budget on grants allocated through PNRR will decrease by two billion euros, as a result of GDP growth in 2021 compared to 2020, and the European Commission considers that if a state registers GDP increases, it will adjust the funds granted by MRR.

The Multiannual Financial Framework 2021-2027 - The new Multiannual Financial Framework of the European Union, for the period 2021-2027, provides for an allocation of about 46 billion Euros for Romania, thus consolidating the financial resources made available to the national economy. Priority areas for investment will include transport, health, digitalization, education and employment.

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