

EU funds absorption by Romanian Local Public Administration

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Abstract. The paper focuses on Romanian experiences regarding the EU funds absorption by administrative-territorial units. Local public authorities implement EU projects in order to develop their communities and to satisfy the people needs by public goods and services. The main issues that we will study in our paper are: (i) the evolution of EU fund absorption in local budgets, (ii) EU project financing throughout local budgets, (iii) the possibilities and opportunities to finance the EU projects. We will use the SWOT matrix in order to analyze internal and external conditions on the topic of the EU funds absorption by Romanian local public administration and we will recommend improvement measures in this specific field.

Keywords: local budgets, EU funds absorption, local public administration, SWOT analysis

JEL Classification: H41, H72.

1. Introduction

The achievement of people requirements is the main mission for local public authorities all over the world. We consider that an opportunity to perform this task is to provide them public goods and services. The Romanian local public administration's expenditures might increase by focusing them for a superior EU funds absorption.

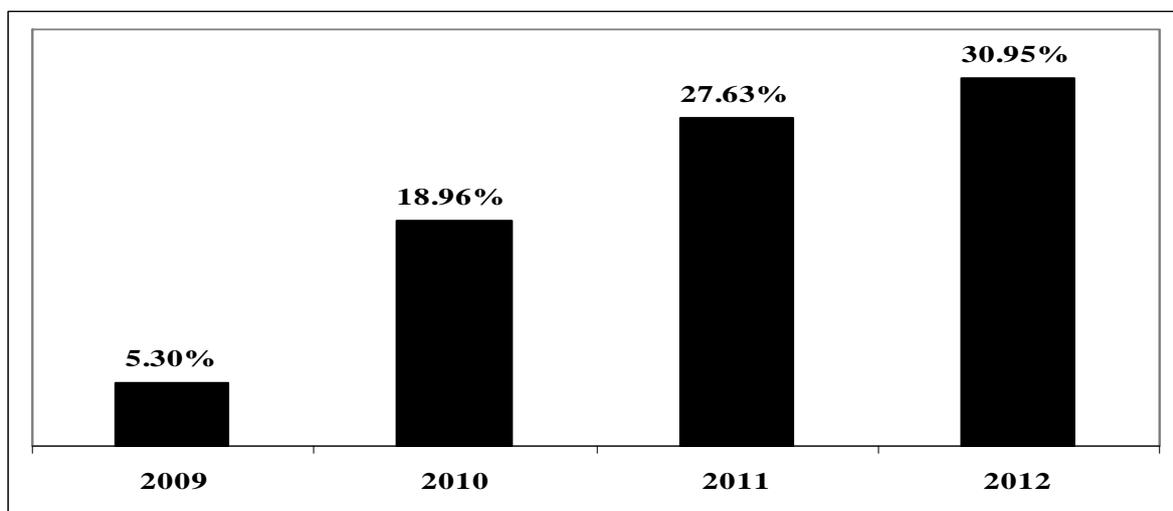
A lot of previous studies focused either on the EU funds absorption in Romania, or they paid attention to EU funds absorption in a certain Romanian region of development. The paper offer a general insight in EU fund absorption in all local budgets in Romania.

The paper is organised as follows: Section 2 reviews the existing literature regarding EU funds absorption, Section 3 explains the database and research methodology used in our study, Section 4 examines the evolution of EU fund absorption depending on the type of administrative unit, Section 5 studies the EU project financing throughout local budgets, Section 6 analyzes the possibilities and opportunities to finance the EU projects and Section 7 concludes.

2. Literature review

The EU absorption remains at a low level in Romania, but public administration contributed significantly to improve this result. Most of EU funds are distributed on the grounds of the projects elaborated at local and national level (Nanu et al., 2008). Although Romania becomes eligible to EU fund absorption since 2007, when joined the EU, the first years reflect an exploration period in using them.

Figure 1: Percent of administrative-territorial units implementing EU projects in total administrative-territorial units



Source: Our own findings based on data from Ministry of Regional Development and Public Administration

According to official data, percent of administrative-territorial units implementing EU projects in total administrative-territorial units had an increasing trend, from 5.3% in 2009 to maximum 30.95% in 2012. We consider that this evolution confirms the increasing involvement of Romanian local public administration in putting into practice projects funded by grants which should be accessed by competition between potential beneficiaries.

In our view, the delays in using the EU funds have multiple explanations. These have complex causes and are presented below:

Firstly, at the beginning of 2007-2013 programming period the Romanian management authorities had no calls for EU projects. Thus, local authorities had no possibility to implement such projects. Most projects were submitted in 2008, when 90% of the planned operations were available to beneficiaries; under these conditions, year 2008 has mostly covered the phase of writing and submitting projects to contracting authorities (Berica, 2011).

Secondly, medium and large projects require a large period in the first part of implementation which is focused on public procurement. These projects have small expenditures at the beginning and significant values subsequently. Because medium and large projects have long implementation time, important payments are usually made after one year from the start.

Thirdly, the lack of experience in local public institutions concerning the implementation of EU projects implied an accommodation time which last differently from one local authority to other. This can be included in managerial-administrative capacity, defined as the ability and qualifications of local authorities to prepare plans, programs and projects, to decide on them, to ensure coordination of partners involved, to comply with administrative and reporting requirements, to fund and monitor the implementation of programs and projects, to avoid irregularities (Zaman and Georgescu, 2009; Droj, 2010). Lungu (2012) showed that the scarcity of qualified personnel at the local level of public authorities is strongly related to the financial absorption capacity.

Fourthly, usually the loans from banking system were not sufficiently adapted to the specificity of local authorities. Nor, public administration was not prepared to help local authorities to guarantee loans. It took some time to offer support in this problem, like state guarantees for local governments (Cace et al., 2011).

Fifthly, the legal system was not right prepared for such a challenge, numerous legal acts being approved or amended in order to be operational from this point of view. Zaman and Cristea (2011) showed that legislative obstacles have an adverse impact on the structural funds absorption rate. These findings are valid for all the EU funds available for Romania.

We consider that the implication of local authorities in the EU projects was gradual. The lack of experience and less prepared employees are causes of this reticence. The variety of opportunities should stimulate local authorities to start at least one project in these numerous fields.

For the purpose of carrying out certain projects of common interest, the administrative-territorial units could cooperate together or could be associated (Munteanu, 2011). Taking advantage of this facility, in some cases, local authorities associated themselves into inter-communitarian associations which act in behalf of their associates. These associations are delegated with the implementation of different projects. This solution was mandatory when large projects covered several different administrative units.

3. Database and methodology

Our investigation will be conducted on annual data over the period 2008-2013 for Romania. The numerical data are from official sources as follows: EUROSTAT, Ministry of Regional Development and Public Administration, Bucharest Stock Exchange, Financial Supervisory Authority – Financial Instruments and Investments Sector and Electronic Public Procurement System. We will examine the statistical data, with the purpose of achieving specific indicators. Firstly, we will analyse the EU fund absorption depending of the type of local public administration. Secondly, we will identify possibilities and opportunities for the EU projects financing. Thirdly, we will use the SWOT analysis with the purpose of summarizing the conclusions and recommendations of our study.

4. EU fund absorption depending on the type of administrative unit

Local authorities become eligible to implement projects financed by EU post-accession funds since 2007 when Romania become member state of the EU. Although this facility was offered since the EU accession, the first years were characterized rather by explorations in this field. According to Romanian budget classification on local expenditures, since 2009 the EU funds are listed as specific item of expenditure called “Projects funded by non-reimbursable external grants”, and before that time it had not a distinct item.

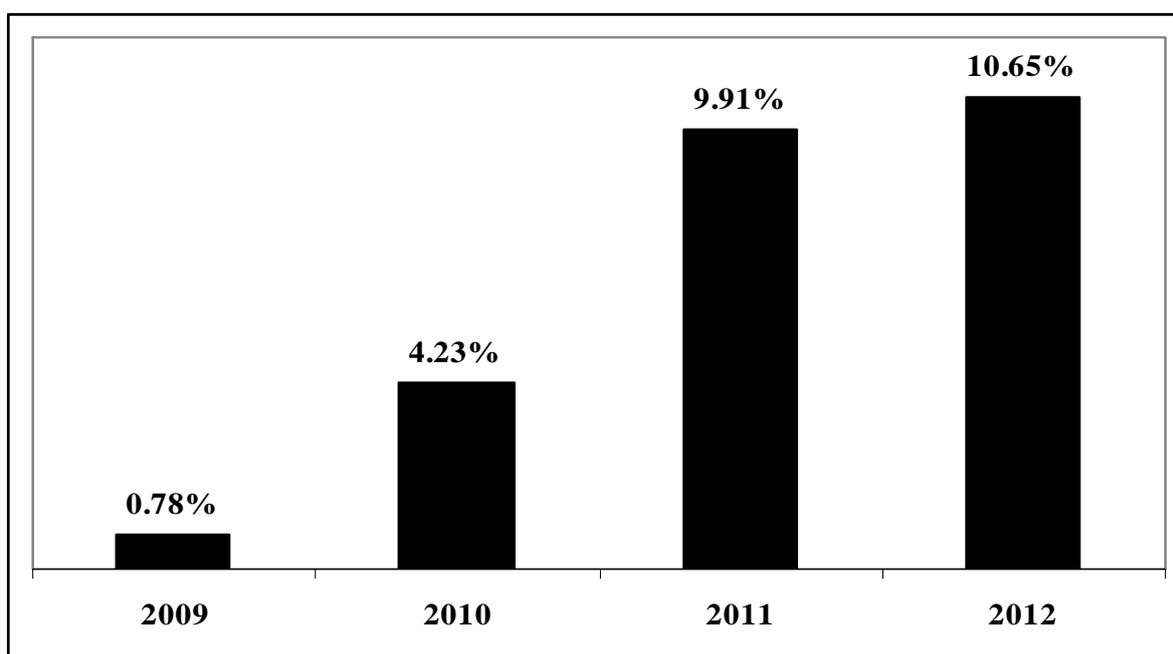
Table 1: Evolution of expenditures of local authorities for projects funded by external grants

Year	2009	2010	2011	2012
Expenditures (lei)	329,487,048	1,743,111,679	4,360,138,220	4,933,646,818

Source: Our own findings based on data from Ministry of Regional Development and Public Administration

The results presented above are the more unfortunate as the rate of co-financing by local authority is only 2% in most cases. The projects dedicated to local authorities benefit by the financial support of EU budget and state budget. In financial terms, from each euro spent by a local authority is expected to be reimbursed 98 cents if all requirements were correctly and in time fulfilled.

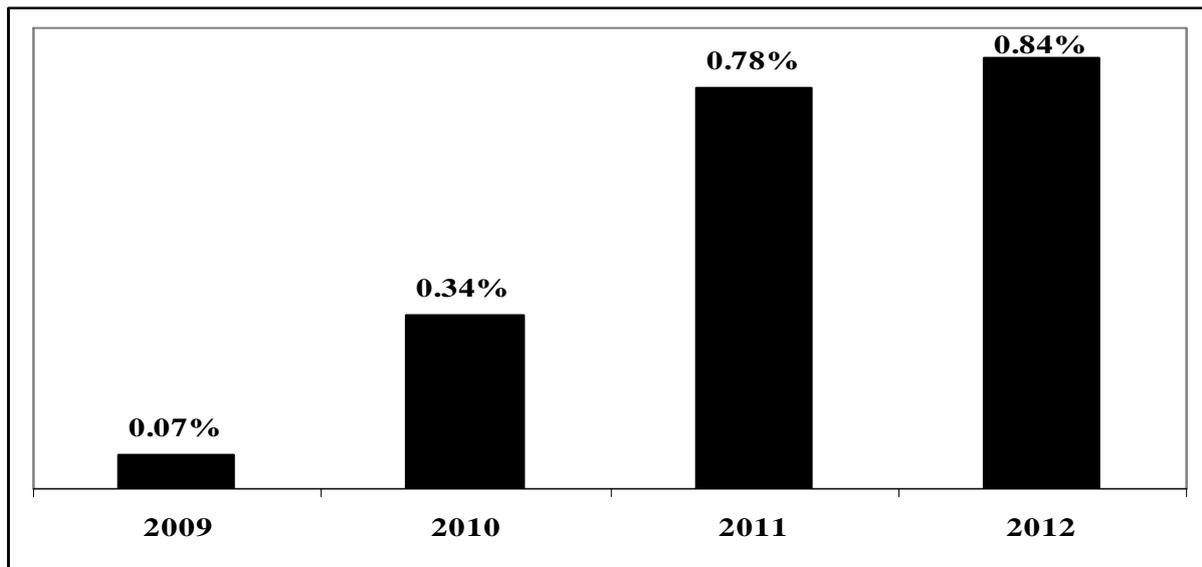
Figure 2: Local public administrations' expenditures to finance EU projects in total local budgets' expenditures share



Source: Our own findings based on data from Ministry of Regional Development and Public Administration

According to official data, local public administrations' expenditures to finance EU projects in total local budgets' expenditures share had an increasing trend, from 0.78% in 2009 to maximum 10.65% in 2012. We consider that the evolution of this index validate the efforts of Romanian local public administration in order to implement projects funded by external non-reimbursable grants.

Figure 3: Local public administrations' expenditures to finance EU projects in GDP share



Source: Our own findings based on data from Ministry of Regional Development and Public Administration

According to official data, local public administrations' expenditures to finance EU projects in GDP share had an increasing trend, from 0.07% in 2009 to maximum 0.84% in 2012. We can assert that the rise of EU project expenditures in local budgets emphasizes the implication of local authorities in sustaining these projects.

Romanian public administration is organized in three tiers corresponding to central, county and municipality levels. This organizational structure is common for numerous European countries, almost all countries in its neighbourhood having similar systems: Albania, Austria, Belarus, Bosnia and Herzegovina, Croatia, Greece, Hungary, Moldova, Poland, Russian federation, Serbia and Montenegro, and Ukraine (Schakel, 2010).

The type of administrative unit is important because numerous differences can be identified using this criteria. Between various administrative units the competencies are dissimilar as the effect of low or development level. Although inside each type of administrative unit we find homogeneity, differences between these types are quite important and significant.

The Municipality of Bucharest and its six districts manage the most important urban agglomeration in Romania, having 14,500 euro GDP per capita in 2010 (EUROSTAT). Administrative competences and local finances in the Municipality of Bucharest are split between General City Hall and City Halls of the Districts. Counties have responsibilities in economic and social development in each of the 41 counties which cover the country's surface (excepting Bucharest Municipality). The expenditures of counties are focused on social care, roads, health care

and special education. Cities, towns and communes are local administrative units which are the closest to the citizens. These administrative-territorial units count over 3,200 units.

Financial resources are allocated by local public administration to sustain the pre-university education units, a certain part of public health system, local infrastructure, green spaces, some culture institutions etc. We consider that there are several domains suitable with local authorities' competencies in which EU funds can supplement the national financial resources.

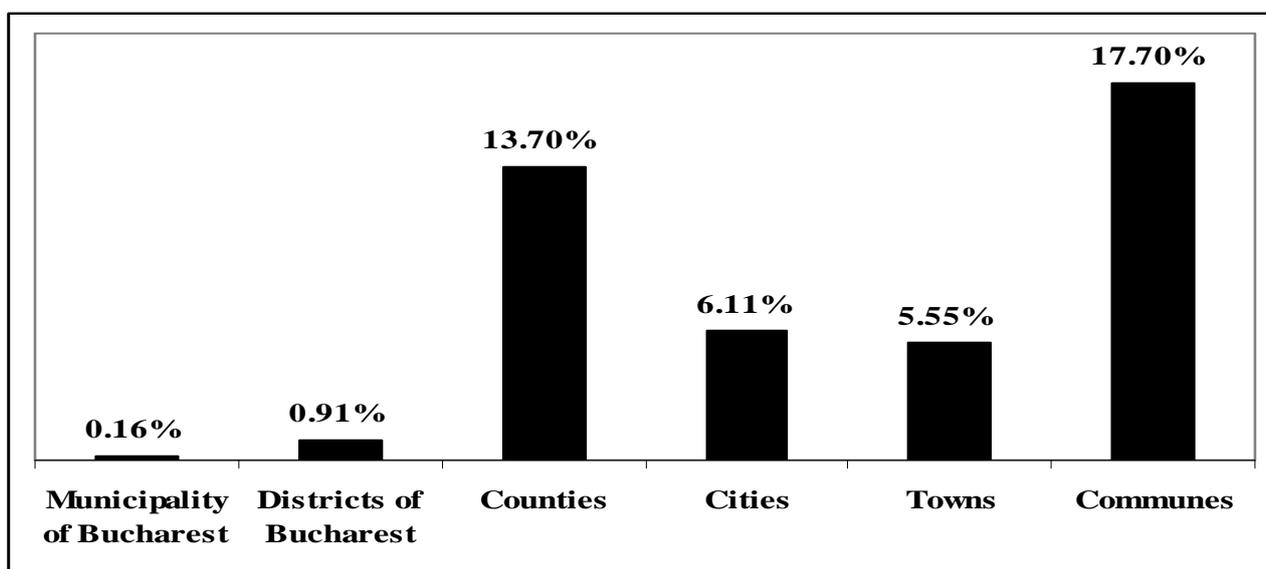
Table 2: Expenditures for projects funded by external grants in 2012

Administrative unit	Municipality of Bucharest	Districts of Bucharest	Counties	Cities	Towns	Communes
Expenditures (lei)	5,409,684	35,609,933	1,193,558,879	1,266,146,635	200,502,666	2,232,419,021

Source: Our own findings based on data from Ministry of Regional Development and Public Administration

We believe that different expenditures for projects funded by external grants reflect the capacity and possibility of these administrative units to implement EU objectives.

Figure 4: Expenditures for projects funded by external grants in local public administrations' expenditures share in 2012



Source: Our own findings based on data from Ministry of Regional Development and Public Administration

According to official data, expenditures for projects funded by external grants in local public administrations' expenditures share in 2012 is minimum 0.16% for the Municipality of

Bucharest and maximum 17.7% for the communes. This share should be shaded taking into account the two elements of the ratio: EU funds absorbed respectively total expenditures. While Municipality of Bucharest is very rich and have an impressive budget constituted from own resources, communes have significantly smaller financial resources obtained from state budget transfers. We consider that from local administrative units the communes have the highest potential to absorb the EU funds. Thus, the communes implement specific projects such as: water supply, sewerage, gas supply, road construction and other type of projects.

5. EU project financing throughout local budgets

EU projects are co-financed by local authorities only in share of 2% in majority of cases. However, local authorities must have enough liquidity to implement the project as it was scheduled. Compared to wage payments, goods and services payments for example, which can be done only in certain periods of each month, (Gyorgy et al., 2011) stated that 'EU project payments can be made during the entire month without supplementary restrictions'. We consider that the involvement of local authorities in such projects should be a priority for public decision makers, with the purpose of developing the local community.

Local authorities, in their quality of EU funds beneficiaries for their projects, can obtain a part of eligible funds as pre-financing resources. This facility permits beneficiaries to receive a part of the financial aid before the start of the implementation of the project (Ciocoiu, 2013). Local budgets, after cashing the pre-financing resources for a certain project will be able to use them exclusively in implementing that project. We judge that this mechanism is effective in financial management because it reduce the pressure of making available liquidities for projects' payments. Unfortunately, pre-financing level is reduced and the amount due to the beneficiary may be transferred in instalments. Thus, starting from 2011, the pre-financing resources for most declined from maximum 30% to maximum 10% of the eligible value of the project. Pre-financing is granted in at least two instalments and the first payment granted share is maximum 5% of project eligible value. We consider that these supplementary restrictions increase the difficulty for EU projects implementation by local administrative units. Legislation changes are frequently threats regarding the EU projects implementation, as each local public administration struggles to forecast the cash-flows needs.

Analysing the situation of local budgets in 2012 we observe some characteristics regarding their financial activity related to EU projects. The data offered by Ministry of Regional Development and Public Administration show the receipts of each local budget for EU projects (cumulated pre-financing and reimbursements) and payments for these projects. The synoptic overview of these data can be summarized as following:

- A. 1080 local budgets reported financial operations with EU funds in 2012 summed up 3.5 billion lei in revenues and 4.9 billion lei in expenditure.
- B. 925 local authorities recorded receipts for EU projects different amounts which come to 56 million lei, with an average value of 3.2 million lei. Largest receipts belong to the budgets of counties (Giurgiu, Bacău, Botoșani, Arad etc.) or large cities (Craiova, Iași, Cluj-Napoca or Brăila).
- C. 999 local budgets supported EU project implementation by financing these projects with amounts which vary between minimum 200 lei and maximum 93.8 million lei. The average value of payments was 4.6 million lei, significantly important in counties (with an average of 29.1 million lei) and large cities (with an average of 14.4 million lei).
- D. 368 local budgets finished 2012 with liquidity surplus on EU projects (which rarely exceed one million lei), which means that they cashed more than paid. These surpluses could be the result of getting pre-financing for future projects or reimbursements for previous requests. Local authorities will have the option to use this money for future projects or to reimburse the loans they contracted for finance projects.
- E. 689 local authorities ended 2012 with liquidity deficit in implementing the EU projects. The payments of these authorities overrun receipts with amounts which exceeded one million lei in 241 cases. While covering liquidity needs of several hundred lei do not represented a big challenge, in many cases local authorities had to contract loans.

6. Possibilities and opportunities to finance the EU projects

Local public authorities must have financial cash-flows to implement each project. In case of EU projects, public administrations recover a significant part of the eligible costs which they paid in advance. The liquidities can be obtained from different financial institutions, depending on: (i) the financial stability of public authority and (ii) the facilities offered by financial market.

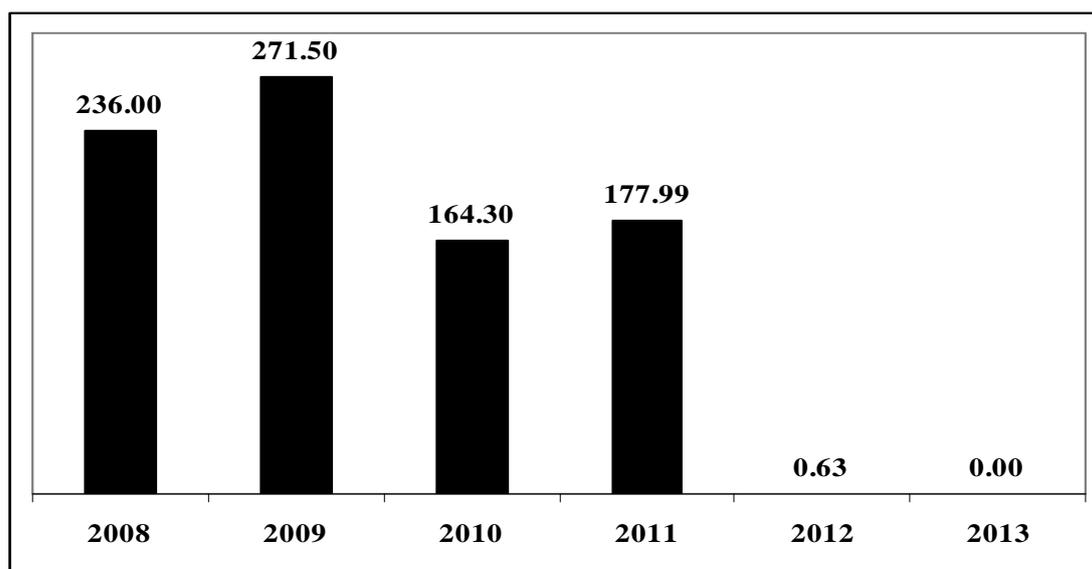
In addition to pre-financing resources, the main cash-flows to implement EU projects by Romanian local public administrations could be collected from three sources: (i) own budgetary resources, (ii) municipal bonds and (iii) banking loans. So, there are several possibilities to finance the EU projects.

Own budgetary resources have the advantage to be a free of charge cash-flow, but unfortunately they are limited. In many cases, local authorities use for the EU project implementation the surpluses obtained by local budget in previous years. These surpluses are savings made by the local authority and usually are used for investment projects. But, since the EU projects are focusing in many cases on infrastructure investments, it is recommended to use

surpluses in order to implement them. When reimbursements will be done for these expenditures, the liquidities will remain at the authority's disposal to use for implementing other projects.

Municipal bonds were reintroduces in Romanian local authorities' portfolio since 2001 when Predeal municipality issued the first bonds after World War II (Pop, 2006). The appetite for this financial instrument was more significant in the first part of the 2000s. The objectives of the municipal bonds issues were focused to modernize some principal roads in towns, cleaning water systems, extensions of water nets and sewerage, way of access to tourist areas, natural gas nets, modernizing districts (Moşteanu and Lăcătuş, 2008). We deem that these objectives are in many cases similar to those financed from the EU budget. But, the maturity period for municipal bonds (which can reach decades) and the period of subscription reduced the attractiveness of this instrument in behalf of banking loans. The value of issued municipal bonds decreased after the EU accession. While in 2008 the financing attracted through municipal bonds and loans was almost equal, in 2012 only a small authority issued bonds and in 2013 none local authority issued bonds.

Figure 5: Value of issued municipal bonds (million lei)



Source: Our own findings based on data from bvb.ro, cnvmr.ro and www.e-licitatie.ro

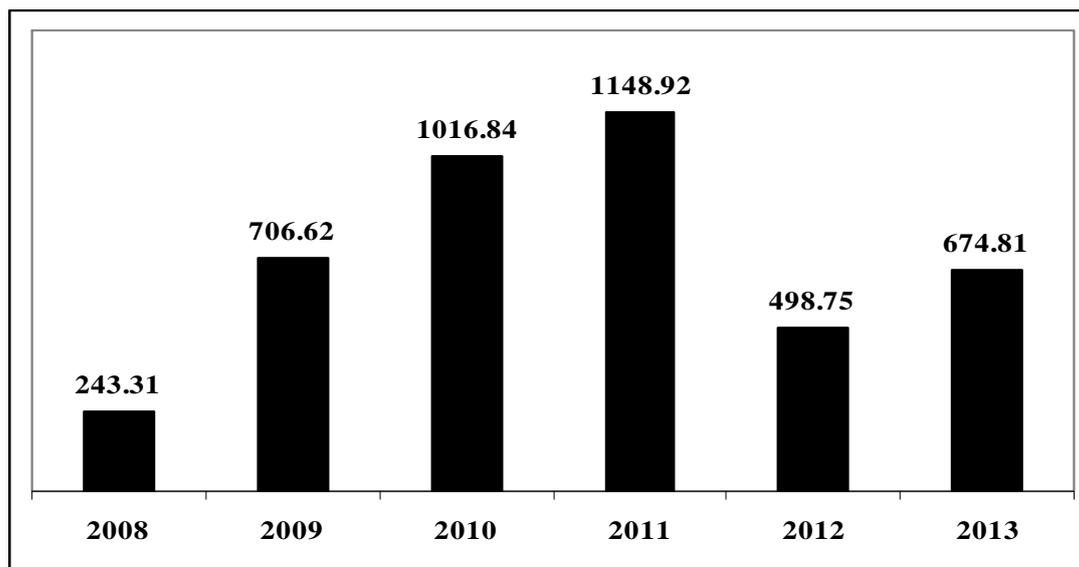
According to official data, the value of issued municipal bonds had generally a decreasing trend, from 236 million lei in 2008 to maximum 271.5 million lei in 2009, reaching to minimum 0.63 million LEI in 2012.

Although banking loans are not costless, the income expenditures are significantly smaller than the co-financing resources get from the EU budget and national co-financing. This financial resource is conditioned by legal ceilings regarding the level of annuities afforded by each local authority, but also by the national ceiling of indebtedness established annually by the Parliament. In

accordance with the Romanian local public finance law, the amount of debt to be paid during a year should not exceed 30% of local budget's own revenues.

The total value of loans contracts awarded by Romanian local authorities after the EU accession exceeded one billion EURO. We consider that the large value shows the increasing need of financing in the first years of the EU financing framework, but also it shows the effects of the financial and economic crisis.

Figure 6: Value of awarded loan contracts by local authorities (million lei)



Source: Our own findings based on data from bvb.ro, cnvmr.ro and www.e-licitatie.ro

According to official data, the value of awarded loan contracts by local public authorities had an increasing trend, from 243.31 million lei in 2008 to maximum 1148.92 million lei in 2011, reaching to 674.81 million LEI in 2013. We consider that the banking loans decrease in 2012 could be explained by the policy of several local authorities which preferred to contract revolving loans – that exempt them to repeat procedures.

7. Conclusions and recommendations

Synthesizing the presented issues, we can group the main findings in the structure of a SWOT matrix applied to the EU funds absorption by Romanian local public administration by correlating the internal elements - that identify the strengths (S) and the weaknesses (W), and the external elements - that identify the opportunities (O) and the threats (T).

Table 3: The SWOT matrix regarding the EU funds absorption by Romanian local public administration

<p>Strengths: (S)</p> <ul style="list-style-type: none"> - increasing involvement of Romanian local public administration - diversification of local financial resources 	<p>Weaknesses: (W)</p> <ul style="list-style-type: none"> - delays in using the EU funds - low number of local authorities which use EU funds
<p>Opportunities: (O)</p> <ul style="list-style-type: none"> - several domains for implementing the projects dedicated exclusively to local authorities - numerous possibilities to finance the projects 	<p>Threats: (T)</p> <ul style="list-style-type: none"> - legislation changes - costs with liquidities and non-eligible expenditures

Source: Our own findings

The percent of administrative-territorial units implementing EU projects in total administrative-territorial units increased from minimum 5.3% in 2009 to maximum 30.95% in 2012, but this value remains very reduces, showing the incapacity or carelessness of using such an opportunity. Also, local public administrations' expenditures to finance EU projects in total local budgets' expenditures share increased from minimum 0.78% in 2009 to maximum 10.65% in 2012 and local public administrations' expenditures to finance EU projects in GDP share increased from minimum 0.07% in 2009 to maximum 0.84% in 2012. In our view, all these evolutions explain increasing involvement of Romanian local public administration in the EU funds absorption.

We recommend that each local public administration have a specific strategy in order to reduce or eliminate delays in using the EU funds.

As there are several domains financed at local level, we consider that the administrative-territorial units have the opportunity to implement more EU projects. Local public administrations have the opportunity to implement EU projects by using pre-financing resources, own budgetary resources, municipal bonds and banking loans.

Frequently changes in legislation are threats for the EU projects implementation at local level, so we recommend that public decision makers perform legislation changes only it is imperative to do so.

Local authorities concentrated their efforts to different types of financial instruments in order to obtain the funds at best price and in time. We deem that public decision makers adjusted the strategies to changing economic environment and they used various legal mechanisms to obtain the financial resources required to implement the EU projects.

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