

## Research Paper



## EU BUDGET AND EU FUNDS ABSORPTION IN ROMANIA

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### ABSTRACT

**T**hrough the EU budget annually coordinate the activities carried out between Member States, EU policy orientations and priorities. Annual budgets are part of the budget cycle of seven years, called “financial perspectives”.

In the present paper I analyzed the EU budget and the EU funds absorption in Romania.

**KEYWORDS:** Romania, European Union, EU funds

### INTRODUCTION

The European Union does not direct source taxes, as happens with national budgets, so all Member States annually allocate 1% of their Gross Domestic Product (GDP) (in the form of contributions based on the collection of VAT on duty collected on the overall level of GNI). These contributions represent between 95% and 99% of the EU budget each year, and the remaining funds come from fines or taxes on salaries of EU officials. How the GDP and VAT collected or customs duties collected differ widely from one Member State to another, the largest six European economies (Germany, France, UK, Italy, Spain and the Netherlands) come to spend about 75% of the EU budget.

The multiannual financial framework is not the EU budget for a period of seven years, but a mechanism to ensure the predictability of EU spending, while respecting strict budgetary discipline. It defines the maximum amounts (“ceilings”) for each major spending area (“heading”) of the Union budget. In this context, every year, the European Parliament and the Council, representing the “budgetary authority” Union must agree on next year’s budget.

In reality, the annual budget adopted always fall under the overall ceiling of the multiannual financial framework establishes actually political priorities for the coming years and is therefore both a political framework and the budgetary one.

The main destinations of EU funds (2007- 2013) are:

- the European Union as a global player- 51.6%
- citizenship, freedom - 1.30%
- resources - 42.50%
- competitiveness - 4.60%

The economic downturn has the effect of decreasing individual income and spread of profits companies and the result is lower revenues from taxes such as VAT and other taxes. Simultaneously, there is an increase in spending on unemployment benefits and subsidies, which increases the budget deficit.

European Commission presented proposals on the multiannual financial 2014 - 2020 to mid-2011, these proposals being called in the literature “package multiannual financial framework” because the Commission’s proposals are very numerous.

The budget requested by the European Commission for that period was 1.003 billion euros, which was approved a budget of 960 billion euros. Given the global economic crisis, EU leaders agreed to reduce its financial resources as compared with the multiannual financial framework approved for the previous period (2007-2013).

For the period 2014 - 2020, the entry into force of the multiannual financial was subject to final agreement with the European Parliament.

In this respect, it should be noted that the agreement reached with the European Council limited the maximum cost that the 28 Member States may, in the period from 2014 to 2020, to 959.99 billion EUR in commitments to pay, the equivalent of 1 % of EU gross national income. Consequently, total expenditure ceiling was reduced by 3.4% compared to the financial multiannual period 2007 - 2013.

This reduction was to reinforce the national public finance. This is unique in the history of the European Union, so far it is experiencing increase compared to previous periods.

Compared with the financial multiannual period 2007 - 2013, which was 942.78 billion euros, the current multiannual financial will be 908.40 billion for the period 2014 - 2020.



Member States will be allowed to retain only 20 % of traditional own resources to cover collection costs instead of 25%, the percentage required in the past. According to the adopted budget, cohesion policy has earmarked 325 billion for EU regions.

The economic crisis and the pressure on national budgets were the main causes that generated decrease compared to the previous budget. In negotiations with the European Commission, the European Parliament insisted that each euro is to be used in the most efficient.

In this regard, 94% of the EU budget will be reinvested in the benefit of companies and citizens in the Member States, 7% of the EU budget was allocated to research and innovation, compared to 5% of the previous European assigned to these areas.

Also, it is noted that four million young people will be able to study abroad under the Erasmus. Although current budget is reduced compared to the previous one, we can say that it is more the flexible than the previous budget.

Outstanding flexibility back budget European Parliament opposes cuts in employment, research and innovation.

By comparison, Germany, which contributes most to the annual budget allocated in 2015, about 26 to 27 billion (approx. 21% of the total), while Romania has contributed 1.32 billion euros (approx. 0.9% of the total EU budget).

Overall, the EU accession in January 2007, and by the end of 2015, the latest official data provided by the European Commission, our country contributed to the EU budget and received 10.6 billion euros from 33.6 billion euros, or more than three times more than it helped.

Most of the European financial allocation for Romania represents funds available for investment in regional development, specifically to those projects that allow us to reduce the development gap compared to other European countries.

The remaining funds go mainly to agriculture in order to support Romanian farmers to remain competitive and profitable. For example, in 2015, direct subsidies granted by the EU for agriculture Romania amounted to 1.45 billion euros, which added another 1.5 billion for rural development projects.

These are all concrete statistical data that shows, without question, the advantages of belonging to the European Union. If you add the free movement, access to the single market and participation in other important European policies, surely benefits of membership of the Union are more significant.

On 1 January 2017, they celebrated 10 years of accession to the European Union. From January 2007 until November 30, 2016, Romania received from Brussels over 40.5 billion euros in European funds, but helped turn the EU budget with about 13.6 billion euros.

SCLD - CFM 2007-2013 + CFM 2014-2020

Denumire	Realizat 2007	Realizat 2008	Realizat 2009	Realizat 2010	Realizat 2011	Realizat 2012	Realizat 2013	Realizat 2014	Realizat 2015	Realizat 2015 (execuția la 31.03.2015)	Realizat 2007-2016 (execuția la 31.03.2016)
I. SUME PRIMITE DE LA BUGETUL UE (A+B)	1.595,71	2.642,34	2.930,24	2.295,83	2.621,56	3.442,13	5.595,83	5.981,02	6.438,42	2.085,08	35.591,00
A. SUME PRIMITE DE LA BUGETUL UE din CFM 2007-2013	1.595,71	2.642,34	2.930,24	2.295,83	2.621,56	3.442,13	5.595,83	5.922,51	5.463,30	535,72	33.448,05
B. SUME PRIMITE DE LA BUGETUL UE din CFM 2014-2020	X	X	X	X	X	X	X	48,51	945,11	1.142,32	2.142,95
II. SUME PLATITE CA TREBURI BUGETUL UE	1.150,89	1.238,93	1.364,43	1.198,91	1.236,24	1.427,77	1.534,77	1.619,85	1.455,25	461,46	12.739,95
III. SOLIDUL FLUXURILOR = I - II	448,82	1.373,41	1.565,81	1.134,72	1.325,36	2.014,36	4.022,07	4.361,13	4.982,17	1.623,61	22.851,45

\*) Cadru financiar multi-anual

It follows a positive net flow for our country nearly 26.9 billion euros in 10 years without one months, according to the latest data available from the Ministry of Finance.

Mistakes of 10 years of European funds management

First Romania has benefited most from European funds which we allocate the EU budget. First, our country has failed to absorb all the money that has been made available in the multiannual budget of the European Union 2007 - 2013, approximately 33 billion euros.

Nearly 4 billion lost our country in the first seven years as a member of the Union and the blame in varying degrees, is right, all the governments which led Romania during this period.

It all started with the Tariceanu Government, which launched more than a year late, operational programs and management authorities responsible for the management of EU funds.

Hence, as a domino, project contracting, implementation and then, finally, they suffered delays the absorption of European funds, so a good portion of the funds allocated to Romania remained unspent.

Secondly, European funds were not spent on projects always reliable, sustainable jobs that create stable and well-paid to be profitable in the long term, including after

European funding ends. Ponta government, artificially inflate the absorption rate for the period 2013 - 2015.

Only the projects contracted in that period are not brought real benefit to the economy and were only money spent on paper is not okay now subject investigation of the European Anti-Fraud Office (OLAF).

Third, the same Government Ponta repeated mistakes Tariceanu Government and the new multiannual budget of the European Union 2014 - 2020, delayed the launch of the operational programs and management authorities responsible for the management of EU funds and also failed to comply with the 36 the ex-ante conditionality's imposed by the European Member States to benefit from European funds.

Ciolos government failed to make progress on the contrary a number of authors were stopped by the European Commission.

Within these funds, the most important according to data from the Ministry of European Funds were to:

- The rural development and fisheries (rural roads, irrigation infrastructure projects of agriculture, aquaculture, fishing, etc.): 7.73 billion euros
- The absorption level above 90%; direct payments per hectare: over 7.65 billion euros;

- Structural and Cohesion funds (for roads, railways, landfills, drains, social projects, investments of private companies, research projects, development institutions, etc.): euro 17.25 billion.

The new EU Multiannual Financial Framework 2014-2020 began harder for all member states, and due to delay adoption of the necessary documents at European level.

All because of delays, Romania has attracted so far only 300 million of the 31.2 billion euros allocated from the EU budget from 2014 to 2020 for investment in infrastructure, cohesion, rural development (do not take this into account funds for direct subsidies Agricultural we receive proportionally agricultural area without having to be submitted financing projects).

In comparison, Poland has already attracted 1.3 billion euros and 24 of the 25 designated management authorities needed to manage operational programs.

10 years after joining the EU, Romania and Bulgaria the least developed member countries of the bloc.

According to the European Commission in the year 2014 two-thirds of rural households in Romania had no toilets in the house, or those persons are using private courtyard.

In his first eight years as a member of the European Union, Romania areas, representing 46% of the population, failed to leave the primitive state in which there was EU membership.

In 2014, 27% of the rural population was connected to public water supply (92.7% in urban areas) and only 5.3% were connected to the sewerage system (82.8% in urban areas). According to the EC, only 34% of rural households had a toilet inside the house, in 2014.

However, the percentage of households with a toilet in the house doubled in the first eight years of the country's accession to the EU, according to statistics. Romanian rural population also had the highest poverty among employed persons from all over the EU.

Basically, if 20% of Romanians living in rural areas had a job, revenues were not sufficient to take them out of poverty.

“Low incomes associated with semi-subsistence farming are the cause of the highest rates of poverty in the work of the European Union (20%) and a concentration of monetary poverty in rural areas (71%)” - shows 55% of all inhabitants rural were at risk of poverty or social exclusion (compared with 31% in small towns and suburbs and 28% in large cities) in 2014.

Last but not least, a big problem of governments and ministers of European Funds in Romania were erroneous payments estimates. 2015, and there is a chance that all the talk about government Ponta, Romania has “managed” to estimate it will spend three times more money than actually spent (6.5 billion vs. 2.1 billion euro), the European country that has sent the Commission the most unrealistic estimates. It is a big problem because the Commission devise EU annual budget proposal based on these estimates.

And if you used that Romania always send the wrong estimates, there is a risk to allocate in the budget proposal amounts lower than those estimated by our country even in the years when maybe we got close to the estimates provided.

One of budgetary priorities will have to invest more money in European funds for infrastructure, research, development and innovation to help, primarily SMEs and young entrepreneurs. That means, first, that the Government provides more realistic estimates of payments.

Secondly, the future government must urgently fulfill all ex-ante conditionality, to give way to all operational programs.

Otherwise, we enter the crisis and repeat the mistakes of budgetary year 2007 - 2013 have made us lose about 4 billion funds that have been allocated. It's already been three years of budget year 2014 to 2020 and spent less than 1% of the money we were allocated. If not sharpen engines next year, we'll be back slacker absorption of European funds.

Program Operative 2007-2013	Alocare 2007-2013	Avans incasat de la CE pentru perioada 2007-2013	Declaratii de cheltuieli transmise la CE (rata de absorbtie curenta)		Rambursari de la CE (rata de absorbtie efectivă)		Rata sumelor incasate de la CE (cu avans)
			Valoare	%	Valoare	%	%
			1	2	3	$4 = (3/1) * 100$	5
POS CCE	2.536.546.054	220.870.000	1.021.495.382	75,75	1.408.302.016	59,07	68,13
POAT	170.237.790	15.321.401	137.529.290	80,79	137.529.250	80,79	89,79
POS MEDIU	4.412.470.138	520.775.940	3.138.270.256	71,12	2.945.575.050	66,76	78,56
POR	3.906.021.762	335.341.959	2.567.309.921	64,75	2.567.815.128	64,75	73,20
POS DRU	3.476.144.996	451.898.849	1.894.310.402	54,51	1.726.868.138	49,68	62,68
POST	4.288.134.778	225.615.555	2.686.323.663	62,65	2.686.323.663	62,65	74,00
PODCA	208.002.622	27.046.341	194.215.274	93,37	170.562.150	82,00	95,00
TOTAL	19.057.658.140	2.105.874.015	12.540.454.188	65,80	11.733.056.135	61,57	72,62

And low absorption means two big problems for Romania. The first would be lost again billion received free of charge from the EU due to incompetence in managing European funds.

Second, and worse, if in 2020, 13 years after joining the EU will prove their inability to spend all the funds we make available are convinced that many countries in the category of contributing to the budget European with more money than they receive will ask if not better reduce the

funds allocated to our country and they invest in other budgetary priorities since we keep them stuck in vain.

Thirdly, we need to look and quality of absorption of EU funds, not just quantity. In nine years I received European funds of 34 billion euros, but we built just 293 kilometers of highway from European funds. Instead, they spent billions of euros on unnecessary investment, feasibility studies and symposia presentations.

Over more than a month celebrated 10 years of experience in European spending. Government and local authorities should already know the types of investments that increase the country's competitiveness and bring us closer to the development of the western world, and the types of projects that were approved just to round absorption rate.

First be approved more quickly and ultimately be removed from the list of priorities. Last but not least, it needs more information.

Very often, entrepreneurs, farmers, businessmen in Romania or do not know or find it too complicated to submit a project for European funding. I keep getting questions and requests for advice from people in the country who would like to obtain the grant, but often do not know where to start, or were stuck in bureaucratic horrifying.

It must be the duty of the competent authorities, the Government and ministries, to county and local authorities, to show more openness, develop communication campaigns more effective and caravans of European funds to cross permanently country far and wide. It must meet the people who could develop a business or a social project by European funds, not just to wait for them to come to the counter to ask for information.

## CONCLUSION

EU budget reform appears to be particularly necessary as a result of budgetary pressures exerted by the accession of new Member States large and other internal pressures but also because of the intensification of market trends and European and global society, and pressures climate change, increased global nature of economic relations and security of energy resources.

In the context of an enlarged European Union, the Community budget must have a modern and flexible structure. In order to achieve a compromise between the need for flexibility and predictability that should be analyzed the relationship between the efficient allocation of budgetary resources and flexibility over the medium term budgetary allocations.

Discussing the budget indicators, ie revenues and expenditures Community fundamental strategic option which the Union has to do now and in the future is between a budget with a decent with hard budget constraints - like the one we have now - and a lax budget constraints, which will end sooner or later the enormous expenses.

This indifference is surprising especially because there are European funds that are available to teach us to spend these funds which we allocate EU.

In addition, we have funds to better inform the potential beneficiaries and to increase the visibility of these instruments. And eventually, civil servants managing European funds receive very substantial wage increases in order to help promote and proper spending of this money.

In other words, money no need investment the more the link between these public authorities is the weak link. Until we learn from mistakes and we will continue to repeat, from indifference or incapacity administrative, Romania will not take full advantage of these free money received from the European Union and the development gap between us and Western countries will not be reduced but, on the contrary, will increase further.

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