CO-FINANCING ONE OF THE MANY PROBLEMS IN THE PROCESS OF ACCESSING EUROPEAN FUNDS

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ABSTRACT: *In the current financial crisis access and absorption of structural funds is the biggest challenge for government, for business, farmers and nongovernmental organization sector. European integration itself depends on the optimization and substantial absorption for Romania during 2007-2013. This research work displays diverse aspects concerning the Romania's* ability draw *of irredeemable funds in period 2007-2010, focusing on co-financing activity. Today, the problem absorptions are no longer able to develop projects, that knowing a significant improvement. The volume of projects is increasingly greater that, sometimes exceed the funds available. The issue moved to the stage of implementation and funding.*

KEY WORS: *absorption capacity; co-financing; convergence; irredeemable financing; management authorities*

JEL CLASSIFICATION: *F36, O19*

1. INTRODUCTION

The structural funds are post - adhesion funds paid from the European Union budget, whose main objective is to provide support for the member states so that the economic and social disparities between the European Community regions diminish.

They are used to support investments in (Florescu & Brezeanu, 2009, pp.253-258):

- education;
- health;
- development of IMMs (small and medium sized enterprises);
- infrastructure and transport;

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- environment;
- energy sector;
- agriculture;
- tourism;
- research;
- professional training etc.

One of the fundamental objects of the European Union is the strengthen of the economic-cohesion by reducing the regional disparities. This is also the reason why the member states participate to a European regional policy financed from European funds, which confers a concrete and immediate meaning for the communitarian solidarity.

The European Union economic and social cohesion policy for 2007 - 2013 focuses on three main objectives:

- *Convergence*, which is an objective financed with 80% from the budget destined to structural and cohesion funds and which regards the regions from the member states of the EU that have PIB/inhabitants less than 75% from the communitarian average;
- *Competitiveness and employment,* is an objective financed with 15% from the budget destined to structural and cohesion founds that regard regions that are not eligible within the objective of convergence;
- *European territorial cooperation* is the objective financed with only 5% and refers to transnational, trans-border and interregional cooperation.

Romania, having registered before 2007 a GDP of approximate 35% of the European average is considered eligible for receiving support within the objective „Convergence" as well as within the objective „European territorial Co-operation".

Structural Instruments of European Union do not act on their own but they are co-financed, mostly from the public resources of the member state but also from private financial contributions. Within the objective „Convergence" the maximum rate of the communitarian contribution is 85% for one operational programme, not only for Structural Funds (ERDF, ESF), but also for Cohesion Funds.

The structural assistance allocated to the Member States from the EU27 for 2007-2013 is of 308 billion euro, which represents 35% of the EU budget of an 862 billion euro value. The amounts allocated to the new Member States for the 2007-2013 period are significantly larger than in first exercise. For EU 8 plus Romania and Bulgaria the total amount is 175 billion, representing more than half the entire budget allocated to cohesion (Florescu & Brezeanu, 2009, pp. 297-304).

When in comes to such amounts, everyone in questioning the manner of improving the capacity to manage the structural funds. All the same, while European funds absorption is a priority of governors, the entrepreneurs claims often mostly the series of problems who make accessing EU funding a cumbersome process, marked by excessive bureaucracy, the major difficulties in obtaining financing.

2. DIFFICULTIES ENCOUNTERED IN ABSORBPTION PROCESS OF THE EUROPEAN FUNDS

In the process of submitting and implementing a project of the European funds applicants must overcome several difficulties, from the general to specific.

General difficulties - those faced by Romanian developer to implement any project, whether to grant or not:

- *inadequate management:* insufficient resources to complete project, inconsistency in time, blur the requirement, overload tasks generally leads to greater stress and a rapid depletion, which means long-term average and lower yield;
- *absence of the know-how:* an overall lack of technical information which is secret (is not generally known or readily available), substantial (includes information to be useful) and identified (information is described such that it is possible to verify if they meet the criteria of secrecy and substantiality);
- *legislative instability*: changes/additions in common EU legislation, changes/additions in Romanian legislation, non harmonize national legal provisions with Community legislation, regulations in force which require different responsibilities for the same result, procedures/rules for applying complex legal are impractical or creates confusion, lack of guidelines/manuals, agreed national/community.

Specific difficulties - encountered in the process of accessing of irredeemable funds:

- *the launching of the programs*, be they either POS CCE, POS DRU, PNDR, POR etc., was achieved only in the second half of the year 2007, which led to the first European money entering the beneficiaries' accounts only at the end of 2008, and, for certain financing components, even later (D. Florescu, 2010, pp.92-98);
- *the large number of documents requested* by the Management Authorities (over 47**,** for instance, in the case of projects applied for financing through European Agricultural Fund for Rural Development). Nevertheless, we mention that this large number of certifications and authorizations are not imposed by the Management Authorities, but they reflect the requirements of the Romanian legislation in force, harmonized with the European legislation;
- going carefully over the Applicants' Handbook, especially for the projects filed for financing within PNDR reveals *conditions which make it difficult to attract funds* (for example, micro-companies from rural areas cannot rent spaces or lands, they can only own as property or be concessionaires on behalf of the local public administration);
- *small number of specialist staff* in problems of absorption of EU funds (Ministry of Economy has 46 employees dealing with 1,000 contracts in implementation, respectively monitoring, control and payment as selection of eligible projects from over 5000 submitted), conjunction with the

impossibility of developing new employment (under agreement with the International Monetary Fund can make a commitment to seven people fled);

- *the large number of taxes* that have to be covered during the process of drawing up the financing file but also during the implementation of the project, for each certification or authorization being a corresponding tax, this representing a discouraging factor for those who wish to invest. Moreover, both the taxes and the costs related to bank loans - interests and account administration costs - are considered to be non-eligible costs, highly increasing the level of the beneficiary's contribution to the project financing;
- *lack of own contribution* necessary to start implementing the project fueled by the reluctance of banks in providing necessary financial support, because there is no guarantee of payment of grant planned in case will be found defects are discovered in the implementation that the settlement project.

3. CO-FINANCING, NEW PROBLEM IN THE PROCESS OF ACCESING THE STRUCTURAL FUNDS

Because all structural funds operate on the principle repayment, this means that after project approval, the beneficiary starts his investment with own funds. It is important that it have the financial capacity to ensure that his own contribution which lies of eligible project costs, ineligible costs and other project related expenses.

In the present context, when the economic crisis banks have tightened lending, more and more companies become reluctant to continue steps for accessing irredeemable funds, even in situations where their projects were approved by authorities management/intermediate organizations.

A recent study showed that in the first decade of 2010, percentage removal was 15%. The percentage is just one tragic, but as the trend is increasing, may become a worrying phenomenon. Premier problem which leading to abandonment of signing contracts is the difficult access to financing.

The beneficiaries need to support banks for:

- part of it's contribution (general rule 15% national co-financing: for beneficiaries of public institutions and non-governmental organizations, up to 13% provided by the state budget and minimum 2% local financing, private beneficiaries with co-financing requirement, according to the rate established for reverence axis);
- start work and paying contractors (by Structural Funds not given advance, but shall be reimbursed expenses incurred so that beneficiaries must have cash to pay suppliers until reimbursement by the management authority/intermediate organizations, where they are considered eligible expenses);
- prioritize coverage ineligible (tax of value added, interest expense, other borrowing fees, collateral costs that arise from a leasing contract, purchase of furniture, equipment, vehicles, infrastructure, land and other property, for the projects who receiving funding from the European Social Fund, expense for Housing costs, for the projects funded by European Social Fund and Cohesion Fund, purchase of second hand equipment, fines, penalties and costs for judgment decision);

- cover exchange differences. The crisis period thereupon the exchange rate fluctuations overlap with the implementation period, as for the majority of beneficiaries resizes its need for investment. For example, an entrepreneur who completed a project worth 200,000 Euros in August 2008 (the official exchange rate was 3.5 lei for one euro) and to be signed by the managing authority in October 2009 (the official exchange rate was 4.2776 lei for one euro) will incurring a loss of 36,357 euro (0.7776 lei X 200.000 euro = 155.520 lei), almost 18.5% of the project. Therefore, hence the question: whether small firms lose 30,000 euro, only because of delays in project evaluation, I wonder how lose the big companies who have submitted projects that have values between 920,000 and 10,000,000 euro?

To be financed by bank applicant must meet the conditions banks set the rules specific credit and the project must can be implemented and to be sustainable throughout the period of maintenance service of investment.

In generally the banks takes a different approach to major projects, who involv making the feasibility studies, cost-benefit analysis, projects have been carried out complex analysis by management authorities/intermediate organizations, as against to small projects where the rating scale does not cover all aspects considered the economic and financial analysis conducted by the bank.

In addition to the criteria of technical and financial evaluation grid project, the banks have in mind such issues as:

- applicant's history in relation to the bank;
- credit repayment capacity;
- guarantee opportunities. For projects funded under the structural instruments, except the National Rural Development Programme, the goods purchased by the project can not be brought to guarantee the credit;
- to carry out economic activities included in the classification indicated by the Guidelines for Applicants;
- have no outstanding obligations under national law in force (contracts of employment and social security, workplace safety, national and local taxes, rules on environmental protection and so on);
- have no public debt outstanding (more than 60 days);
- not in case of bankruptcy or liquidation;
- to be registered at least one or two years of economic activity and operating profit.

According to a communique of the Ministry of Finance at 15 JUNE 2010:

- were 18.177 projects submitted amounting 38.98 billion euro of which were approved in total 4.421 projects in amount of 9.4 billion euro;
- management authorities have recovered, partly, delay evaluations, signing hundreds of contracts this year (in total was 3.146 contracted projects in amount of 6.06 billion euro);
- cadency of sign contracts ahead of the seven times that of payments in amount of 882 million euro;
- the absorption capacity was 10.17% from financial allocation for 2007-2010.

Table 1. Status of submission, approving and funding projects in the period January 2009 - June 2010

Months	Allocations	Total projects submitted (lei)	Total projects approved (lei)	Total projects contracted (lei)	Payments (lei)
January	2.012.300.119	5.713.458.156	46.694.911	0	67.951.258
February	2.012.300.119	2.544.484.005	1.154.723.394	946.504.078	37.973.624
March	2.012.300.119	1.417.681.350	617.224.910	2.335.523.092	151.675.013
Apil	2.012.300.119	2.287.951.140	554.526.186	675.494.689	36.739.638
May	2.012.300.119	2.696.028.517	1.097.438.909	1.130.448.894	132.686.707
June	2.012.300.119	3.883.790.264	2.446.242.237	542.922.229	95.299.405
July	2.012.300.119	5.222.396.319	4.740.945.184	4.490.731.471	105.988.611
August	2.012.300.119	2.902.432.571	851.929.059	647.954.943	370.800.835
September	2.012.300.119	19.489.146.310	1.060.114.863	1.270.484.351	186.211.810
October	2.012.300.119	17.936.196.301	607.746.837	1.202.919.478	126.092.118
November	2.012.300.119	3.872.669.447	818.871.006	1.182.827.099	345.427.568
December	2.012.300.119	5.743.796.048	12.151.416.825	859.210.182	170.899.756
January	3.057.964.563	2.896.499.947	298.326.612	1.907.954.645	154.974.323
February	3.057.964.563	1.186.824.866	533.531.387	1.195.409.791	177.786.832
March	3.057.964.563	3.062.459.365	1.994.042.532	2.629.374.153	152.594.203
Apil	3.057.964.563	10.794.415.592	608.420.021	490.004.103	209.239.871
May	3.057.964.563	14.218.057.049	1.774.564.646	1.860.058.423	296.965.526
June	3.057.964.563	7.375.968.219	1.354.728.167	2.986.668.069	245.510.596

Source: Authority for Coordination of Structural Instruments

CONCLUSIONS

If until recently signalled that it had created a gap between the period o when the projects were submitted and the time when they get solved a gap which caused many of the entrepreneurs to give up while others made the impossible to maintain their initial activity and investments plan. Today we can say that the gap moved between stage of signing the contract and payments.

If you keep this rhythm the danger is that Romania can not spend all amounts allocated by the European Union. Therefore it is imperative that management authorities together with all other competent institutions to take measures so as to expedite payments to beneficiaries and to facilitate their access at bank loans necessary co-financing.

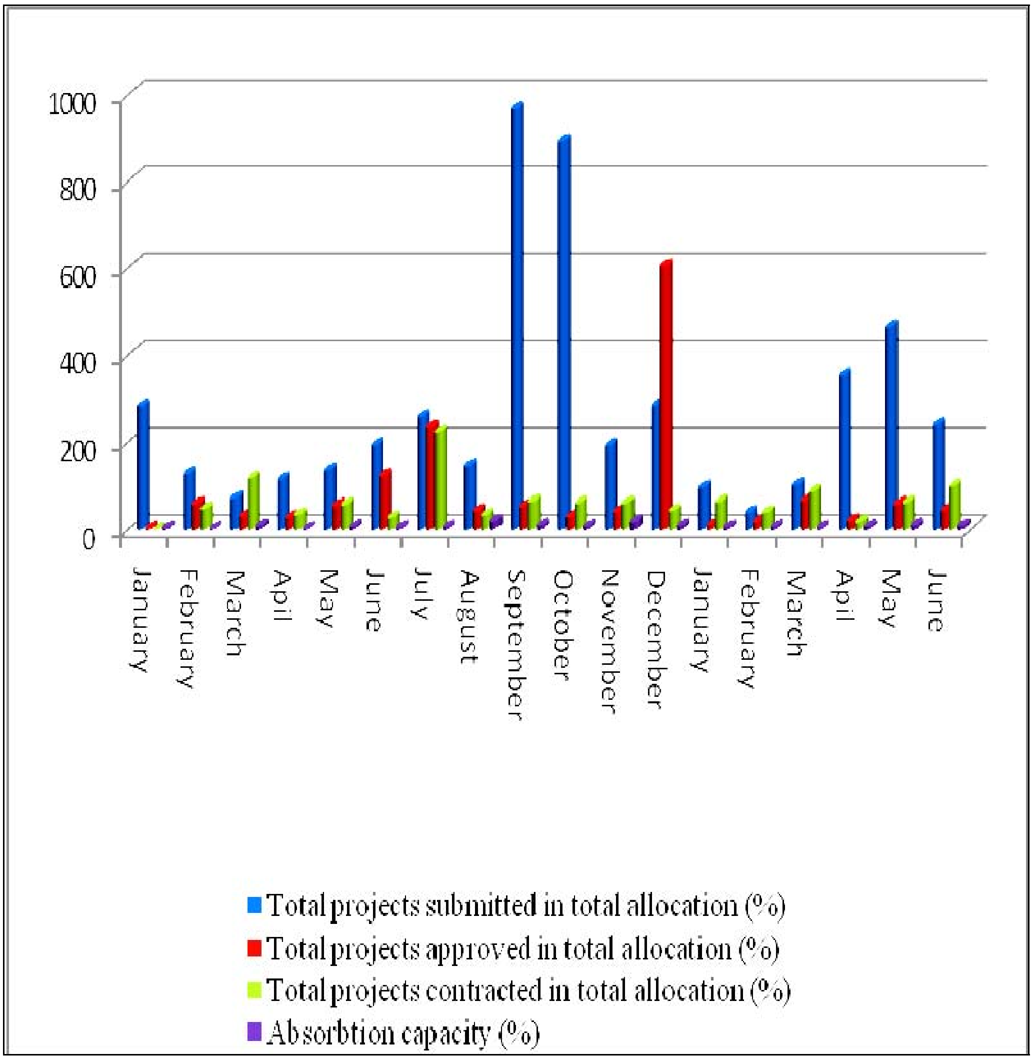

Figure 1. Share of projects submitted, approved, contracted and financed in the period January 2009 - June 2010

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