THE EUROPEAN FUNDS FUTURE DURING 2014-2020

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Abstract

As part of the ***Multiannual Financial Framework for 2014-2020****, the Commission will adopt legislative proposals for nine geographic and thematic external action instruments. They follow the architecture of instruments presented by the Commission in the communication "A budget for Europe 2020" issued on 29 June 2011. The question remains: Is Romania able to overcome its 5 years of low absorption rates, high level corruption, and poor funds' management?*

Keywords: Multiannual Financial Framework, geographic and thematic external action instruments

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“The European Union exists to deliver value added to its 500 million citizens. I believe it can be a force for economic renewal in Europe and globally. To do this, we need a budget that is innovative, attuned to the new realities of globalisation, and that responds to today's challenges and creates opportunities for tomorrow.

All across Europe, governments, businesses and families are choosing carefully where to spend their money. It is a time to think carefully about where to cut back and where to invest for the future.

The European Union must also live within its means while investing for the future. We have a relatively small budget of only around 1% of Europe's wealth (measured by GNI) which represents around one fiftieth of the budgets of Member States. But it is a budget that is important because it is almost entirely spent on investments, not consumption, and can make a real difference if the right choices are made.” (http://ec.europa.eu/budget/reform/)

Easier access to EU funds: Commission shows member states the way

Brussels, 8 February 2012 – Since the presentation of its proposal for the next multiannual financial framework (MFF) last June, the Commission has proposed over 120 changes to simplify the rules governing EU funding for Small and Medium Enterprises, towns and regions, students, scientists and others. Today's communication "A simplification agenda for the 2014-2020 MFF" brings them altogether in one single document. The key question now is whether the European Parliament and the Member States are ready to make the life of EU funds' beneficiaries easier by reducing the administrative burden on them.

"Each of the thematic proposals for the next MFF included a simplification" element, says EU Commissioner for financing programming and budget Janusz Lewandowski. *"EU funds can play a key role as we strive towards sustainable economic growth by providing extra funds to our business, regional authorities and researchers. We wanted to make the access procedure to those funds less like a maze and more user-friendly."*

However, EU rules are often completed by additional rules at national level. Therefore, efforts at EU level cannot succeed if they are not followed up by similar efforts at national, regional and local levels. That is why the Commission hopes that the legislators in the European Parliament, the Council as well as in Member States will see simplification as crucial.

Today the Commission declares its commitment to defend this simplification agenda and its resolve to ring the alarm bell should the need arise.

Examples of simplification of access to funding

- The purchase of machinery in a vocational school was financed from the European Regional Development Fund. The same school got a grant for curricula development from the European Social Fund. Even though both investments were needed to introduce a new training programme, the school had to do all the paperwork twice. Under our proposal, combining money from both funds will be easier; the school will be able to follow one procedure only, allowing it to devote more time to delivering the new training to pupils.
- The current arrangements demand to keep the documents regarding EU co-funded cohesion projects for up to 10 years. For some projects this retention time can reach 15 years. The new rules will cut this time to 5 years. The effect of this simplification is especially important for smaller beneficiaries such as NGOs and SME's.
- Today there are no limits to how many times a project can be audited. Some beneficiaries of ERDF may be subjected to several audits in a year by their national audit authority or the Commission, which is time consuming In the next period the Commission proposes a better coordination with national auditors. Projects under 100 000 euro will not be audited more than once at all and bigger projects no more than once a year.

- In Research it takes on average 350 days to get a grant. The Commission proposes to reduce it by one third (100 days).
- An ESF beneficiary had to keep the bus tickets of participants in a training event for justifying of money spent on the project. Unfortunately, the ink on the bus tickets disappeared after some time and the beneficiaries could not proof the expenditure. In future it will be possible to use options such as flat rates and lump sums to a much greater extent, so it will not be necessary to collect bus ticket at all. The focus must be on project quality and results.

Background

The Commission published its proposal for the Multiannual Financial Framework 2014-2020 on 29 June 2011. By 31 December 2011, the Commission tabled a comprehensive set of 57 sector specific legislative proposals underlying the MFF 2014-2020. Together with the revision of the Financial Regulation, all these proposals make for a coherent set of rules having among others as an important feature the goal of simplification. They should be adopted by the end of 2013 in order to ensure that new programmes can start as of 1 January 2014.

In drawing up its proposals, the Commission assessed the functioning of existing spending instruments and programmes and consulted widely with citizens and stakeholders in view of designing such instruments and spending programmes, which would best match their needs and modes of operation.

The EU needs a robust budget to meets its political goals, MEPs tell EU leaders, who discuss the 2014-2020 budget plan on 28-29 June. The long-term budget should be flexible enough to cope with new challenges and contributions from national coffers should be replaced by other ways of funding the EU budget, says Parliament in a resolution adopted on Wednesday.

In the resolution, adopted by 541 votes to 100, with 36 abstentions, MEPs insist that the budget frame for 2014-2020 should "provide enhanced budgetary flexibility within and across headings, as well as between financial years ... in order to ensure that budgetary resources can be appropriately aligned with evolving circumstances and priorities".

They believe that the lack of flexibility in the current system has made it very difficult to react to new challenges. It was for instance hard to find financing for the nuclear fusion research project ITER, a new priority that arose in the middle of the current budget period. The smaller the budget is, the greater the need to be able to reshuffle resources to deal with unexpected events.

Parliament' blessing is needed before the Council can adopt the Multiannual Financial Framework (MFF), or budget plan, (by a unanimous vote). It therefore demands fully-fledged negotiations with the Council on all MFF-related aspects.

Reform of revenue system

Under the treaties, the EU budget must be "financed wholly from own resources". Parliament says reforms to the current system, introducing alternative sources of income such as a financial transaction tax or a new EU VAT, would reduce EU member states' contributions based on gross national income (GNI) from 75 % to 40 % by 2020 It is "not prepared to give its consent to the next MFF regulation without political agreement on reform of the own resources system, putting an end to existing rebates and other correction mechanisms".

Parliament was the first EU institution to adopt a position on the next long-term budget frame, for 2014 to 2020, and it did so on 8 June last year. The European Commission tabled its proposal on 29 June 2011. The Danish Presidency will present its "negotiating box" at the June summit, when the European Council holds its first discussion on the subject.

“Less paperwork and more results: Faster, simpler and more accountable EU funds for our businesses, towns, regions and scientists!” (http://ec.europa.eu/budget/index_en.cfm)

From 1 January 2013 the delivery of EU funds to businesses, NGOs, researchers, students, municipalities and other beneficiaries will be improved thanks to simplified procedures. The new legislation enables increased transparency and introduces higher accountability of all involved in dealing with EU finances. It moves the protection of EU financial interests to a higher level.

Following the agreement on the revision of theFinancial Regulation between the Council, the European parliament and the Commission, Janusz Lewandowski, European Commissioner for budget and financial programming, said: *“We have finally moved forward in making the life of many beneficiaries of EU funds easier by simplifying the rules, cutting the unnecessary red tape and speeding up the time to grant and money. Clearer transparency will give a possibility to exercise better public control on how the European taxpayers' money is distributed. Today's agreement paves the way for a more effective use of EU funding and will facilitate the adoption of post-2014 generation of programmes. In times of crisis EU funds play an essential role, making them more accessible and accountable was absolutely necessary.”*

The 2010 Commission's proposal on the review of the Financial Regulation addressed the main complains from beneficiaries of EU funds; the new rules will focus on simpler and faster access to funds while strengthening accountability of EU taxpayers' money.

Simpler and faster…

New rules include the scrapping of the obligation to open separate bank accounts, shortening the time for payments to beneficiaries (30, 60 or 90 days depending on the complexity of the deliverables), more use of lump sums and flat rates for smaller amounts, no need to fill in the same details every time one applies for EU funds, on-line applications and other measures in order to focus more on results and less on paper work…

More accountability and protection of EU financial interests

Some 80% of EU funds are under "share management", in other words projects are picked and managed by Member States themselves. The new rules will increase the accountability of Member States especially in regional policy. National authorities in charge of EU funding will have to sign and submit to the Commission annual declarations certifying that EU funds have been used correctly.

Mechanisms for financial corrections in cases of irregularities committed by beneficiaries and discovered by audit have been strengthened: as a deterrent, the Commission will publish decisions imposing sanctions for misuse of EU funds.

Multiplying the effects of EU funds

In future, various financial instruments, such as loans, equity or guarantees will be used to multiply the financial impact of EU funds. New possibilities are created for a more flexible implementation of public-private partnerships ('PPPs') which reflects the calls of European industry who are the partners in such PPPs.

In the area of external action, the EU will be able to create EU trust funds pooling itsown resources with its Member States and other donors in order to better coordinate and deliver external aid and increase its visibility.

Background

The Financial Regulation is the core of EU financial rules. It sets the principles of the EU budgetand governs the way the EU budget is spent. The present version was adopted in 2002 and most recently amended in 2010 only to cover the creation of the European External Action Service. The legislative procedure of this more substantial update was initiated by the Commission in December 2010.

Following today´s political agreement the Financial Regulation will be formally adopted after the summer break. In parallel, the Commission will adopt the Rules of Application which will provide further necessary implementing details. The new financial rules will then apply as from 1 January 2013.

EU funds absorption in Romania – A funding obsession[2]

After two years of decline and a cumulated GDP contraction of more than 8%, real GDP grew by 2.5% in 2011. Growth was mainly driven by a robust increase in industrial output and an exceptional agricultural harvest. GDP growth is expected to slow down to 1.4% in 2012; domestic demand is forecast to be the driver of growth with public investment, supported by better absorption of EU funds playing a key role. External demand is expected to contribute negatively to GDP growth in 2012 due to the worsening economic outlook for the EU (which accounts for about 70% of Romania's exports). The current account deficit is expected to increase from 4.1% in 2011 to 5% in 2012, mainly on account of a widening trade deficit. For 2013, GDP growth is currently estimated to accelerate to 2.9% as domestic demand recovers. Risks to growth for 2012 are tilted to the downside while they become more balanced over the medium term.

Upside risks to the inflation outlook remain, although price pressures receded significantly in the second half of 2011 and the first quarter of 2012. Inflation, which has been high for a prolonged period (above 8 % in the second quarter of 2011), fell sharply to 3.2% in December 2011, close to the mid-point of the NBR's target range of 3.0% ±1 percentage point set for end-2011, against the background of a favourable VAT-related base effect and easing food prices. HICP inflation continued to recede and fell close to the euro area level in early 2012 (averaging 2.7% in the first quarter of 2012), partly on account of a favourable base effect from higher food prices a year ago. The temporary downward pressure on headline price indices stemming from volatile commodity prices will gradually reverse from now on, but inflation is forecast to remain in the upper range of the NBR's target for end-2012 and end-2013. Over the medium term, risks to the inflation outlook are tilted to the upside due to the planned increases in administered energy prices.

Financial markets recovered in early 2012 after having suffered from the deterioration in the second half of 2011 in the market sentiment towards emerging markets. Credit default swap (CDS) spreads on Romanian government debt declined to about 350 basis points at the beginning of May 2012, down from a high of just below 500 basis points in November 2011.

After two years of decline, real GDP in Romania is estimated to have grown in 2011 by 2½%. For 2012, on the back of a slowdown in Europe, growth is expected to slowdown to 1.4 %; domestic demand is forecast to be the major driver of growth and investment, supported by improving EU funds absorption, is expected to play a key role in 2012.

In the context of the EU's precautionary medium-term financial assistance agreed in 2011 for two years, Romania has undertaken to implement a comprehensive economic-policy programme with a particular focus on structural reform measures aimed at improving the functioning of labour and product markets and at increasing the resilience and growth potential of the Romanian economy. In parallel, the programme ensures the continuation of

[2] The Economist, Thursday June 28th 2012, http://www.economist.com/blogs/eastern approaches/2012/06/eu-funds-absorption-romania

fiscal consolidation, the reform of the tax administration and improvements in public financial management and control as well as financial-stability and financial-market reform.

The results of the second formal programme review that took place in late April-early May 2012 are satisfactory and the current precautionary financial assistance programme remains on track. The cash fiscal target for 2011 was met, while the ESA target would have been met had there not been a sizeable one-off measure linked to court decisions obliging the government to pay compensation to certain categories of employees. The 2012 budget remains on track to achieve a deficit below 3 % of GDP in ESA terms. The authorities will also have to continue implementing sound fiscal policies. The Romanian banking sector has remained resilient, in spite of the on-going deterioration in asset quality. Progress in key structural reform areas has been uneven but overall satisfactory. In particular, reforms in the energy sector have recently gathered momentum. Programme implementation could, however, be improved in several areas.

Concerning the national targets under the Europe 2020 strategy, Romania has made limited progress in 2011. Some of the targets remain difficult to reach. This is the case in particular for investments in R&D, the employment rate, the early school leaving rate and the number of people at risk of poverty or exclusion. Romania should step up efforts to accelerate the delivery of the Europe 2020 strategy as the basis for any new growth initiative.

"God gives you but he is never stuffing it into your bag," is an old Romanian saying suggesting that everything one achieves in life should come with an effort. Most Romanians seem to have forgotten the proverb under the Communist regime which gave citizens a house and a job regardless of their efforts. They are now finding it difficult to get their funds from the European Union (EU), which involves making an effort.

The second poorest country in the EU, Romania continues to fail with the absorption of EU funds. At around 7.4% it is the state with the lowest absorption rate in the European Union. Absorption capacity is the extent to which a state is able to spend financial help from the EU in an effective and efficient way.

After joining the EU in 2007, Romania was told it could access up to €20 billion in aid until 2013 in order to catch up with more advanced EU members. It did not make good use of EU largesse. The prime minister, recently said the country is in danger of losing €100m from the European Commission by the end of the year. Next year Romania stands to lose more than €1 billion in the human-resources sector amid concerns over corruption and other irregularities.

In April, Leonard Orban, boss of the newly created ministry of European Affairs, said the EU might freeze five development programmes if the country fails to respect European recommendations by the end of June. It wouldn’t be the first time the European Commission decides to block payments to Romania. In February, Brussels withheld funding for Romania after it revealed a series of irregularities estimated at around €3.5 billion in the management of the human-resources development sector.

Romania’s very low degree of EU funds absorption has become an obsessive problem for the government in Bucharest. The government has repeatedly said the European funds represent the main priority for the country this year.

The main reasons for the failure to absorb the EU's structural funds seem to be, as analysts point, corruption, a lack of motivation and information, inadequate administrative capacity and major gaps in understanding how EU institutions work.

To tackle the problem the government set up the ministry run by Mr Orban in September. Romanians are in urgent need of the structural funds that are being withheld. Five years after Romania joined the EU, there are still villages around the country where people live without electricity or running water. Romania's infrastructure is far from European standards, with just 300 kilometers of highway and dozens of damaged roads built during Ceausescu's regime.

The European Commission is expected to publish a new report on Romania in the following weeks. The political turmoil Romania has experienced recently and the fact that the country has re-entered recession last month is adding pressure on the government.

The clock is ticking as the country is heading for the 2013 deadline for absorbing the European money. The Management Authority, the institution in charge of funds absorption for the human-resources programme, must make a radical change by the end of this year. Otherwise he will restructure the authority completely next year. He is even prepared to risk the loss of the entire EU budget for 2013. This could be an opportunity for Romania to start all over again; this time maybe in the right direction.

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