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Legal and Economic Governance Studies

Who or what generates Romania's absorption capacity of Structural Funds?

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II. List of Abbreviations

COM – European Commission

EC – European Commission

ERDF – European Regional Development Fund

ESF – European Social Fund

EU – European Union

GDP – Gross Domestic Product

IMF – International Monetary Fund

NGO – Non-Governmental Organization

NSRF – National Strategic Reference Framework

RDI – Research Development and Innovation

TEU – The Treaty on European Union

WP – Working Paper

1. Introduction

1.1. Background

The last enlargement that has brought together 27 countries represents a serious challenge for the European Union to effectively manage the large economic gaps between the old and new Member States. Because of changes in the level of standards, the older members are seen as sufficiently developed and therefore given access to a restrictive amount of structural funds than the newcomers. In spite of this, there has been an unequal economic performance of the current recipients of structural assistance, rising therefore questions regarding their policy effectiveness in creating the required framework for a higher absorption.

Romania has been subject to continuous pressure to adopt rules and practices in a very short period, in order to be able to meet the necessary requirements before taking part in the cohesion and structural policy. Thus, the government had to decide the area of responsibility of the administrative authorities regarding the management, implementation and financial control of structural and cohesion funds.

The absorption capacity of the Structural and Cohesion Funds has lately become an extremely discussed issue in Romania, not only at the government structures level but also among the citizens. A genuine national obsession has started to build up around this topic in direct connection with the idea that the economic growth and development depend only on the usage of European Funds. This perspective, in fact, has been hindering the actual efforts made for an effective implementation.

Among these cases of malpractice, Romania is also present, due to its absorption deficiency and negative outlook it has reflected after only four years of accession to the European Union. For this reason I have chosen as topic for my Bachelor Thesis to conduct a thorough analysis regarding the factors which

influence the absorption capacity of the country while giving some recommendations for the improvement of the current state.

1.2. Cohesion Policy 2007 – 2013

The last cohesion policy reform that took place reflects the diversity of national interests and the priorities of the European Union to bring a change in the territorial inequalities and promote economic reform at national level. In the new policy framework there is a trend towards helping the poorer Member States to catch-up and using the cohesion funding as an instrument for this.

Owing to the inclusion of the programming and additionality principles, recipients cannot spend EU subsidies as they wish, nor can they use them as a substitute for their own spending (Pelkmans, 1997).

Due to the EU accession, during the period 2007 – 2013 Romania has been eligible for more than 19 billion Euros of Structural and Cohesion Funds. According to a declaration of the Romanian Government, the country has been able to absorb only 11% of the total amount of the money allocated until the end of 2010. Alarming is the fact that Romania has failed to absorb sufficient European and Cohesion Funds in order to compensate at least the national contribution to the European Union budget. After the first three and a half years in the EU, Romania has managed to absorb 2, 18 million Euros, while the amount it has disbursed into the EU budget is 4, 35 million Euros (Business24, 2010). Although every year since the accession Romania has registered some increase in the absorption rate (between late 2008 and until now, the number of approved project has increased over 32 times), this rise is still not enough to cover the entire amount (et al).

1.3. European Funds

There are three types of Structural Funds which provide support to the Member States to achieve the cohesion objectives (Driga & Nita, 2008, 1):

The European Regional Development Fund covers the areas of regional development, economic change, enhanced competitiveness and territorial cooperation throughout the EU. Funding priorities include research, innovation, environmental protection, risk prevention and infrastructure investment.

The European Social Fund focuses on the increasing adaptability of workers and enterprises, enhancing access to employment and participation in the labour market, reinforcing social inclusion and promoting partnership for reform in the fields of employment and inclusion.

The Cohesion Fund contributes to interventions in the field of the environment and trans-European transport networks. It goes only to Member States whose GNI is less than 90% of the Community average.

1.4. Research Question

My research question is “Who or what generates Romania’s absorption capacity of Structural Funds?”.

Taking into consideration that Romania suffered the greatest crisis impact during 2009 – 2011, it is especially important for this country to absorb and use the highest possible level of structural and cohesion funds. Unfortunately, Romania occupies the last positions in terms of structural funds absorption level. In comparison with other EU member countries this has a negative impact upon the performance indicator of sustainable development and convergent process (Zaman & Cristea, 2011, 2 - 3).

Nevertheless, it is also important to bear in mind that during the implementation phase the vulnerabilities of the Romanian economic construction can influence the absorption of structural funds. On the one hand,

there is the already unstable economy, which is suffering from unemployment and high inflation, while on the other hand there are the effects of the international financial crisis, which are causing the rigidity of the banking system, affecting therefore the co-funding.

In my assessment, I will consider the absorption as a cumulative effect of the following factors: macroeconomic stability - defined and measured in terms of GDP; financial capacity - defined as the ability to co-finance the programs and projects supported by the EU and administrative framework - defined as the ability and qualification of central and local authorities to manage the implementation of the funds.

The relationship between the absorption capacity of structural funds and the regional economic situation is a paradoxical one, as practice demonstrates that the most disadvantaged regions are experiencing also the greatest difficulties in the absorption of these funds. These are the regions that need the largest financial support for restructuring their economies (Zaman & Georgescu, 2009, 142).

Even the European Commission has come to the same conclusion, after completing studies which reveal the performance of the mechanisms used by Romania in absorbing the EU Funds. Country studies have been elaborated in order to identify the needs for additional institutional construction and to improve the capacity of the countries to absorb EU funds at the moment of accession. The results have shown a surprisingly poor level of administrative capacity in eight of the new member states which joined EU in 2004. According to this, it was too early both for the candidate countries which were included in the EU in 2004, and for Bulgaria and Romania to be given access to European Funding (Cace & Iova, 2010, 90).

1.5. Outline and sub – questions

I have organized my thesis into three main chapters which focus on identifying and analyzing to which extend the inefficiency in the implementation of structural funds and their absorption in Romania is due to the administrative handicaps, socio – economic structure and financial frame. In the last chapter I will provide recommendations, based on pertinent, realistic arguments, regarding the perspective of improvement.

In order to understand and evaluate the factors that led to the current situation of fund absorption in Romania, the first chapter deals with defining the concept of absorption capacity and factors that may influence this process. Therefore the first sub – question is *“What is absorption capacity and which factors influence its performance?”*.

Because the main drivers determining Romania’s absorption rate occur at national and European level, this paper considers both levels. While the third chapter touches upon the strategic design of the Cohesion Policy Program for 2007 – 2011, with reference to the country evaluation and assessment before accession. The fourth chapter assesses the actual situation in which Romania finds itself and pin points the parameters which are influencing this. Thus, sub – question two is *“How did the European Union assess Romania’s capacity of absorbing Structural Funds before accession”* and sub – question three is *“How is Romania’s performance after four years of EU Structural Funding?”*.

The main line of reasoning in the last section is to put forward the idea that by working consistently on the removal of these obstacles and facing the current challenges, there will definitely be improvements.

1.6. Methodology

While reviewing the academic literature and the European Union’s database, I have noticed that there is a severe absence of a conceptual

framework on the assessment of Structural Funds absorption issues. Due to the fact that is a relatively new field, the management of Structural Funds is quite rarely dealt with and few considerations are made with regard to the impact it has on the absorption capacity.

Nevertheless, the EU's Structural and Cohesion Policy is still "a work in progress" and further developments in this area will be arising, increasing therefore the interest of the scholars.

Upon careful analysis of the literature at hand and own considerations, I have come to the conclusion that the absorption obstacles regarding the EU Structural Funds are of high interest. Although this may not be the case for the general audience, there are several empirical studies that connect this area to the economic and social convergence of the Member States.

The sources employed vary from statistical reports and news paper articles to official documents and scientific journals such as "Journal of common market studies", "The European Journal of Political Research", "European Union Politics" and "Comparative Political Studies". As search engines I have utilized Google Scholar, Jstor, PiCarta and the official site of the European Commission's publications.

2. What is absorption capacity and which factors influence its performance?

In the following chapter I will explain the concept of absorption capacity and look at the different aspects which constrain the possible typology of absorption problems.

2.1. Defining the concepts

A general definition is given by Šumpíková et al (2003), who states that “**Absorption** is a new condition in the allocation of European Funds”. It refers to the process in which a country manages to “absorb” the European Funds put at its disposal and effectively coordinates the domestic managerial and administrative style with the European one. During the accession period, each candidate country has the duty to prepare itself, by designing implementation policies and making small adjustments to its legislative framework in order to receive structural assistance. If the countries pass this phase successfully then they are entitled to make use of the Structural Funds, according to which objective they are distributed.

In the post-accession period, the “**absorption capacity**” can be evaluated with regard to the performance of the countries in effectively allocating the European Funds. Thus, “**absorption rate**” illustrates the absorption capacity and is defined as “the level of spending as a percentage of the total amount of Funds available”. Accomplishing a 100% spending level, seems to be a great issue for many countries. There is a threat of “**underspending**” expanding throughout the Member States, according to which available and needed funds are not being fully used. This situation is commonly referred to as “**deficiency of absorption capacity**” (Horvat & Maier, 2004, 4-5). As Vitek (1999) mentions in his article: “the capacity is necessary for making a maximum contribution to economic and social cohesion with the resources available”. So why do these irregularities appear and to which factors can their failure be attributed?

2.2. Absorption problems

An “**absorption bottleneck**” constitutes a major issue that concerns both the European officials and the National governments. It can be referred to, according to Kálmán (2002), as a situation in which any recipient region fails to achieve 100 % of its target value, which means that the administrative capacity of a country or region to deliver and implement Operational Programmes is not perfect. However, considering the original goal of the Cohesion Policy, to strengthen economic and social cohesion within the European Union, the effects that the absorption of EU Funds have on the national economies should be also taken into account. Therefore absorption problems can have different sources and I will further consider the circumstances in which these may occur.

While reviewing the literature on this topic I came across the following statement: the importance of absorption problems depends mostly on institutional factors, both at EU and national level (Bauer, 2001). Thus, the framework in which these obstacles may develop is being heavily influenced by the European Commission and its services, respectively the macroeconomic, financial and administrative structure of the National States.

At European level we are dealing with an insufficient transparency of the allocation process, overstrained administration with regard to unclear inter-vertical communication and horizontal co-ordination of the European Commission (Horvath, 2005, 9).

At national level the situation gets more serious due to the range of goals and types of intervention associated with the Cohesion Policy, which can undermine the quality of policy-making on the grounds of inconsistent and unclear target – setting (McMaster & Bachtler, 2005, 8). Thus, the factors which give rise to irregularities within the absorption capacity relate to the structure of the economy, the administrative capabilities and financial system of Member States.

2.3. Theoretical Framework

Because of the need to have a limited focus in my thesis and due to the fact the national factors outnumber the European ones and are slightly influenced by them, I will briefly discuss in the following section the consequences that the national factors may have on the absorption capacity of the Member States.

The absorption capacity can be determined by the following three main factors (Šumpíková et al, 2003, 2).

- **Macroeconomic absorption capacity**, which can be defined and measured in terms of GDP levels for the allocation of Structural Funds. During the European Summit in Berlin, the upper limit for the Structural and Cohesion Funds has been set at 4 % of the GDP of the respective state (Šumpíková et al, 2003, 3).

Herve – Holzmann (1998) have stressed that there is a contradiction between the presumptions of the EU officials, who had concluded that the macroeconomic effects of Structural Funds can be highly beneficial and the empirical findings, which show that due to the different political and economic backgrounds of each Member States the macroeconomic effects of the Structural funds seem to be some times negative. In a Working Paper form the IMF (WP/07/77) it is stated that the broader macroeconomic implications of EU-related transfers depend on actual flows to the economy as a whole. Kálmán (2002) provides in his research some cases in which large-scale transfers might have harmful consequences on the macroeconomic structure of the recipient country.

The so-called “dutch-effect” explains the situation in which an excessive demand in one specific sector could lead to a strong impact on the inflation and it may spill-over into declining impacts in other sectors. Consequently it may affect the whole economic growth of the respective country. This can occur, explains Reszkető (2008), when there is an inherent conflict of interest between

authorities at the different levels and the central governments are the ones responsible for the macroeconomic variables (growth, unemployment, inflation). Thus, decisions taken at national level would end up contradicting the regional and local preferences, causing therefore significant adverse reactions at macro level. In Member States where such an effect already exists, large money allocations would downgrade the situation even more, leading to income shocks or decreasing market competitiveness.

Worth mentioning are also the policy tradeoffs which have to be decided upon in order to grant full access to the money inflows coming from the European Union, counting however at the same time with destabilization reactions within the economies. Thus, the monetary and fiscal policies should establish appropriate tools and mechanisms which can take action in the case of side-effects. In this category fall the delays in private investment decisions, due to the overwhelming contribution of the public sector and for developing countries there is a trend regarding the negligence of the own capital stock due to the exclusive focus on co-financing requirements.

The absorption of funds, under the previous evidence of macroeconomic effects presents an increasingly daring task for the Member States, affecting herewith the overall dynamic of absorption capacity.

- **Financial absorption capacity** refers to the resources of each Member State in covering the costs coming from co-financing the programmes and projects put forward for European funding. The responsibility of the national authorities is to plan the national contributions in the multiannual budget and collect them from the private or public partners with whom they are collaborating (Šumpíková et al, 2003, 5).

The IMF Working Paper (WP/07/77) touches upon the idea that European Funding is directly related to fiscal imbalances in the receiving countries. Due to the budgetary difficulties most of the Member States are still passing through, Herve and Holzmann (1988) argue that additional budgetary means for public

investment, even of a minimum percentage of the GDP, may not be positively received by the respective countries.

It may result sometimes difficult for some countries to plan in advance the Structural Funds expenses in their national budgets because of their size and direction. For this reason, the annual national budget appears to be in conflict with multi – annual planning framework for Structural Funds.

One of the national government's main task, co-financing, is being fully underestimated and disregarded. According to EU legislation, each country needs to provide national funding in the amount of 15 – 25 % for every project or program which is entitled to the Cohesion or Structural Funds, but unfortunately very long delays have been registered (Bachtler & McMaster, 2007, 401).

Co-financing is also coming from the private sector; however it is even more challenging for private beneficiaries to ensure the financial resources needed for supporting the operational programs that sustain the absorption process.

Given the above mentioned points, the following acknowledgment should be taken into consideration and namely the fact that due to this co-financing problematic it is extremely difficult for some countries to support the allocation of Cohesion and Structural Funds in their countries, therefore causing severe obstacles for an effective absorption.

- **Administrative capacity** entails the competence of the national bodies to support the implementation of suitable programs or projects, coordinate and ensure the allocation of the funding. This depends on the structure of the system put into place to carry on this tasks and the human capital in charge of the accomplishment of the assignments (Šumpíková et al, 2003, 8).

Especially for the new Member States, the administrative capacity represents the biggest challenge with regard to the ability of supporting regional development. Rumours concerning a so called “pre-accession hangover” are circulating due to the large number of the implementation procedures, which

appear to be rooted in the pre-accession thinking and therefore negatively affecting Structural Funds performance (Gherghinescu et al, 2008, 5). According to Kálmán (2002) unfinished public administration reforms like overburdened institutional framework, poorly trained human capital and weak inter – vertical communication are among the most common causes of weak absorption capacity.

When looking at the implication of the overburdened institutional framework and weak inter-vertical communication, we notice that several Member States simply do not possess the necessary institutional structure to arrange the coordination among the principal supporters of the project or programs and tackle the overwhelming administrative and reporting requirements of the Commission (Horvath, 2005, 9). Moreover they lack significantly in carrying out the financial and supervisory implementation of Structural Funds, leading in some cases to sanctions from the European Union (Council Regulation, No 1083/2006).

In the case of human capital, there are states in which the civil servants put in charge for the monitoring and management of the Structural Funds do not have proper job training and therefore irregularities tend to arise. According to Kálmán (2002) there are often situations in which budgetary restrictions are impeding the states to assure the staff a professional education and proper revenue. The degree of such administrative obstacles cannot facilitate a smooth implementation and allocation process, affecting therefore the capacity of absorbing European Funds.

- **“Government failures”**, as Reszkető’s (2008) makes reference to in his work, might be another explanation for the phenomena of weak absorption capacity. Just like markets, governments also might be the source of absorption problems. The author explains in his research that the so called “government failures” can be clustered in three main groups.

First there are the “fundamental informational failures” that occur due to information asymmetry and uncertainty within the public sector (2008:9).

Because of scarce technical assistance from the European Union in the specific structural areas, the National Management Authorities are not able to provide the potential beneficiaries with the required assistance and they end up handing in incomplete project applications, causing therefore serious delays of the project approval.

The second group that Reszkető (2008) refers to are the institutional failures which relate to administrative obstacles of the respective countries. Within this category fall the professionally inexperienced administrative bodies, which can lead to public management problems and the “principle – agent problems”, that reflects the various agency relationships within the government organizations, giving rise to overlapping authority and accountability.

In the final group, the motivational failures are mentioned. Here the article assesses the issue of “rent - seeking¹”, timing and shifting responsibilities. Under the first sub-category Reszkető (2008) perceives national governments as rent – seekers, concerned only with obtaining a higher degree of funds from the European Union. Also central and local government as well as private agents can be allocated this characteristic, as long as they seek the sole interest of receiving additional transfers and co-financed projects.

The time related problem focuses on the aspect of the long time lag between project design and actual implementation (Reszkető, 2008, 11). This is the case of almost all the Member States and is caused by rigid institutional frameworks. Closely related to this issue is also the third sub-category, which touches upon the unclear lines of delegation and allocation of responsibilities with regard to the management of EU Funds, leading therefore to conflict of interests between the national, regional and local level and affecting directly the macroeconomic variables of the Member States economy.

- At the discussion of the typology of absorption problems within the Member States, I believe that secondary factors should also be taken into

¹ If private or public actors pursue their own interest to gain individual benefits from discretionary decisions at the disadvantage of all others- Tullok (1967) and Krueger (1974)

consideration. To this extend I would like to make reference to the current topic of the **financial crisis**, which most certainly has a significant impact on the economies of the countries and therefore, indirectly on their absorption capacity.

Due to the pressure that the financial crisis has created on the banking system, this is having serious repercussions in the area of private financing and overall decrease within the money-making market. For this reason, some countries have registered some difficulties in continuing with the co-financing process of EU projects, as economies have plunged into recession and financial resources began to be scares for both public and private sector.

2.4. Analytical Framework

The previous presented theoretical framework offered us a broad insight into the topic of absorption capacity and let us determine at which level and according to which factors this issue can be analyzed.

As pointed out by different authors, the issue can be evaluated from the perspective of policy development. For example, it can be asked to which extent the Cohesion and Structural Policy has reached its goals and achieved Member States' convergence. Another research question would be to look at the efficiency and effectiveness of the structural design, as evidence of smooth absorption of Funds and investigate the performance of the countries in the allocation of cohesion projects.

This thesis will target at the national level, pointing at the reasons behind the very low absorption capacity of Romania, in two specific areas: the administrative structure and the financial crisis.

Hence, I will structure my thesis in two main analytical blocks: on the one hand I will investigate how Romania's administration capacity was assessed by the European Union before accession while on the other hand I will outline the state of the current administration capacity, after four years of accession.

3. How did the European Union assess Romania's capacity of absorbing Structural Funds before accession?

In this chapter I will analyze the strategic approach behind the Cohesion Program 2007 – 2013 and present the patterns of Romania's absorption capacity, which were identified by the European Union.

3.1. The strategic context of Structural Funds

Around the year 2005, the European Council took the decision of re-launching the Lisbon Strategy by focusing on a new goal: 'growth and jobs', while engaging both national and European resources in this process. To this extent, the Member States had to develop a so called National Reform Program, which laid down the specific areas that, from their perspective, are in need of improvement. With these recommendations, the Community Strategic Guidelines were officially adopted in 2006. Setting the priorities for the new generation of Cohesion Policy programmes, the draft requires the future Cohesion Policy programmes to target resources on three priorities: improving attractiveness of Member States, regions and cities; encouraging innovation, entrepreneurship and the growth of the knowledge economy and creating more and better jobs (Bachtler, 2006, 11).

Furthermore the Member States have been asked to design their National Strategic Reference Framework based on a thorough analysis of development disparities, weaknesses and potential of their regions, herewith considering the objectives of the Lisbon Agenda. This will serve as a benchmark for the programming of the funds (Council Decision, 2006/702/EC). Seven types of development objectives could be identified among the national strategies of the Member States; however, they can be clustered into three main categories, reflecting herewith the countries' eligibility for Cohesion Funds (Bachtler, 2006, 14):

- Regional Competitiveness and Employment Strategies.

The main focus is put on innovation and qualitative entrepreneurship. Operational Programmes will design measures, which aim at developing new financial and advisory instruments as well as training tools of higher value.

- Mixed Strategies

There is a combination between Convergence and Regional Competitiveness, which drive Member States in supporting both growth, employment and sustainable development as well as innovation, technology, specialized training and entrepreneurship.

- Convergence Strategies

The general commitment is to target at public investment, the development of the infrastructure, training of human resources and environmental improvement. To this category, Romania also belongs, as its strategic plan is to adapt its economy and society, provide an efficient administrative framework in which the development of human capital and of basic conditions for business are supported (Bachtler, 2006, 16).

The National Strategic Reference Frameworks are a new system programming instruments that define policy priorities whilst suggesting the key elements of implementation which will be carried out through Operational Programmes (2006/702/EC). In some cases, current arrangements will be maintained whereas in others significant changes have to be undertaken or even completely new mechanisms have to be established. It lies in the hands of each Member State to translate their NSRFs into Operational Programmes and meet the financial absorption requirements.

Having joined the European Union, Romania was given the opportunity to benefit from the Cohesion Funds under the `Convergence Objective` and the `European Territorial Cooperation Objective`. Preliminary work suggests that Cohesion Policy programmes in Romania may contribute substantially to an overall increase in gross domestic product (GDP), with estimates of a 15%

increase for the period 2007–13, and create and safeguard approximately 200 000 jobs (European Commission [COM], 2009).

In order to gain access to these funds, Romania had to consolidate its economy and administrative system and overcome the burdens of the totalitarian experiment it had been victim of for so many years (Susanu, 2008, 2). The European Union sees several challenges that the country has to face with regard to the manner of spending Structural Funds.

3.2. Challenges and ways to cope with them

Without doubt, since the creation of the Cohesion Policy, the programs under which it has been functioning have proved to be a powerful instrument in the process of achieving economic integration and boosting regional convergence.

Although it achieved to lessen development differences between beneficiary and contributor countries, it was noticed that within the beneficiary members there has been an increase in regional disparities (Botezatu, 2007, 1). What is definitely true is that the conditions, under which the allocation of funds is taking place, differ significantly among the Member States, and therefore the impact of absorption capacity is equally different.

With the new program for 2007 – 2013 the European Union will be devoted mainly at supporting the least developed countries and regions in fully participating in the economic modernization of Europe (Beschel, 2006, 28). By establishing this priority several challenges have to be taken into account.

Firstly, there is the challenge of enlargement and with it the deepening of disparities between the new and old Member States, which give rise to doubts regarding the spending performance of EU funds. According to a number of studies, there is evidence that the ones, who knew how to take advantage of the financial inflows, were the more developed Member States while the poorer countries have signalled results below average.

This aspect leads us to the second challenge that the European Union has been facing for a couple of years now. Severe problems like unsatisfactory economic growth and demographic ageing are the Union's top preoccupations, which, in the light of enlargement and despite the awarded sums provided by the funds, may become worse, due to precarious nature of the absorption capacity of the new Member States.

The fact that the European Union itself had come to this worrying conclusions has actually been convenient, as new distribution mechanisms for a more efficient Cohesion Policy have been established along the 2007 – 2012 Program.

According to the European Union the new Cohesion Program stipulates that the N+3 rule will apply for the period 2007 – 2010 and after that the N + 2 will come into force. This means that up until 31 December 2010, the allocations for the year n, in the case of the last accession, the year 2007, the Member States should spent the Funds allocated for that period otherwise it would lose the money. Beschel (2006) believes this mechanism will permit a slower implementation but at the same time constitute a serious challenge for keeping the deadlines and assuring a smooth payment flow.

For the purpose of reducing financial burdens on public expenditures and to favour the future accession in the Euro zone, the Commission decided on a new way of calculating the co-financing rate. This will be from now on evaluated in relation with the public and private expenditure.

In principle Member States are given much more flexibility to adjust the implementation of Structural Funds to their specific country conditions while the Commission provides them with a number of facilities for attaining the objectives they have set in their National Development Programs (Susanu, 2008, 3-4).

In the light of the framing previously presented, the Member States should not face serious difficulties in achieving an average absorption level. However, there are some countries that are performing worse than predicted. In

the next section I will stress the aspects, which have to be considered when conducting a country evaluation with regard to the absorption capacity and apply the data on the case of Romania.

3.3. Country evaluation

The last two enlargement waves raised great expectations in terms of the positive impact the absorption of the Structural Funds would have on the new Member States (Cace et al, 2010, 88).

During the years to come, Romania will be benefiting from European Funding with the aim of reducing regional disparities and bringing the country closer to the level of the other Member States. Recent analysis points at a possible lack in the activity of Structural Funds absorption.

Among the reports of the European Commission, which were conducted as a predictive measure in evaluating the performance of the candidate countries, Romania registered already in the pre-accession phase, hesitating and defective management of funds (COM, 2008). However, despite being one of the poorest states, Romania had recorded a significantly higher growth in terms of GDP, compared with the other Member States (COM, 2007). During the last years before accession, the structural indicators have also shown considerable improvement reflecting the fact that the country has been taken advantage of the opportunities offered by the free market. Considering these aspects, the European Union is entitled to expect that once the effects of the Structural Funds will begin to appear, the country's performance will be even better (Botezatu, 2007, 2).

In a paper of the Europe Institute of Vienna, concerning the impact of the last enlargement phase from 2007, Romania shall strongly benefit from the integration effects. It is projected to generate a growth of 0.5% of the GDP and make effective use of the Structural Funds in order to reach by 2015 a raise of 15-20% of the GCDP (Florescu, 2008, 12).

According to the National Communication Strategy for Structural Instruments 2007 – 2013 in Romania, the country is experiencing one of the greatest opportunities of modernization, provided by the inclusion in the European Union. It is expected that the Structural and Cohesion funds will foster the development of a dynamic and competitive economy, which would contribute at accelerating the convergence process (Stefanescu, 2008).

Although the above mentioned projections seem to put Romania in a favourable position with respect to the Structural Funds absorption and overall economic improvement, Barker's (2005) model of EU Funds implementation for less developed regions suggests shortcomings in several fields, which may impede countries like Romania, to effectively manage European funding.

Romania, like all ex-soviet countries, went through a complex transformation process that left behind a hyper centralized system. From the perspective of Funds management this meant an inhibit usage of administrative tools for structural spending. This situation is caused by deficient management practices in the preparation, control and monitoring of programs and projects but also because by poor cash –flow and budget management (Susanu, 2008, 8).

Lahman (2008) presents in his work three aspects that have to be taken into account when measuring the administrative capacity of Candidate Countries with regard to the allocation of European Funds:

- Performance – it refers to the efficiency of managing the funds and it can be determined only ex post, at the end of the programming phase
- Functioning – can be studied only after a certain amount of time in which the Member State has been making use of the Structural Funding and it acknowledges if the administration has been effective or not
- Design - points at the arrangements set up by each country in order to generate the actual absorption of the Funds. This makes reference

to the structure (clear assignment of responsibilities), the available human capital as well as the system and tools put in place.

According to the European Commission's Report from 2003 regarding the capacity of candidate countries in attracting Structural Funds, the future wasn't looking so bright for Romania (COM, 2003):

- The institutional framework for the implementation system was not yet finalized and no legal arrangements were put in place, which explicitly defined the responsibilities of Intermediate Bodies
- Concerning the human resources aspect, Romania has failed in recruiting additional staff for the newly established management and implementing institutions
- Generally, many changes remain to be undertaken, especially in the area of regional and local administration

In the face of the aspects highlighted above I will further touch upon the assessment of Romania's case and conclude with the forecast given by the European Union with regard to its ability of absorbing Structural funds in the post-accession period.

3.4. Assessment and Forecast

The Commission issued in 2005 a report, based on some of the indicators presented above, assessing Romania's administrative capacity in the field of Regional Policy and Structural Funds coordination and came to the conclusion that almost all aspects are still in need of improvement thus making several recommendations. These should be accounted for in the light of Romania's entry in 2007 and with it the right to access the structural funding (COM, 2005). Primarily Romania needs to strengthen its administrative capacity and establish a healthy financial management that is supported by well-designed co-financing tools (Council of the European Union, 2001). Although considerable progress can

be seen regarding the establishment of legislative frameworks, many issues have to be still dealt with.

Undoubtedly, the access and absorption of Structural Funds imply a great deal of facilities for the socio-economic construction of the country but can also provide a proof of overall adjustment to the constraints brought by the funding and strictly supervision by the European Regulators. It is nevertheless a challenge for the countries' economy to be able to continuously generate enough resources for co-financing and at the same time establish the necessary tools for effectively implementing the projects. Hence, the European Union believed that Romania could cope with this challenge and stimulate a change.

The main line of reasoning in the following chapter will be to analyze the factors that led to a defective absorption capacity of Structural Funds in Romania, herewith applying the theoretical framework outlined in the second chapter.

4. How is Romania's performance after four years of EU Structural Funding?

For a country which is already facing difficulties in paying pensions and wages, Romania is experiencing a rather absurd drama; it has at disposal a high amount of resources for different types of investments but it is not capable of taking advantage of them.

In a recent article of the Financial Journal, the European Affairs' Minister, Laurentiu Orban stated that up until the beginning of February, only 5.7% of the Structural Funds (over 1 billion) were absorbed (Ziarul Financiar, 2012). The situation is very worrying, as Romania risks losing hundreds of billions of Euros if it does not manage to absorb by 2013 at least 8 billion. Under these circumstances the entire administration would have failed in performing its job and caused severe damage to our country. The misleading prediction of some critics may then even come true and Romania would actually end up being a net contributor rather than a net beneficiary of EU funds.

Undoubtedly, creating the legal and especially institutional framework represents a major challenge for Romania. Thus in order to understand who and what generates the low rate of Structural Funds absorption I will further consider the following factors: the administrative capacity – related both to the state itself as also to the beneficiaries – and the incentives of the financial crisis.

4.1. Administrative capacity – state related

For a fully functional administrative capacity at the state level it is essential that the institutional framework put in place works properly, that there are enough human resources available and also that the entire activity is supported by a qualitative system and well designed tools. Hence the subsequent analysis of components will take into account the achievement reached by Romania in this field as well as the sensitive areas, which are still in need of improvement.

4.1.1. Institutional Design

An institutional convergence is needed to be able to absorb European Funds and ensure good governance at all levels (Popa, 2010, 267). According to the commitments taken in the Complementary Document of Position, Chapter 21, the institutional framework was designed with the perspective of a unitary approach following the principle of division of functions and aiming at developing mechanisms and procedures, which foster an efficient and rigorous use of funds. The main purpose of the institutional structure was to coordinate, implement and administer the structural instruments by harmonizing the construct with the European Union's requirements (Susanu, 2008, 4).

Hence Romania managed to establish a number of suitable institutions: the Ministry of Economy and Finance is the management authority, which has the role of coordinating the Structural Funds by making sure that the necessary institutional, legal and procedural framework is in place. It is also responsible for certifying the payment requests and handing them in to the European Commission for funding acquirement. For the legal supervision of the operations an Audit Authority has been set up.

For each operational program there has been designed a Management Authority within each corresponding ministry, its main task being the administration and implementation of the programs. In order to simplify the communication between the Management Authority and the beneficiary, the Intermediate Bodies have been developed at both central and regional level. They are able to take over some functions from the Management Authority, however the final decision remaining by the latter.

The cooperation between the programming department and the other departments in the institutions is seen as an essential acquirement for achieving an efficient programming in line with the existing implementation and monitoring regulations (Constantin, 2006, 10). In the case of Romania the collaboration occurs on an informal level by setting irregular in – house meetings of the work groups established by the institutions for this precise purpose.

Taking into account the low degree of absorption, a new institution was recently established to coordinate the absorption process by removing any malfunctions and accelerating the implementation. The coordination mechanism remains however soft, as the Ministry of Foreign Affairs can not intervene in the coordination of other ministries' operational programs. A centralization of the system was not possible because reaccreditation of the seven management authorities would be too time – consuming. Therefore the main attributions of the Ministry are to cooperate with the institutions, which are responsible for the management of Structural Funds and ensure the appropriate conducting of public procurement procedures under the financial framework of Structural Instruments.

According to the European Commission's recommendations and best practices of other Member States, a golden rule should be considered when designing the institutional structure for the Structural Funds management. Thus, the smaller the number of institutions involved at different levels of management and programming, the greater possibility of higher rates of structural funds absorption (Horvath, 2004). Compared with other Member States, Romania is among the countries with the highest number of institutions in the field of structural funds absorption; however this is not the only factor that influences the current situation.

Nevertheless, in the case of Romania the success of the Structural Funds is directly related to the reform in the bureaucratic administration. This process is held back by the fact that during the last period the country has been witnessing a flow of disintegration of local communities into new legal entities (Dragoş & Neamţu. 2007, 640). The horizontal management burdens the coordination of the tasks among these institutions, leading to a dysfunctional absorbing process.

Moreover, a study presented by Mugur Isărescu, the Governor of the National Bank of Romania noted that the primary cause of the low absorption rate of the funds is linked to the delays in program elaboration at the national

level, which occur due to the weak local public administration (Zaman & Georgescu, 2009, 145). Even more concerning is that the system is also confronted with the problem of heavy political interference. This can be seen in the continuous changes of objectives and policies within the civil service bodies and the dependence of rural communities on the political influence in the allocation of financial transfers from the state budget (Dragoş & Neamţu. 2007, 637). In spite of ongoing but rather inconsistent attempts, the government has not been able to achieve any significant changes.

Furthermore, an important aspect needs to be considered with regard to the administrative capacity of the state. This factor appears in the field of project management and is significantly influencing the absorption rate.

During the selection phase the institutions in charge find it difficult to keep the deadlines. A time gap has been registered between the moment of presenting the financial request and the selection result (Berica, 2010, 114). The authorities blame this on the reduced number of staff due to low salaries and the huge paper work that lies behind this process.

Institutions also seem to be lacking strategic planning, as beneficiaries are permanently rising complains about the websites and their informative content that frequently changes. Due to this it results extremely difficult to keep up with the developments and hand in updated project proposals, leading ones more to a delayed implementation.

In direct relation with the institutional design are the human resources available to carry on the tasks of these entities. Also in this case, Romania is facing serious problems, as we will observe in the following section.

4.1.2. Human Resources

Several issues have been identified in relation to human capital that affects the building of a suitable administrative capacity. The factors in question can be clustered into two main groups: on the one hand we have the payment

system in place for public officials, which has a negative effect on their motivation and interest for the job whereas on the other hand there is the qualification and training available, which ensures a good working performance (Dragoş & Neamţu. 2007, 635).

When talking about the payment system in Romania, there is a disproportional relation between the level of the salary and the public servant's duties. Employees with the same kind of area of expertise get different salaries, depending if they work for the local or central bodies. Due to this the dissatisfaction among functionaries is extremely high causing a constant migration from the public to the private sector as well as within administrative entities from the local to the central level. For the same reason, the recruitment of personnel lacks tremendously in this field and important matters like program selection suffer serious delays (Popa, 2010, 267).

Although the wage level for employees managing community funds has been granted an increase of 75 % to the national average (900 RON / approximately 300 Euros), the employment rate still remains very low (Constantin, 2006, 13).

Worth mentioning is the fact that in Romania an interesting trend has been unfolding. As a consequence of the previous mentioned issue, there is often the case of corruption among public officials. They do not have any incentives to deliver a well done job and therefore refuse engaging in other types of lucrative activities. A major vulnerability of the system is therefore the lack of honesty from the public administration and the unwillingness of supporting reform.

In reference to the training programs established for the education of personnel, the country has not been able to support the proper building of its civil servants. Less than 40% of the employees in the planning and programming area have attended trainings and own suitable qualifications for working in this area of expertise (Constantin, 2006, 12). In addition to this, a decisive factor of Structural Funds management capacity is the promotion of long – lasting

education and training programs within the Management Authorities and Intermediate Bodies. This aspect is of high importance, as a large number of personnel, more than 60% lacks relevant experience. Even though the institutions have provided training seminars, these have been of reduced length and the attendance has been very poor (Berica, 2010, 115).

In spite of this, the impact of technical assistance received by the management institutions in the phases prior and after the actual design of operation programs has been positively evaluated. Most of the institutions consider the training of high quality and believe to have helped the personnel in getting more familiar with EU requirements in the Structural Funds field.

The education of the civil servants does not only lie within the responsibility of the Structural Funds Management Authorities, it is first and foremost the duty of the National Institute of Administration, as a governance unit subordinated to the Ministry of Internal Affairs and Administrative Reform (Balan, 2004). They are struggling to issue diplomas instead of mere certificates for the trainings provided in order to provide for a better qualified and rated education.

It is also important to mention that Romania is facing one of the most popular issues of post-communist countries, which is, the fact that the older generation is still in control of the policy-making in public administration, impeding the younger generation to stand up and confront the old techniques (Dragoş & Neamţu. 2007, 637). Therefore newly trained specialists tend to leave the public sector and focus on jobs, which give them the opportunity of rapid ascension.

Furthermore I will consider the programming guides and manuals designed by the management department for enabling the smooth implementation of Structural Funds.

4.1.3. System and Tools

The evaluation of the existing methodology, procedures and partnerships for the programming and management of funds reveals that Romania is on the right track apart from some sensitive issues, which need to be resolved quickly (Constantin, 2006, 14). Noteworthy, is that the general methodology design for Operational Programs, containing the rules and requirement of the European Union has been sent out at an early stage to all Management Authorities in order to assist them in their work. In return, these have also developed specific guidelines for each Intermediate Body, according to their area of responsibility.

Regarding the internal cooperation within institutional departments, Romania has managed to foster good collaboration by establishing work groups and setting regular meetings. They mainly give suggestions about the difficulties they experience with financial and project programming, strategies and priorities and make proposals regarding technical assistance or EU Funds regulation.

As for the establishment and application of work procedures, only a single Management Authority has recently compiled its directives, the rest just began setting them up. The existence of these procedures is an essential condition for the programming activity as a whole (Constantin, 2006, 15). The fact that only one institution has been working with them, explains the poor activity in the structural management. It is therefore required to establish work procedures as soon as possible in order to bring the planning and programming activities of the public administration on the right track.

Beside the incentives of the state administration capacity, which accentuate the defective absorption rate, we also have to deal with the beneficiaries' administrative capacity regarding the management cycle of the projects and their implementation.

4.2. Administrative capacity – beneficiaries related

The Management Authority is frequently confronted with unsatisfactory project application due to the fact that these are treated with low importance by the beneficiaries. Issues arise both in the phase prior to project application as well as after receiving the approval.

It has been noticed that many projects are written only for the purpose of receiving money and the target groups are neglected (Berica, 2010, 112). These projects are to be most probably approved without knowing the actual truth regarding the purpose and benefit of the project. Due to the superficial design of the projects, most of them do not get to be implemented.

Directly related with this aspect is the negative factor of partners' lack of involvement in writing projects. In most of the cases the majority of the partners find out only after the signing of the contract that they are collaborating in the project and start on generating divergences concerning the implementation of the projects for the purpose of self – gain (Berica, 2010, 113). This leads to a perturbation in carrying out the requirements and optimal development of the project.

Another problem lies in the scarce communication between potential beneficiaries and consultancy bodies. It appears that most of the applicants claim not knowing how to write a project proposals due to misleading information provided by these institutions. Unfortunately, no sanctions are foreseen to prevent such situations, as most of the information is communicated verbally and not in writing (Berica, 2010, 114). From the opposite side, institutions complain about the irrelevant sections or incomplete documentation of the applications and blame the potential beneficiaries of not following the rules imposed by the Intermediary Bodies. Obviously both parties are passing the fault to one another, while the truth lies somewhere in the middle. The fact is, however, that this kind of attitude is working in the detriment of Structural Funds absorption, making it almost impossible to achieve any results.

The most severe issue that negatively contributes to the absorption capacity is embodied by the applicant's difficulties in providing co-financing (NEI 2002, 2). There are cases in which they found themselves in the situation of having to give the contracts up, due to the lack of financial resources. Even though they are informed about the fact that first of all they have to dispose of the money as the reimbursement occurs only after several months, they seem to treat this aspect superficially and end up losing their investment and the structural funds.

The idea of the section about Romania's administrative capacity was not to illustrate only the negative part of Structural Funds but above all to put special emphasis on the difficulties the country is currently confronting due to the factors previously mentioned. Although I truly believe that the Funds are first and foremost beneficial for improving the economical, social and political situation, I wanted to prove that Romania does not know how to take advantage of this opportunity and it is struggling to reach a difference. It seems though the faith is playing against us, as another factor has appeared on the arena, damaging even more the absorption conditions.

4.3. Financial Crisis

The effects of the financial crisis started to be felt in Romania during the fourth quarter of the year 2008. A macroeconomic imbalance began spreading into the economy and due to the global liquidity dry up, uncertainties rose (Anonymous, 2010, 3). The perspective of a sudden stop in the capital flow has brought additional difficulties with regard to the ability of Romania of co – financing the implementation of Structural Funds. Even if the contribution has to cover, as a general rule, just 15 % (of which 13 % is coming from the state budget and the rest of 2 % from local co – financing or other public institutions) of project funding, in many cases there is an acute shortage of financial resources for public and private co – financial investment (Constantin et al, 2010,12).

Romania's economy was plunging into recession with the inflation rate falling, real interest rates rising and companies' not being able to face the borrowing requirements. The labour force had to suffer the most, as the average wage was declining rapidly and people were losing their jobs gradually (Anonymous, 2010, 5). Upcoming events started deepening the existing macroeconomic imbalances that the country was already in, prior to this crisis.

High pressure has been exercised on the banks and their lending capacity (Zaman & Georgescu, 2009, 146). This has had two important implications for Romania: on the one hand the capacity of private companies to co – finance projects with structural funds eligibility has been declining severely as the main source of financial resources was coming from the banking sector. On the other hand, because of the general decrease in the business environment, the payments between companies have suffered significantly (SAR 2011, 29). The entire process has been characterized by an overall debt of both firms and families, making the allocation of funds almost impossible.

To summarize, I would like to touch upon the idea that creating the conditions for a higher absorption capacity under the incentives of the aspects presented above will be a very difficult task for Romania. For this purpose, in my last chapter I will try to give some recommendations regarding the areas that have to be urgently dealt with and look at the future perspective Romania is expecting within the framework of the next Cohesion Program for 2014 – 2020.

5. Conclusion

5.1. The Big Picture

The thesis has undertaken an investigation of a highly disputable issue that has settled on the political agenda at both national and European level, namely the scarce absorption capacity of the new Member States. Within this context, I selected the show case of Romania, as an example of the worrying situation and analyzed its performance by looking at the different factors that appear to influence the effective allocation of the Structural Funds.

On the basis of the available data found in the literature, I was able to uncover several problems which are related to the current design of structural policies in Romania and discuss the implication they have on the absorption of cohesion funds.

The second chapter gave an overview about the conceptualization of absorption capacity and provided the analytical framework of the thesis. It stressed the interference of a number of factors, which negatively contribute to a low absorption capacity. Among these, one could identify the macroeconomic, financial and administrative factors that, depending on the conditions in each country, generated a bright pattern of obstacles. Apart from that, I made reference to Reszkető's (2008) work, which points at "government failures" as the source of absorption problems. Grounds like fundamental informational failure, institutional and motivational failure are negatively affecting countries' capacity of absorbing funds. Additionally I also mentioned the influence of the current financial crisis on the financial background of the Member States, which has been exercising high pressure on the co – financing procedure of both the state and the beneficiaries, burdening therefore the allocation of structural projects.

The third chapter outlined the assessment of the European Union regarding Romania's capacity of absorbing Structural Funding before accession. It touched upon the strategies the European Union followed in the design of the

Cohesion Program for 2007 – 2013 and emphasized to which extent the Member States had contributed to this process.

Furthermore I presented a number of challenges that raised the attention of national and European officials regarding the implementation of the policy framework and highlighted the approach of the European Union towards the type of methods they were planning to use for the suppression of the negative effects. According to the literature, the launch of the new Cohesion Program was confronted with the enlargement problem and the deepening of the disparities between Member States as well as the economic depression, despite of the access to European Funding. In order to help Member States overcome these issues, the European Union implemented with the new program the n+3 rule of funds allocation and changed the co – financing calculation with the aim of giving countries more flexibility in adjusting the policy to their specific conditions.

In the light of these aspects it was possible to describe Romania's evaluation from the European Union's point of view and came to the conclusion that the Structural and Cohesion Funds produce both benefits as well as shortcomings for the country. If they offer us the necessary opportunities to embrace modernization, they also seem to be burdening the public administration system, which is still not capable of absorbing them. Based on these perspectives the assessment and forecast of Romania's performance concerning its absorption capacity is twofold: on the one hand we have the socio – economic facilities that are expected to rise with the allocation of funds while on the other hand Romania will be facing serious challenges in implementing the suitable framework for reaching a satisfactory rate.

In the fourth chapter I analyzed the performance of Romania after four years of EU Funding. On the background of the analytical framework outlined in the second chapter I focused my attention on the administrative factors from two perspectives: from the state and the beneficiaries and also on the incentives of the financial crisis.

The main idea was to give a short overview on the one hand of Romania's institutional design with the human resources available and the systems and tools provided and on the other hand of the problem encountered by the beneficiaries' and their attitude towards project management cycle.

To sum up the findings from my investigation, there are a series of problems that still need to be dealt with. These problems have to do with adjusting the institutional framework, employing an extended partnership between departments, promoting and assuring trainings for the personnel, elaborating and properly applying work procedures. Apart from this, the weak project management of both public and private bodies has to be tackled, the average time of elaborating and approving the projects has to be improved and the communication between potential beneficiaries and informative bodies should be reevaluated and upgraded.

Furthermore there are the incentives caused by the financial crisis, which deserve an equal attention from the country's administrative body. These are already under close supervision of the European Regulatory Institutions; however additional measures have to be put in place on the national level in order to combat their aggravation.

Nevertheless, the central stage of this section is to make some recommendations regarding the approach that should be followed for a better and efficient performance.

5.2. Recommendations

According to the work of Duduiala - Popescu (2009) it would be required a recentralization of the process of building an administrative capacity to absorb properly. They suggest the establishment of a working group within the government, whose sole responsibility would be to accelerate the absorption by employing all resources (Duduiala – Popescu, 2009, 6).

With regard to the institutional structure several studies have stressed the idea that the contribution of Cohesion policy to growth and convergence is conditional on institutional capacity (Bachtler & Gorzelak, 2007, 316). For this purpose it is recommended that there have to be more open and responsive trade and investment opportunities, a more secure financial structure and supportive macro – economic policies (Bradley, 2008).

A study conducted by the researcher Ederveen et al (2006) raised the issue that the EU assistance did not foster the capacity of growth in the less developed Member States; the effectiveness of the Cohesion Policy was dependent on a `suitable` institutional structure, lack of corruption and openness of the international economy. Hence, the highly developed countries had a certain advantage with their better institutional framework and higher economic level, gaining therefore impulse with the funds flow. Whereas in the less – developed countries the situation was totally different. The presumption of Ederveen (2006) was that due to the influx of external funding and the underdeveloped institutional structure, especially the high degree of corruption, there would be a decrease in the capacity of growth.

Under this perspective, the recommendation given by Bachtler & Grozelak (2007) is that the relationship between the EU and the Member States should be revised, withdrawing the Commission from involvement in the national and regional operational programmes and focusing more on sophisticated strategies, which can help to build the much – needed institutional capacity of the less – developed Member States. As Ederveen (2006) stressed, funds should first be allocated toward institution building in new Member States. Once institutions are of sufficient quality, funds may be effective in stimulating absorption.

What is definitely true is that the Structural Funds are literally asking for a more innovative approach from the national public administration. There is a need for more flexible rules and procedures, targeting at employing financial assistance from other public institutions, above all at a transparent ex – post and

ex – ante project evaluation as well as at improving the implementation process within the required time span. To give only some examples of how to do this, is by creating different technical applications (call – centres, E - governance or management software), which come to support both the Management Authorities as well as the potential beneficiaries in formulating projects and managing them correctly (SAR, 2011, 34).

There are certainly many others improvements that should be considered but due to the reduced length of my paper I decided to touch upon only the most important ones.

For a future perspective I would like to shortly outline the upcoming Cohesion Agenda 2020, which aims at adopting a new approach for fostering future development.

5.3. Outlook

The new layout of Europe 2020 Strategy is focusing on three main pillars of growth (Anonymous, 2010):

- Smart growth, implying the development of an economy based on knowledge and innovation
- Sustainable growth, which is aimed at promoting a more resource – efficient, greener and a more competitive economy
- Inclusive growth, which would rise employment and strengthen the cohesion among economic, social and territorial cohesion

Having these targets in mind, would be interesting to see what the implications are for the case of Romania.

Most of the challenges are related to the first goal. The current situation regarding the investment in RDI is extremely low in comparison with some other Member States. Among the measures that have to be applied once the implementation of the program starts, is increasing in both public and private

area the spending on activities related to development and innovation. According to the 6th GEA Report on Romania and the Lisbon Agenda, Romania should not return to a consumption – led economy, otherwise companies will not embrace the need of innovation and public money will be spent improperly. When a country is faced with constraints, the crucial thing is to give away the limited funds wisely. It is therewith recommended establishing an independent national council on research, bringing together business and academic representatives, which will support the efficient allocation of money for RDI.

The second objective will also need substantial efforts from the Romanian public authorities. The Report suggested the creation of a public holding company comprising only the producers of energy from renewable sources, hence increasing awareness on this matter and developing possible co - operations.

As for the last objective, apart from the fact that Romania will be promoting a growth of employment, it needs the suitable policies to do so. Therefore the Report makes the recommendation of designing new policies or adjusting old ones, aiming at improving labour supply incentives for all social categories, more flexible work arrangements, training opportunities and job subsidization.

The paper has demonstrated that the reasons behind Romania's low absorption capacity are multifold, but can mainly be derived from the administrative capacity and financial drawback that the country is currently confronted with. However, it would be a mistake to blame only the country, as also the EU can be said to have its responsibilities.

There is definitely much more to be said about this topic but considering the extensive field of empirical analysis and the limited length of my thesis, this would result difficult to incorporate in this paper. Therefore I would recommend further research regarding to which extend is the absorption capacity the responsibility of the European Union or the Member States.

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