\textbf{Some Accounting Issues and Statistics about Romania and EU Funds - Absorption through Projects and Eligible Expenses}

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\textbf{Abstract}  
The first part of the article deals with the concise presentation of main European funds, the poor preparation of absorption of these funds in Romania during the period of pre- and post-adherence and a few statistics regarding the rate of absorption placed under the level of 10\% of some funds of over 30 billion euro between 2007 and 2013. The second part presents an accounting analysis of eligible expenses and main accounting problems which led to the blocking of some large sums from EU funds. A few final remarks upon these irremediably lost resources due to Romanian economy are made in a pessimistic way, within the context of a profound recession and of a national project management preponderantly non-competitive and here and there without responsibility.

\textbf{Key words:} project, project management, EU funds, absorption rate of EU funds, SWOT analysis, project budget, eligible expenses.

\textbf{JEL Classification:} C46, G23, H43, O22, M41

Any European financing fund was and is the expression of European Union politics which is either structural or of insurance of social cohesion, being conceived as a financial instrument for the promotion of this politics. The convergence of EU member states, disparities diminution between EU member states and consolidation of economic and social cohesion was achieved inter-community by means of two categories of important funds till the moment of Romanian adherence on the 1st of January 2007:

I. Structural funds – initially estimated to the value of 195 billion euro for the period 2000 – 2006 which in their turn comprise four main categories:

a) European social fund – ESF, established after 1957, as a result of the treaty of ROME (more precisely from 1958); the major purpose of this fund is to support
the professional training, requalification of manpower and teenagers' reintegration on the labour market. The main objective remained the prevention and control of unemployment through the access increase to labour market, chances equalization, increase of number of jobs and of professional qualification, the favourite domains being the social and labour market domains.

b) European Fund of Orientation and Agricultural Guarantee – EFOAG, established also after treaty of Rome, more precisely after 1960, and its component of functional orientation after 1962; the purpose was to support the conditions and qualitative improvement of programs of agricultural production and of marketing of these products in order to achieve thus a lasting rural development. The major objectives are further the structural adjustment and reconversion, development of agricultural activity (with emphasis upon its orientation), prices support of agricultural products. The favourite domains have become the investments in associations, facilities given to young agriculturists, support of retirement from agriculture, support of deprived areas (or with environment restrictions), support of agricultural methods which protect the environment and support of forestry.

c) European fund of regional development – EFRD created and being functional after 1975, became the most important component of structural support, its purpose being the correction of unbalances and participation to the development and transformation of regions. The productive investments directly resulted in domains such as creation of new jobs, investments in infrastructure (networks, education, health), development of internal potential, awarding of technical assistance.

d) Financial instrument of fishing orientation – FIFO has become functional only after 1993 being proposed after Maastricht, with the purpose to adapt and modernize the fishing equipments in a blue Europe. Its domains are the support of adaptation efforts in the fishing domain, fleet modernization, development of aquaculture, protection of marine areas, awarding of facilities for processing, marketing, promotion of piscatorial products.

II. Social cohesion and technical assistance fund, which had a total value in the period 2000 – 2006 of about 18 billion euro and which was created after 1993. This fund directly finances individual projects which allow the environment improvement and development of transport networks having as main purpose the consolidation of social and economic cohesion through the support given to less prosperous states whose PIB is under 90% as against the community average. Till May 2004, it has been assigned exclusively to the poorest member states, respectively Greece, Ireland, Portugal and Spain and can cover till 80-85% from the total of public expenses. The functioning principles of these funds have remained practically the same also after our country adherence:

I. Partnership – is the existence of a close cooperation between EU and national, regional and local authorities from each member state (the funds allocation becomes thus the result of a dialogue).
II. Scheduling and internal coherence (scheduling = conception of some programs of multinational development and internal coherence = awarded by complementary actions, through explicit strategy as well as through global impact (bigger than the sum of impact of projects)

III. Additionality or complementarity and external coherence – the European funds don’t substitute the financial efforts of member states, but they are additional.

IV. Concentration- the financial support is pointed to the poorest regions, the financial resources to activities with maximum impact and to a limited number of priority objectives and serve a restricted number of regions.

V. The category of other principles has in its content: a) efficiency principle (effect maximization of community allocations); b) subsidiarity principle (responsibility assigning to authorities close to citizens); c) co-financing principle (financial support assurance including private, international financial support or of any other nature besides the public support); d) durability principle (the selection of a project for financing takes into consideration its chances to continue successfully even after the community support stops).

1. Analyses and statistics regarding the absorption of European funds by Romania

Having a volume under 75% from average EU PIB, Romania qualified theoretically in pre-adherence at a financing level of the highest from EU projects in the period 2007-2013. It was suggested the use of genuine projects “pipes”, called also „pipeline” projects. There have been some studies and SWOT analyses which signaled a preparation more than modest of the future access of Romania to European structural funds which doesn’t rise yet to the level of resources which will be allotted, anticipating percentages of absorption close to „zero” in the first years post-adherence 2007 and 2008.

Table 1: SWOT analysis of Romanian project portfolio at the end of 2006

<table>
<thead>
<tr>
<th>Strong points</th>
<th>Weak points</th>
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<tbody>
<tr>
<td>-Existence of projects made</td>
<td>-Problems regarding the absorption capacity of funds to all new EU member states</td>
</tr>
<tr>
<td>-Experience and adaptability</td>
<td>-Institutional frame</td>
</tr>
<tr>
<td>-Regional programs (ADR)</td>
<td>-Control assurance</td>
</tr>
<tr>
<td>-Plan of regional development (second revision from December 2005)</td>
<td>-Problem of financial management</td>
</tr>
<tr>
<td>-Regional operational programs (ROP)</td>
<td>-Quality of regional strategies (according to „Romanian Monitoring Report”)</td>
</tr>
</tbody>
</table>
Oportunities  | Threats  
---|---
- Possibility to create excellence poles (group: university + research institute + IMM or administrative institution)  
- Existence of five national thematic programs projects  
- Existence of transversal programs and strategies  
- Possibility to form academic teams of project writers from students and teachers in universities through a mandatory discipline  
- Appearance of some regional strategies sometimes non-connected with the national ones  
- Lack of a great number of teams already formed of project writers  
- Lack of involved private funds (in average, their contribution cannot rise to 50 %)  
- Monopolization of some activities of project editing with European financing at county level  
- Potential accounting and financial indiscipline  

*Note : The five national programs refer to economic competitiveness, energetic and transport infrastructure, environment infrastructure, development of human resources and modernization of administration.  


The weak points can also materialize in the pre-adherence of Romania, by detail and in the uncomplete reformed economy, in the low level of investments, in the high rate of unemployment, in the low level of services addressed to business environment and communities and in the low level of basic infrastructure necessary to economic activities.  

The potential financings of projects achieved in Romania from EU funds could rise at over 33.5 billion euro between 2007 and 2013, but the effective achievements indicate a general rate of funds absorption at the level of the Convergence Objective of 9.17% from EU allocation on the 30 of June 2012 respectively 11.47% at the end of 2012, according to official data presented by the Authority for Structural Instruments Coordination (ASIC).  

During the period 2007-2013, Romania benefits from an allocation of 19.213 billion Euro, which is implemented by means of the seven Operational Programs within the Convergence Objective.  

The National Strategic Reference Frame of 2007-2013 benefits of this allocation from:  

a) Structural funds (European Social Fund -3,684 billion Euro; European fund of Regional Development- 8.976 billion Euro);  
b) Cohesion Fund- 6.552 billion Euro;  
c) national co-financing estimated to 5.6 billion Euro.  

At the level of each Operational Program, the stage of implementation on the 31st of January 2013 is presented as follows:
### Table 2: Allocation of European Funds and their rate of absorption on financing programs during the period 2007-2013

<table>
<thead>
<tr>
<th>No.</th>
<th>Designation of Operational Program</th>
<th>Allocated run (ill. Euro)</th>
<th>Absorbed run (ill. Euro)</th>
<th>Absorpt. rate (%)</th>
<th>Problems and difficulties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Transport Operational Program</td>
<td>4.56</td>
<td>295.33</td>
<td>6.46</td>
<td>At the Transport Operational Program the biggest problems are related to fraud suspicions especially embezzlements. Another annoying problem is represented by the projects of great amplitude which are in a related stage of implementation especially in the railway domain.</td>
</tr>
<tr>
<td>2.</td>
<td>Districional Operational Program of Economic Competitivity Increase DOCEIC</td>
<td>2.33</td>
<td>192.9</td>
<td>0.77</td>
<td>The problems recently issued are related to confusing institutional architecture although the projects for IMM are the duty of Ministry of Tourism and the energy projects are the duty of Ministry of Internals. There are also problems related to the functioning of Management Authority of Districional Operational Program of Economic Competitivity Increase by Ministry of Economy as well as by the intermediary Organism (I0) for IMM. Similarly to the previous presented program, there are suspicions of fraud and penal investigations are made also in the care of this program.</td>
</tr>
<tr>
<td>3.</td>
<td>Regional Operational Program ROF</td>
<td>3.72</td>
<td>920.34</td>
<td>24.7</td>
<td>Excepting the second Primary Aid, the European Committee placed in suspension the Regional Operational Program in October 2012 (its unlocking is expected in March 2013)</td>
</tr>
<tr>
<td>4.</td>
<td>Districional Operational Program of Human Resource Development DOPERH</td>
<td>3.47</td>
<td>268.84</td>
<td>7.73</td>
<td>The Districional Operational Program of Human Resource Development entered the suspension in August 2012 but it has been unlocked in February 2013.</td>
</tr>
<tr>
<td>5.</td>
<td>Districional Operational Program for Environment</td>
<td>4.31</td>
<td>464.6</td>
<td>10.3</td>
<td>The main problems are related to the reduced degree of implementation of stated projects which generate the risk of the disengagement of European money.</td>
</tr>
<tr>
<td>6.</td>
<td>Operational Program of Administrative Capacity Development</td>
<td>0.200</td>
<td>51.2</td>
<td>26.63</td>
<td>No major problems are encountered excepting the lower rate to expenses which arrived up to 0%, while the European Committee allows maximum 2%. Also, it is foreseen the risk of appearance of some institutionally administrative ambiguities</td>
</tr>
<tr>
<td>7.</td>
<td>Operational Program of Technical Assistance</td>
<td>0.170</td>
<td>31.02</td>
<td>18.23</td>
<td>The quality of expenses represents the problem arising by this program in the sense that money should be directed especially towards efficient projects which lead to the economic growth in the domain of European funds absorption.</td>
</tr>
</tbody>
</table>

**Source:** Table realized by authors by synthesizing the webography resources of this paper.
In the case of the seven Profile Programs for the projects with disorders, Romania will have to accept financial corrections from European Committee till the level of 25%.

For the period 2014-2020, Romania will receive 39.88 billion Euro – structural and cohesion funds and funds assigned to agriculture comparatively with the value of 33.5 billion Euro, sum allocated in the previous period which leads to a growth with 18% in comparison with the allocations from the financial period 2007-2013 (as a result of adoption of EU multiannual budget of 2014-2020).

The dashboard of European funds which will be received in Romania between 2014-2020 looks as follows (see http://www.zf.ro):

- For structural funds, Romania will receive 21.82 billion euro, with an increase of 10% against the allocations from the period 2007-2013 (19.8 billion euro, sum updated to the inflation).
- For Common Agricultural Politics (CAP) it will receive 17.5 billion euro, with an increase of 27% against the allocations from present multiannual financial period of the Union (13.8 billion euro).
- For direct payments to farmers, it will receive 10.3 billion euro, against 5.6 billion euro in the period 2007-2013 (plus 3.4 billion euro).
- For rural development, it was allocated 7.1 billion euro, against 8.2 billion euro between 2007-2013 (minus 1.1 billion euro).

Also, in the period 2014-2020, money can be spent in the interval N+3 (three years after the established date for a project to be achieved), against N+2 at present, which means that the all allocation must be absorbed in 10 years from the beginning of financial period.

2. Projects budget, eligible expenses and noncompliance with accounting discipline in the projects financed by EU

In the life cycle of the project financed from European funds, we can identify three assessments of the project budget: a) “ex ante” budget assessment in whose context we make the opportunity study of project budget yet from auction and we have in view the definition and application of financial orientations of its activities; b) continuous assessment of budget, which develops during all the project and represents a monitorization instrument for decidents and financers being interactive related to the project evolution; c) “ex post” budget assessment, in whose context the analysis takes place after the project closing and quantifies the economic, social and scientific contribution of the project results. Any assessment of a project budget will have to answer to the questions regarding the four defining aspects of the project: why, how, when and for whom the assessment will be made, which finally leads to four classic assessment models of projects budget: a) Goal Achievement Model; b) Means Achievement Model; c) Human Resources Model; d) Political Model. If the first model tries to define “in which measure the initial program was achieved”, the second emphasizes the analysis of the decision process which influences the achievement or nonachievement of objectives initially.
established, the third has in view the competence of those implicated in the project achievement (the project success depends essentially of this thing) and the fourth and last classic type of budget model starts from the indicators of pertinence and efficiency of the project in relation with the financing program which have been accepted by the main implicated parts.

In a project budget, there will be included all its necessary expenses, but never there will not be comprised the non-elligible expenses mentioned even from the editing phase of projects. A budget will be possible ensuring the coherent and continuous development of the project in necessary quality conditions. Any expense which was not initially included can lead either to the solicitation of additional funds besides the one already approved (which can mean the project cancellation), or to the demand to modify the budget (which can be accepted by financers but between certain limits). Expenses can not be increased in the budget more than it is necessary. If there are reserves included in the budget for unexpected situations, these have maximum limits accepted by the financer. Besides the strictly necessary expenses, financers are willing to finance only the expenses related to the functioning of the financing program on the whole. If modifications are necessary in the budget, these can be made but with the financer’s approval who accepts as a rule when the variations don’t affect the basis object of the project or when the financial impact is limited to a transfer within a single budget chapter. The assurance of personal contribution is necessary in the budget (excepting the non-reimbursable financings or grants), not only regarding the contribution in kind but also the financial resources. A bigger personal contribution can indicate to the financer that the sollicitant treats the project activities with interest and seriousness.

In the practical development of the project, the promoter may start activities from the project before to receive the sum from the financer (as a rule, this sum is paid in more instalments but never exceeds 95 % at the end of the project). The personal contribution of the sollicitant or promoter must cover the expenses of project functioning during this period. A good accomplisher of project budgets will have the following skills very well assimilated in order to be capable to achieve a budgetary scenario as appropriate to the financing program of the project: a) completely knowledge of information and financial documents; b) understanding of dissociation between elligible costs and non-elligible costs; c) anticipation of elligible indirect costs; d) adaptation to the printed form structure of each program; e) establishing of coherent calculus modes (which are then kept). Elligibility / non-elligibility represents the concrete state of a project to achieve/to not achieve the mandatory criteria established, announced and disseminated through the projects auction by financer or the program agency.

In detail, we can distinguish the promoter’s elligibility, the partner’s elligibility, the area elligibility, the activities’ elligibility, the budget elligibility, the expenses’ elligibility etc.

It is also necessary an analysis of some aspects of the accounting organization and management of projects financed by European funds. As we
found from the analysis of allocation and absorption of European funds by means of the seven Operational Programs, the European Committee applied financial corrections with a high level (even of 25%) as a result of verifications of programs run. For this reason, it becomes more important the knowledge of eligibility problems of expenses afferent to projects. For the implementation of projects financed from European funds, it is required a distinct book keeping, by using project analytic accounts. In the situation when the entity benefits of more projects financed from European funds, it is required to have a distinct book keeping for each project. In case of projects financing from European funds, some mandatory work procedures must be drawn up according to financing contract as for example: procedure for the reimbursement demand deposit, accounting procedure, payments authorization procedure, payments making procedure etc. The book keeping corresponding to the project will be achieved according to specific procedure by an accounting expert /authorized accountant according to law who will sign and date the accounting documents corresponding to project operations (with observance of accounting, fiscal, financing regulations etc.). The project manager is responsible with the application of procedure regarding the project accounting.

Within the projects financed from European funds, from the point of view of eligibility, we can distinguish the following categories of expenses:

- **Eligible expenses**: the expenses realized by a beneficiary corresponding to projects financed within operational programs which can be financed not only from structural instruments, but also from the state budget and/or beneficiary’s personal contribution according to legal national and community regulations in force. Examples of eligible expenses within a Districtual Operational Program of Human Resources Development project: staff expenses; lodging, transport and daily fee expenses; expenses corresponding to project management; taxes; financial and juridical expenses; expenses for rents, amortizations and leasing; subventions and scholarships; general administrative expenses; publicity and information expenses, expenses of the type European Fund for Regional Development (EFRD).

- **Non-eligible expenses**: expenses inherent to project achievement financed from structural instruments within the operational programs, which can not be financed from structural instruments according to national and community regulations. Examples of non-eligible expenses within a Districtual Operational Program of Human Resources Development project: value added tax; interest and other commissions corresponding to credits; collateral expenses which intervene in a leasing contract; expenses for houses for the operations which benefit of FSE financing; purchase of second-hand equipments; fines, penalties and judgement expenses; costs for operation of investment objectives.

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1 The analytic accounts used in the project accounting must contain the following elements: number and account designation, abbreviation of the operational program, number and date of the contract for project financing.
We mention that in order to identify which categories of expenses are considered eligible within a project we can consult the list provided in Specific Conditions of the Sollicitant’s Guide for each demand of project proposals.

Generally, in order to be eligible, an expense must accomplish the following conditions in a cumulative way:

a. to be effectively paid from the date provided in non-reimbursable financing contract;

b. to be necessary for the realization of activities within the project;

c. to be provided in the estimated project budget;

d. to be in conformity with the principles of a rigorous financial management taking into consideration the efficient use of funds and an optimum cost-results report;

e. to be registered in the beneficiary’s accounting, to be identifiable, verifiable and proved through invoices, in conformity with the provisions of the national legislation, or through other accounting documents with probative value, equivalent to invoices;

f. not to have been the object of other public financings;

g. to be in conformity with the provisions of the financing contract;

h. to be conformable to the provisions of national and community legislation;

i. to be mentioned in the list of eligible expenses presented in the Specific Conditions for each demand of project proposals.

In certain limits imposed by EU rules, the eligibility conditions of expenses must be established at national level, this representing the appropriate level within the member state – not necessarily at the level of central Government (can be at regional or local level), even specifically for an operational program. However, in this situation we must observe the condition that all established rules be in conformity with the respective community or national legislation. These rules of eligibility imposed at national level are considered as mandatory as the Committee rules and their non-observance attracts the declaration of expenses as non-eligible.

In order to be discounted, the expenses made within the project will be integrated in budgetary chapters corresponding to their typology and will be supported by justificatory documents. At the reimbursement of expenses, there will be requested at least the following documents: invoices, entry-reception note (NIR), payment documents (payment orders), bank statements, consumptions orders, fixed assets sheet, minutes of putting in functioning, balance sheets for analytic accounts used in the book keeping of projects, accounting notes, trial balances, day book, inventory book etc.

As it is mentioned in the regulations of EU politics and funds (http://www.fonduri-ue.ro „The Continuous Training of the Staff Implicated in the Administration of Structural and Cohesion Funds”) regarding the eligibility of expenses, the strategy from Lisbon pointed out the following aspect: "the funds
objectives must be based upon the European Union priorities in matter of promotion of competitiveness and creation of jobs. The Committee and member states assure that 60% of expenses of all member states allocated to the „Convergence” objective and 75% of expenses allocated to the „Competitiveness and work force occupancy” objective are meant/allocated to these priorities. The cofinancing coefficients are limited and their maximum value for each objective is: a) convergence - between 75% and 85%; b) competitiveness and work force occupancy - between 50% and 85%; c) European territorial cooperation - between 75% and 90%; d) cohesion fund - 85 %.

Conclusions
In the case of Romania, the implications of an absorption capacity extremely reduced of European funds have been major and with a significant impact arguing briefly through the recession amplitude, the recession inertiality in national plan for more than a year in comparison with the world-wide duration, through the substantial reduction of average rhythm of national economic growth and through the great increase of external debt and loans from FMI. In the next period, the absorption rate level can not increase up to necessary values despite some extremely high allocated funds for the next years (???? billion euro, till 2020, structured on funds). Romanian agriculture hasn’t benefit of those about 4 billion euro till 2012 and can not benefit further of greater sums).

Nobody wants to imagine possible negative scenarios, but fast evolutions must be imposed in order that Romania could access in EU a greater percentage from funds allocated through feasible projects and especially usefull to lasting development and economic convergence with the developed states from European community in the long term future. It is easy for Romanian economy only to subscribe in “EU club”, but it is painful and critical not to be capable further to practically spend the available money from projects financed from European funds through coherent regional and national and especially useful strategies.

The knowledge of aspects specific to the accounting organization and management of projects financed from European funds as well as of those regarding the eligibility of expenses have incidence upon the increase of the funds absorption rate and of diminution of financial corrections applied by the European Committee. In view of the absorption improvement of European funds it was outlined the expansion necessity of eligible expenses categories to be reimbursed from these funds with favourable effects also regarding the diminution of budgetary expenses.

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