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Lost in the absorption of EU funds: Lessons Learnt

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EU funds: pure absorption vs. effectiveness

- Do we spend EU funds efficiently & effectively?
- Was the catch-up process a success?
- What are the weak points in Romania's ability to produce adequate public policies irrespective of the financing source?

- 2007: GDP/c = 35% of EU average # 2015: GDP/c was at 55%
- EU funds = investments, salaries, higher consumption and tax collection
- **Corruption cases 2010-2016:**
- 3911 convictions → 11% involved EU funds
- 37% are local public officials and servants
- 94 cases involving a city hall/county council

- No EU conditionality on accessing EU funds by imposing targets in anticorruption → reactive approach by halting funds at various times from 2011-2014 across almost all OPs
- 2014-2020 period: **36 ex-ante conditionalities** until end 2016
- **10 years after accession: Romania still has the same problems identified in the 2007 National Development Plan** (eg: waste management)
- Need to have multiannual plans, strategies, national evaluations and specific policies in sectors which have already been financed in 2007-2013
- There was no evidence based governing approach with data, plans or strategies which were requested by the EC

- EC & WB reports: the planning and monitoring process is made superficially as a result of EU pressure, not an intrinsic feature of the governance system
 - 2 system country:
 - National: ad hoc decisions based on laws
 - Specific sectors: multiannual planning based on EU pressure
- proto-process of designing & implementing public policies

Vasile Puscas: “Instead of bringing the EU in, we opened the gates for Romanians to Europeanize in the West” [...] “We missed an opportunity (now it is a cost) because of the superficial manner of conducting public policies at national and local level”

- Focus mainly on monitoring the absorption rate, not the “on the ground” impact of EU funds
- Reports made passively, quantitatively and simplistically
- Out of a total of 122 impact and output indicators in 2014, 75 were below the expected value in 2015
- Most problematic: environment and transportation – which had received the most funds
- Special case:

Administrative Capacity OP cannot evaluate its impact since it did not collect any data from 2007-2013 → the influence of EU funds on strengthening admin capacity, including public policy design & implementation a & improving public service delivery at the local level, cannot be measured

Conclusion

- Low adaptation capacity: 2007 planning was deficient, no update of indicators, no adequate plans to move funds where needed
- Low ability to collect and process data at ministry level
- Focus on absorption and spending rather than on impact assessment
- No real time collection of data on project indicators – monitoring still “on paper”
- 60% non attainment rate of impact indicators: info on the 2007-2013 impact not used to prepare the 2014-2020 one

Government favouritism in public procurement

- **Is the allocation of public procurement contracts (state budget & EU funds) competitive or preferential in the construction sector?**
- Single bidding and the existence of political connections indicate that instances of government favoritism exist in the Romanian construction sector

Government favouritism in public procurement

1. Automated extraction from the REPPS of all data on contracts above 1 million EUR in construction (CPV 44,45,71) from 2007-2013
2. FOIA requests on county-level road infrastructure contracts
3. Wealth & assets declarations of evaluation committee presidents & County Council presidents
4. List of political party donors
5. List of firms with negative media coverage & whose owners are under investigation/prosecuted/convicted

Indicators of particularism

1. Single bidding

- How widespread is it & in which context does it appear

2. Firms' political connection

- Political party donor
- Negative media coverage & investigation/prosecution

3. Agency capture

- If the share of the total value of the contracts above 1 million EUR awarded by one contracting authority during a year to only one company surpasses 50%, if the contracting authority awarded at least three contracts in the respective year.

Results (I)

Single bidding

- **National budget is more vulnerable:**
 - 6064 contracts: 21% won through s.b.
 - Romanian firms tend to win more state budget contracts via s.b.
 - 1 in 7 EU funded contracts won through s.b. # 1 in 4 nationally funded contracts

Political connection

- **Favoured firms (Romanian/foreign) win more often:**
 - A 21% higher probability that favoured firms will win via s.b.
 - 1 in 7 contracts won by firms who donated to 1 or more political parties
 - Favoured firms more often win contracts financed through the state budget

Results (II)

Agency capture

- 8%: number of captured contracts out of the total, but their value is at 17% captured: 4.7 bn EUR out of 27.5 bn
- 70% of capture instances exist at the local and county levels
- **Central government: highest capture rate**
 - Only 6% of the total number of awarded contracts (captured & noncaptured), but 37.1% of awarded sums are captured (awards contracts with a higher value)
- **County Councils and SEOs: captured almost 2/3**
 - CC: 8% of total number of awarded contracts (captured & noncaptured), but 26% of the awarded sums are captured
 - SOEs: 45% of awarded sums are captured (2.1 bn EUR)

Particularism indicators in construction related procurement

Value of construction contracts

	2007	2008	2009	2010	2011	2012	2013	2007-2013
Single bidder	30.8%	24.1%	21.6%	26.4%	22.4%	12.9%	8.4%	20.2%
Political connection	23.4%	31.3%	20.3%	16.4%	19.7%	16.5%	13.6%	19.9%
Agency capture	18.5%	11.8%	17.3%	20.9%	21.7%	9.3%	18.6%	17.0%
Total particularism	51.7%	52.9%	43.9%	53.0%	49.1%	34.0%	39.4%	45.8%

Indicators (cont'd)

Number of construction contracts

	2007	2008	2009	2010	2011	2012	2013	2007-2013
Single bidder	30.1%	27.6%	20.3%	24.0%	24.2%	17.6%	12.2%	22.4%
Political connection	22.7%	21.5%	19.9%	19.3%	19.7%	17.7%	17.3%	19.7%
Agency capture	9.4%	8.5%	8.3%	7.4%	8.1%	7.5%	5.9%	7.9%
Total particularism	47.7%	45.3%	41.1%	42.7%	43.5%	37.2%	33.1%	41.6%

Conclusion

- Out of 6064 contracts, **15% go to firms who are legal political party donors**
- **2007-2013:** almost 42% of transitions particularistic, which means 46% of the total dollar sums awarded
- Public procurement risks are more frequent at subnational and SOE level # central government
- 1 out of 10 contracting authorities in the construction sector were captured by a single company
- Contracts financed through EU funds are less exposed to corruption risks