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The absorption capacity of European Union funds for social inclusion. An analysis into the PHARE 2004-2005 grants beneficiaries*

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Abstract

The subject of Romanian institutional capacity to absorb European funds is largely debated by public institutions, civil society and mass media, thus becoming a relevant issue for scientific research. This study tries to provide a framework for the analysis and forecasting of the absorption capacity of EU structural funds aimed at promoting social inclusion in Romania by looking into the similar process regarding PHARE 2004-05 Economic and Social Cohesion (ESC) programs, which formed the last of the pre-accession EU funding. On this issue, most relevant studies are centred on absorption capacity from supply side (public management authorities) and very rarely on demand side (final grant scheme beneficiaries) and therefore this study aims to investigate the demand side of absorption capacity. The study is based on collected quantitative data regarding grant beneficiaries of PHARE 2004-2005 ESC programs and also on secondary data analyses upon administrative public documents related to these scheme grants. The field research regarding PHARE grant scheme beneficiaries was focused on a number of dimensions of the absorption and management capacity such as: identification of organizational profile, impact of PHARE programs on organizations, perceptions concerning management of the project and relationship with the managing authority, perspective on applying to ESF funding. Our forecast

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on ESF absorption is that that local and central government agencies will be the main beneficiaries of these grants at least until the second half of 2009.

Keywords: absorption capacity, European Union, structural funds, PHARE, grant scheme beneficiaries, social inclusion

The overall objective of this paper is to provide a descriptive and explanatory framework for forecasting the absorption capacity of EU structural funds aimed at promoting social inclusion in Romania. For this, the study features an analysis of the absorption of PHARE 2004-2006 Economic and Social Cohesion pre-accession funds.

Romania's integration into the European Union (EU) was regarded as offering a historic chance for economic and social development and for improvement of the living standards and quality of life. One could say that the success of the development process of post-accession in Romania is mostly equivalent with the capacity to absorb EU funds. Without a satisfactory degree of absorption, Romania could become a net contributor to the European budget. Thus, there is a risk while waiting for a successful integration that would bring additional financial resources and thereby lead to a development process to reduce the gap compared to Western Europe, a cruel reality would unfold, in which payments from Romania to Brussels exceed the financial support of the Union to Romania. For instance, the Polish post-accession experience showed the absorption rate to significantly increase by the second half of the 3rd year in the EU (Da Browski, 2008).

Potential challenges related to access to structural funds and their absorption depends on one hand on state capacity and institutional structures to manage these funds, and on the other hand on the opportunities for organizations/grant scheme beneficiaries to access, develop, co-finance and successfully implement Structural Funds projects. While the topic of reduced absorption has been widely debated in Romanian media up to now, there are few sociological studies on the issue, and of those almost all are exclusively concerned with the absorption capacity of public administration (management units), and not the capacity of grant scheme beneficiaries.

This paper is part of an ongoing research project at the Research Institute for the Quality of Life entitled "The capacity of absorption and management of structural funds by Romanian institutions in the field of social inclusion" and financed by CNCSIS. Given the large scope of EU funding, the project is focused on social inclusion as means for promoting economic and social cohesion. The project's working hypothesis was that an assessment of organizational capacity and management of the institutions with PHARE funds experience could provide useful data on a prospective analysis regarding the capacity to absorb structural

funds in the period ahead. The PHARE 2004-2006 program was chosen as it was actually took place during 2007-2009, thus being the last of the pre-accession funding, but carried out during the first of the post-accession years.

EU funds: absorption capacity and contracting capacity

In general, the absorption capacity can be defined as the degree to which a country is able to effectively and efficiently spend the financial resources allocated through the Structural Funds. The degree of absorption is dependent upon two key variables: (1) the administrative absorption capacity (of the State's institutional system for managing the funds in question) and (2) the absorption capacity of eligible grant beneficiaries. Therefore, we can speak of (1) the supply-side absorption capacity, and (2) the demand-side absorption capacity.

These two components are interrelated, but distinct in character. On the one hand, management units have an important role in organizing and supervising the performance of European funds in Romania. If these organizations do not function/deliver properly, the process is severely flawed. On the other hand, if the pool of potential and successful grant schemes applicants (firms, non-profit organizations or public organizations) does not have the necessary managerial skills in writing and carrying out projects, the necessary staff, financial capacity and motivational stimulus, then the effort of the public institutions is also compromised. Therefore, both demand and supply of funds are fundamental factors for the successful absorption and use of European funds.

Another aspect in the distinction between supply and demand absorption capacities arises from academic approaches. As we shall see, studies, reports, analysis of the phenomenon focus on supply-side absorption capacity. This led to the conceptualization and development of methodology for measurement and assessment of the supply-side absorption capacity. Meanwhile, the demand-side absorption capacity lacks proper analyses in scientific literature. One of the goals of this study is to try to fill this gap.

On (1) the supply absorption capacity, Oprescu et al. (2005) put forward a conceptual framework into three dimensions of the notion, based on a report issued by a the Dutch institute NEI (2002) at the request of the European Commission. According to this framework, there are 3 forms of supply absorption capacity: A. macroeconomic absorption capacity, B. financial capacity of absorption, and C. administrative capacity of absorption.

Regarding the evaluation capacity of the supply, the NEI study provides a grid with 5 categories for the supply side absorption capacity: management, programming, implementation, monitoring and evaluation, financial management

and control. For each category, the evaluator gives a mark which can vary within 4 classes (NEI, 2002).

For the (2) supply-side absorption capacity, there is no available evaluation grid or a set of indicators. Highlighting some favouring features at the level of eligible organizations is one of the secondary objectives of this study. However, three categories can be outlined, categories which we will be detailed methodology chapter: (A) financial capacity, (B) project design and (C) project implementation.

A. Financial capacity refers to the degree to which the organization may support financial costs of the project until reimbursements from managing authority part. In essence, it is about the adequacy of operating financial costs of the project with the organization's cash flow. The following elements may be considered: project budget share in the total budget of organization; size of the organization budget for the past years; the existence of other sources of income/funding.

B. The design capacity of the project relies on the capacity of writing projects in accordance with the requirements of the applicant guidelines and of obtaining a high score in the evaluation. Relevant in this regard would be: previous experience of staff within the organization to develop projects; the existence of partnerships with specialized consulting firms.

C. The implementation capacity concerns the extent to which the organization can successfully carry through the project, therefore it means an efficient management (Cojocaru, 2003), and an adequate staff numbers of organizations and in some cases, the conduct of partnerships with other organizations.

The theory put forward by Herve and Holzman (1998) on EU funds absorption problems focuses on output. Any deviation from potentially highest growth path (optimal growth potential) could be conceived as an effect of absorption problem. Herve and Holzman proposed an econometric method for calculating absorption capacity, based on the efficiency of funds transfers and economical optimal growth. For measuring that, they used a ratio between the present value of additional output in the suboptimal growth path and the present value of additional output in the optimal growth path, and that ratio indicates the efficiency. The marks range from 1: no absorption problems, to 0: total inefficiency of transfers, or even a negative score: in case transfers turn to detriment of economic growth. In the end, the authors achieve a classification of absorption problems based on concept of government failure.

Based on Herve and Holzman's work, Petra Reszkető (2008) put forward a new typology of problems of government failures. His analysis of absorption capacity is in terms of administrative capacity of a country or region to deliver and implement given operational programs. The focus of this analysis of

absorption capacity is on input. As we can see, both analyses are centred on capacity of absorption of supply and not on demand. Reszkető's typology includes the following:

- 1) Fundamental informational failure of government resulting from lack of omniscience of the public actors;
- 2) Institutional failure stemming from arrangements and organizational characteristics of public sector;
- 3) Motivational failure or a lack of benevolence.

Institutional problems includes administrative problems caused by lack of administrative capacity, lack in number of experience of staff, management capacity, technical efficiency, networking, management and good practices lack of experience. Multiplicity of agency can cause overlapping competencies, conflicting policies goals and interests, biased policies choices and blur line of authority. Motivational failures include timing related problems between conception and implementation of a project, institutional rigidity, non-spending of funds in the proper fiscal year, shifting responsibilities and tensions between the actors at different levels (local, regional, central). Petra Reszkető stresses that most studies neglect institutional failure and motivational problems.

Regarding the overall effectiveness of EU structural funds for achieving social goals, De Rynck and McAleavy (2001) believe the structural funds to be a blunt policy tool for achieving economic and social cohesion. Moreover, they argue that its pork barrel logic in policy implementation favors the better organized groups or advantaged groups within EU regions.

The discussion about the EU funds absorption requires establishing a distinction between contracting and absorption. Contracting represents the moment of signing the financing contract and the financial allocation by authorities. Besides contracting, absorption concerns the whole process of the project, meaning not only winning the initial funding, but carrying the project to the end. A high contracting rate is dependent on the contracting parties, the one which manages the funding and the other, the organization requesting the funds through a project. On one hand, the general framework depends on the managing authority's performance - the publicity for the program funding, the timely availability of applicants' guidelines, the timely evaluation of all submitted projects, prompt monitoring and financial transfers to grant scheme beneficiaries. Concerning these issues, Romanian authors have stressed the reduced evaluation culture of Romanian public organizations concerning PHARE grants (Gârboan R. & șandor, 2007). On the other hand, applicants must submit viable projects, in accordance with the requirements of funding programs. The contracting rate, namely the amounts committed from the program could be observed from the first stages of an ongoing program.

Absorption also implies a smooth carrying out of the project, eligible expenses recognized as such by the managing authority. In other words, it is a process that depends on the overall success of the project. In this case, absorption is not dependent on the managing authority, but on the grant scheme beneficiary. Failure to comply with contract stipulations or failure, partial or total, to achieve the project goals means less absorption than contracting, for in such cases the managing authority withholds disbursements. Other causes for lower absorption than contracting could not be related with project, like exchange rate differences. This issue is shown by the EU data on PHARE 1990-2005 contracting rate and absorption rate for candidate states (European Commission, 2007). As we can see, the contracting rate stands around 13 percentage points above the absorption rate. Romania's position is in the bottom half of the field, with 68.5% a contracting rate and a 58.1% absorption rate. Grabbe and Hughes (1998) pointed out to the fact that during 2000-2006, the top 5 front-runner countries in the accession period were likely to get twice as much as the five lagging accession candidates.

Table no 1: PHARE funds by country 1990 – 2005. Total PHARE commitments, contracts and payments, 1990-2005, in million EUR; contracting and absorption in percentage points

Partner country	Commitments (1)	Contracts (2)	Payments (3)	Contracting rate	Absorption rate	Difference
1 Czechoslovakia	230.49	231.82	228.88	100.58	99.30	1.28
2 Lithuania	806.27	797.38	692.87	98.90	85.94	12.96
3 Hungary	1,473.36	1,385.73	1,265.84	94.05	85.92	8.13
4 East Germany	34.49	28.86	28.86	83.68	83.68	0.00
5 Czech Republic	910.04	829.64	749.35	91.17	82.34	8.83
6 Slovenia	356.73	318.53	292.71	89.29	82.05	7.24
7 Estonia	343.04	304.24	277.99	88.69	81.04	7.65
8 Poland	3,973.89	3,639.11	3,211.08	91.58	80.80	10.78
9 Latvia	419.61	364.89	331.12	86.96	78.91	8.05
10 Slovakia	712.39	643.30	560.34	90.30	78.66	11.64
11 Bulgaria	2,069.35	1,501.10	1,244.42	72.54	60.14	12.40
12 Romania	3,178.90	2,179.03	1,847.89	68.55	58.13	10.42
13 Cyprus	76.10	55.13	36.48	72.44	47.94	24.50
14 Malta	53.81	35.98	24.94	66.86	46.35	20.51
15 Turkey	1,411.95	693.46	295.65	49.11	20.94	28.17
16 Croatia	77.50	NA	NA	NA	NA	NA
Multi-country programmes	3,127.02	2,398.94	1,971.32	76.72	63.04	13.68
TOTAL	19,254.83	15,407.14	13,059.74	80.02	67.83	12.19

Source: Annex to the Report from the Commission to the Council and the European Parliament - 2005 Report on PHARE, pre-accession and transition instruments - Country sections & additional information /SEC/2007/0011/ Brussels, 12.1.2007

- (1) Committed by the European Commission (EC)
- (2) EC Headquarters and Local authorities (as reported)
- (3) COM (2001) 437

PHARE general framework

In the pre-accession period, Romania received financial assistance from the EU through three financial instruments (PHARE, SAPARD, and ISPA) for enhancing structural reforms and better functioning of institutions following accession, particularly those in charge of Structural and Cohesion Funds' management.

PHARE (Poland Hungary Aid for Reconstruction of the Economy) was created in 1989 to assist Poland and Hungary, but later it covered 10 other candidate states: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Bulgaria, and Romania. The support was broadly similar in goals to the one offered to Member States through the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

PHARE 2004-2006 was a multi-annual program between Romania as a candidate country and the European Union, represented by the European Commission. It was to be conducted between 2005 and 2009. For Romania, PHARE expanded after December 1999, when at the Helsinki European Council the invitation to start EU membership negotiations was made to 10 former socialist countries of Central and Eastern Europe, including Romania. The first program in the pre-accession period was PHARE 2000-2002.

Financial programming of PHARE 2004-2006 was structured in 5 categories, called measures: (1) political criteria, (2) economic criteria, (3) *acquis* obligations, (4) economic and social cohesion, (5) specific actions and (6) community programs. These measures were in fact programs with their own sub-programs. Financial allocation on the six categories is presented in Table 2:

Table no 2: PHARE financial allocation in Romania, 2004-2006

Measure	2004	2005	2006	Total
01. Political criterion	50.0	44.6	57.9	152.5
02. Economical criterion	4.5	-	8.0	12.5
03. Acquis obligations	155.4	136.7	140.3	432.5
04. Economical and social cohesion	161.1	175.0	187.0	522.1
05. Specific actions	11.2	16.0	15.4	42.6
06. Community programs	24.1	-	-	24.1
Total per year	405.3	372.3	408.6	1,186.2

Source: PHARE 2004-2006 financial memoranda

Like any other grant scheme, PHARE has had its share of problems. Bărbulescu and Popa (2007) authored one of the few Romanian studies concerning PHARE 2000-2002 problems and irregularities. It points to issues concerning managing authorities: lack of qualified staff caused by the fluctuation in the system and low wages, overloaded employees, lack of qualification of the projects coordinators, grant scheme beneficiaries' incapacity to co-finance projects, conflicts of interest in attributing projects, leaked information for tenders, political influence in the

evaluation committees, conflict of interest between Regional Development Agencies and county councils and the pressure on them to grant contracts to specific beneficiaries. Other reported problems were: delay in financial transfers, weak management of authority and also weak audits that allow for irregularities in project implementation.

Social inclusion and PHARE 2004-2006

Given the vast field of action of PHARE funds, our study aimed to analyze only the performance of PHARE funds for social inclusion. First phase of the study was concerned with defining the research area and analyzing official documents on social inclusion in order to determine the place of social inclusion inside Romanian social policies and the PHARE program within the national policy of social inclusion.

Regarding social inclusion policies in Romania, the National Anti-Poverty and Social Inclusion Promotion Plan or PNAinc (Romanian Government, 2002) was a turning point. It is the first document of this kind in the pre-accession period and it brought the concept of social inclusion in Romanian social policies.

According to PNAinc, social inclusion is understood as “the process of reintegration into a normal way of life, a normal social functioning of persons found in a social exclusion/marginalization situation or with high risk of marginalization, through capacity development and enabling opportunities.” This process is aimed “to create a prosperous society, economically, socially and politically active, with a high level of individual and collective responsibility, social cohesion, with a high level of opportunity for all”. (Romanian Government, 2002, pp. 6-7) Therefore, social inclusion is not just an institutional response to situations of social exclusion, but a broader process of social change designed to achieve a desirable view of society.

The second relevant document in chronological order is the Joint Inclusion Memorandum (JIM), a document prepared by the Romanian Government and the European Commission under the Accession Partnership and signed in June 2005 (Romanian Government, 2005). JIM is a very important document because it includes a diagnosis of social problems during 2004-2005 in Romania and the social policy commitments of the Romanian Government for the end of the pre-accession period (2005 - December 2006) and the first post-accession years. JIM targeted 6 vulnerable groups: children in high risk situations (street children, children in state care, juvenile delinquents), persons with HIV/AIDS, young people over 18 that are no longer provided by the childcare system, Roma persons at risk of exclusion, high risk elderly, and homeless people.

The identified key issues of social inclusion policies relate to: facilitation of employment participation, access to resources, rights, services, protection of vulnerable groups and addressing specific forms of exclusion (in rural, mono-industrial areas). As one can observe, social inclusion is a dimension of social policies, but it is not limited to objectives such as fighting poverty and enhancing social protection, for it requires a structural view of a desired type of society in accordance with the European social model (Cace, Arpinte, Tomescu, Baboi, & Stanescu, 2008). Tony Atkinson (1998) remarked the problems related to social exclusion because its meaning was not always clear. In addition, the link between employment and social inclusion is a complex one, the latter's success depending on the nature of the new jobs. In the rapidly developing social policy of the European Union in recent years, Atkinson (2003) believes social science to be of considerable aide to the development of the EU's social agenda.

So, which PHARE components or subprograms to analyze? A first step difficulty was a precise delimitation of programs having a direct role in supporting social inclusion issues, given the flexible definition of social inclusion in the public policy and the lack of consensus in the literature (Cace, et al., 2008). The solution we chose was to consider as social inclusion programs those programs which feature it into their title and also the programs which support social inclusion targeted groups or lines of action defined as such by JIM and other government documents as part of social inclusion policies.

The Programs identified in these cases are found within the 7 measures of PHARE 2004-2005 as follows: 1) the political criteria (access to education for disadvantaged groups – ethnic Roma); 2) economic and social cohesion (Human resource development, Institution-building);

3) specific actions (Support for the management of European funds). The importance of the latter was stressed by Macarie (2005) as the need to meet the challenge of EU membership with a reformed European-type public management. In addition, another desired outcome was the development of the human resources of public organizations (Junjan, 2004). Thus, we had (1) programs aimed directly at social inclusion and (2) programs with support role for social inclusion, as seen in table no. 3.

Given that the study is part of a wider project on Assessment of absorption capacity of European funds in the field of social inclusion, we opted only to those pre-accession programs whose structure is closest to post-accession programs. This means grant schemes only. Therefore, we selected the grant schemes with objectives, target groups and potential grant scheme beneficiaries that were to replicate to a certain extent within the European Social Fund (ESF). In this sense, the social inclusion is relevant priority axis 6 - promoting social inclusion (Romanian Government, 2007).

Table no 3: PHARE 2004-2005 subprograms: indicative, name, type (technical assistance and/or grant scheme) and their values

No.	PHARE	Indicative	Name	Type	Value (EUR millions)
1	2004	016-772.01.01	Accelerate the implementation of the National Strategy for improving the situation of Roma	Technical assistance (AT)	8.50
2	2004	016-772.04.02	Human Resources Development (HRD): measures of employment and social inclusion	AT, grant scheme	22.20
3	2004	016-772.04.03	Development of administrative capacity for managing structural funds	AT	23.65
4	2005	017-553.01.01	Accelerate implementation of the National Strategy for improving the situation of Roma	AT, grant scheme	11.00
5	2005	017-553.04.02	Economic and Social Cohesion (ESC) Part II: Human Resources Development (HRD) - employment and social services	AT, grant scheme	23.26
6	2005	017-553.04.03	CES Part III: Development of administrative capacities for Structural Funds	AT	(25.26) cancelled
7	2005	017-553.05.01	Support for management of EU funds and Romanian joining the European Union	AT	12.01

Source: 2004-2005 PHARE programs' Financial Memoranda

Out of the programs 3 programs with grant schemes, our study analyzes only the two PHARE programs regarding to Human Resources Development - Economic and Social Cohesion (HRD - ESC) 016-772.04.02 and 017-553.04.02, with particular attention to the 2005 reference .03 - promoting social inclusion. The political criteria grant scheme was not included. Out of the 5 references within PHARE 2004-2005 Human Resources Development we included 4 out of 5, those directly aimed at or with support role for social inclusion, namely: 1) lifetime-long learning (LLL) (two waves of grants, 2004 and 2005), 2) active employment measures (AEM) and 3) measures of social inclusion (MIS).

Research methodology

The research objectives were: (1) to identify and describe relevant parts of the absorption and management process of projects on social inclusion of PHARE 2004-2005 and (2) to identify favouring factors for demand-side absorption capacity of structural funds. The research was focused on a number of dimensions of the absorption and management of European funds from the grant scheme beneficiaries view point: identification of an organizational profile of the PHARE grant scheme beneficiaries, PHARE impact on organizations, their perceptions concerning the project and its relationship with the management perspective on obtaining ESF funding, which led to the construction of research instruments.

Given the complexity of schemes and grants diversity of grant scheme beneficiaries we have used a number of methods and techniques that have sought to

capture the distinct dimensions of the phenomenon: the analysis of social documentary, secondary analysis of the grant scheme beneficiary database, and a survey on grant scheme beneficiaries.

Social analysis of documents has emerged as a necessity due to the multiple documents, products of institutional knowledge, which formed the basis of structure and execution of PHARE programs. Public policy documents, such as JIM and PNAinc, PHARE memoranda (documents of international law concluded between the Government of Romania and the European Commission), financial programming documents, programme fiches that specify the objectives, funding, target groups, activities, grant scheme beneficiaries, monitoring, evaluation, etc., applicants' guides - all of these documents must be reviewed in order to understand the mechanism and functioning of the programs. Secondary analysis of data was also based on public information on grant beneficiaries lists available on the websites of managing authority within the Ministry of Labour that administers programs with European funding and checked with the relevant Commission webpage, and those of the Ministry of Finance.

Finally, we considered necessary to collect data directly from the grant scheme beneficiaries. For this, we conducted a questionnaire-based survey during the June-November 2008 with the field operators of the Research Institute for Quality of Life (ICCV) of the Romanian Academy and its partners. The process was very difficult taking into account the atypical nature of grant scheme beneficiaries – figure persons –and dispersion throughout the national territory. Another unusual feature was that we did not have a sample, since we included all the grant scheme beneficiaries in the research. Out of 409 different grant scheme beneficiaries identified on all 3 programs with grant schemes (some grant scheme beneficiaries have obtained financing in parallel from multiple subprograms), we received 254 responses, representing a response rate of about 62%.

The questionnaire had a modular structure with four sections: a) general information about the grant scheme beneficiary (identification data, staff and budget for the past years, issues regarding the application); b) information on former projects (general data, personnel, budget, objectives, project management, and beneficiaries); c) the perception of grant scheme beneficiaries regarding the managing authority and d) future intentions concerning structural funds.

PHARE programmes implementation and the survey

For the grant scheme regarding life-long learning (LLL 2004) under the PHARE 2004 016-772.04.02 *Human Resources Development (HRD): measures of employment and social inclusion* there were 176 signed contracts with a total of € 8.76 million, of which € 2.19 million national co-financing. The period of

implementation of projects was January 2007 - January 2008 (Romanian Government, 2007, pp. 188-189). The grant scheme on active employment measures (AEM 2005) was the first reference in the program PHARE 2005 017-553.04.02 *Economic and Social Cohesion (ESC) Part II: Human Resources Development (HRD) - Employment and social services*. Projects were contracted at the end of 2007 and have begun since 2008 (Romanian Government, 2007, p. 191). There were a total of 119 grant scheme beneficiaries.

Reference no. 2 of the PHARE 2005 *ESC – HRD* named life-long learning (LLL 2005) aimed at retraining of the workforce by developing skills. The contracts should have been concluded by November 2007, but there were some changes that will be explained later on. The projects ran during 2008 (Romanian Government, 2007, p. 191). Total grant scheme beneficiaries was 191.

For the third reference PHARE 2005 *ESC – HRD* on measures of social inclusion (MIS 2005), the funds were contracted at the end of 2007 and ran through the end of 2008 (Romanian Government, 2007, p. 192). There were 37 grant scheme beneficiaries.

Table no 4: Total of grant scheme beneficiaries related to their legal status, on grant schemes

Grant scheme	Total grant scheme beneficiaries	Public sector (absolute figure)	Public sector (percent)	Private sector (absolute figure)	Private sector (percent)	Non-profit sector (absolute figure)	Non-profit sector (percent)
LLL 2004	176	18	10.2	107	60.8	51	29,0
AEM 2005	119	21	17.6	46	38.7	52	43.7
LLL 2005	191	14	7.3	121	63.4	56	29.3
MIS 2005	37	5	13.5	6	16.2	26	70.3

Source: Managing authority – Operational Program: Human Resources Development

Given that a significant part of the grant scheme beneficiaries are found in several grant schemes, a total final figure cannot be derived. Most grant scheme beneficiaries are included in schemes for lifetime learning (LLL), followed by the scheme on active employment measures. The scheme on measures of social inclusion has attracted very few grant scheme beneficiaries.

By legal form, private sector organizations are dominant. Inside LLL in 2004 and 2005, these formed at least 60% of all grant scheme beneficiaries, which in absolute terms means at least 100 grant scheme beneficiaries. They are almost entirely limited liability companies (LLC), but some are stock companies, cooperative enterprises, public utility companies or state owned enterprises (SOEs).

The public sector organizations category features: educational institutions, as universities or technical colleges (former professional schools), local units of the National Agency for Employment, prisons and local councils. Their share varies between 7.3% (LLL 2005) and 17.6% (AEM 2005). In absolute terms, there are maximum 21 grant scheme beneficiaries of this type for each grant scheme.

The non-profit organizations category includes associations, foundations, trade unions or employers' organizations and training units under their governing, and private universities. In absolute terms, there are up to 56 such grant scheme beneficiaries for each grant scheme. In schemes with a lower total number of grant scheme beneficiaries, non-governmental organizations are forming the single largest (AEM 2005), or majority category (MIS 2005).

As you can see in table no. 5, the grant schemes contracting rate, the 2005 program has 82.7%. The 2004 scheme included in this research has 95.2%, while the total rate for the 2004 program is 88.7%.

Table no 5: Contracting rate on grant schemes

No.	Program (reference)	Name	Total budget EUR million	EU EUR million	National co-finance EUR million	Contracting total EUR million	Contracting rate percent
0							
1	772.04.02	LLL 2004	9.2	6.9	2.3	8.76	95.2
2	553.04.02.(01)	AEM 2005	8.44	6.33	2.11	8.61	102.0
3	553.04.02.(02)	LLL 2005	8.44	6.33	2.11	10.73	127.1
4	553.04.02.(03)	MIS 2005	8.5	6.0	2.5	1.66	19.5
5	553.04.02	2005 totally	25.38	18.66	6.72	21.0	82.7

Source: Budget programs of Phare Programming Document for Economic and Social Cohesion 2004-2006 and program fices of PHARE 017-553.04.02, annexes of Operational Program HRD 2007-2013, grant scheme beneficiaries data base, based on Managing authority publicly released data

Contracting rates over 100% for references 01 and 02 of the PHARE 2005 ESC-HRD and the extremely low value for reference 03 measures of social inclusion of only 19.5% reveals an internal transfer or reallocation funds between grants schemes. The reallocation was done by extending the number of grant scheme beneficiaries. Contracts were signed with organizations from the “reserve” list - projects that have obtained over the minimum required score, but below the score of declared winners. Overall, the three grant schemes have a rate of contracting of 82.7%. However, poor performance in attracting grant scheme beneficiaries for 03 of the reference had a significant impact on the overall rate of contracting per program, but especially in terms of the reference’s stated objectives for target groups.

The questionnaire-based survey was conducted in Summer-Autumn of 2008. In the case of PHARE 2005 (LLL, AEM, MIS grant schemes), the projects were still underway at that moment. Because of late contract signing of LLL 2005 and the late publication of lists of contracts, we prepared questionnaires only for known grant scheme beneficiaries at that time, so that about 160 grant scheme beneficiaries of this scheme have not been included in research. Of the total 326 grant scheme beneficiaries included in these 4 research grant schemes (some grant scheme beneficiaries have multiple projects scheme), 180 responded to

questionnaire, with 177 of those declared valid. The response rate is 54%, quite good after taking into account the difficulties to administer questionnaires to figure persons. By legal form, the ratios of grant scheme beneficiaries in the sample is very close to the overall grant scheme beneficiaries ratio (10.7% vs. 11.1% for public sector, 53.5% vs. 54.2%, and 35. 4% vs. 35%).

Organizational profile of the grant scheme beneficiaries

The organizational profile of the grant scheme beneficiaries will be examined on the following dimensions: (1) *age of the organization*, (2) *the number of employees*, (3) *the budget and previous projects (sources offinancing)*, (4) *project drafting*, and (5) *project management*

Concerning (1) *the age of the organization*, we found useful to brake the 1990-2007 period according to the stages of the EU accession process as following: a) up to the associate status (1990-93), b) up to candidate status (1994-99), c) candidate during membership negotiations (2000-04), d) post-negotiations and first post-accession year (2005-07). Most grant scheme beneficiaries (37.3%) were founded during 1990-1993. Even outside the public sector, the situation is the same. A percent of 39.6% of firms were established during the same period and 29% of the NGOs. During 1994-1999, 28.2% of the grant scheme beneficiaries were founded, with 25% for firms and 30.6% for NGOs. During 2000-2005, 28.8% of grant scheme beneficiaries were founded, with 28.1% of firms and 35.5% of NGOs. Finally, only 5.6% of grant scheme beneficiaries have been established after 2004. The situation of the organizations with several projects in different grants schemes is interesting: all are set up before 2005, most during 1990-1993 and 2000-2005. In conclusion, the grant scheme beneficiaries are rather old, experienced organizations, and for those with multiple projects, organizations were established between 1990-93 and 2000-2002.

The (2) *number of employees* of the grant scheme beneficiaries in the public system varied between 35 and 568 employees in 2007. Local employment agencies (AJOFM) had between 50-85 employees, vocational education units (formerly vocational schools or post-high school) between 68-176 employees, and state universities over 300. The biggest employers in this category were the prisons, with over 400 employees each. Regarding the private and nonprofit beneficiaries, they were grouped according to business criteria as follows: a) less than 10 employees - micro-enterprise type, b) between 10 and 249 employees – SME type c) above 250 employees - large enterprise type. In the private sector, the most numerous are SME, 62% of cases, followed by micro-enterprises with

25.3% and large sized enterprises with 12.6%. The first two are consisting almost entirely of LLC's, while large employers are stock companies or public utility companies. Out of the total micro-enterprises, 90% are LLCs and 9% are stock companies. The SME category consists of LLCs (70.4%), stock companies (25.9%) and cooperative enterprises (3.8%). Large enterprises are mainly stock companies (72.7%) and LLC (18.2%) or public utility companies (9.1%). In the non-profit category, the most numerous are the SME-sized, reported by 55.2% of respondents, followed closely by the micro-enterprise sized with 43.1% of cases. Associations and foundations are entirely organizations of small and medium size. Employers' organizations and Chambers of Commerce enter in the same category. The only entities with over 250 employees are private universities.

Table no 6: Percentage of grant scheme beneficiaries by organization size (number of employees) in 2007

Sector	Organization	micro	SME	Large enterprises
Private	LLC	90.1	70.4	18,2
	stock company	9.1	25.9	72.7
	public utility company	0	0	9,1
	cooperative enterprise	0	3.8	0
	total	100	100	100
Non-profit	association	56	40.6	0
	foundation	44	43.8	0
	private university	0	0	100
	owners' association	0	3.1	0
	chamber of commerce	0	12.5	0
total		100	100	100

Source: Collected data inside ICCV project „Absorption capacity and management of structural funds by Romanian institutions in the field of social inclusion”

(3) The budgets of grant scheme beneficiaries are the relevant for the ability of co-financing the projects. Given that the vast majority are micro-enterprises or SMEs, a large budget is not expected. For classification, we divided the grant scheme beneficiaries into four categories by size of budget expenditure in 2007, namely: a) below RON 10,000, b) between RON 10,000 and 100,000, c) between RON 100,000 and 1,000,000 and d) more than RON 1 million. Because the financial matter is a delicate subject, only about 50% of subjects have replied to this item. A second source of information on this was the revenue service portal of the Ministry of Finance (MFP). The data thus obtained showed a difference in size in the distribution of budget expenditure between those who responded and those who chose not to at the questionnaire. The results comprising the 4 budget categories are presented in table no.7:

Table no 7: Beneficiaries classification after budget

Budget	Total, of which	Public	Private	Non-profit
Less than RON 10,000	13.8	0	10.4	23.3
Less than RON 100,000	42.5	0	31.3	73.3
Less than RON 1,000,000	26.4	33.3	41.7	0
Over RON 1,000,000	17.2	66.6	16.7	3.3

Source: collected data inside ICCV project “Absorption capacity and management of structural funds by Romanian institutions in the field of social inclusion”

In the public sector, in addition to vocational education units that have an annual budget between RON 100,000 and 1 million, the rest of public organizations' (local councils, AJOFM, universities) annual budget is over RON 1 million.

In the private sector, a major part of the stock companies have a budget of over RON 1 million, but most of the firms (41.7%) have annual budget somewhere between RON 100,000 and 1 million. Over 40% of the companies have budget under RON 100,000, which shows that the grants schemes aroused particular interest in small firms. In the case of non-profit entities only private universities have a budget of over RON 1 million. Otherwise, associations, foundations, unions and employers' organizations have budgets less than RON 100,000 (73.3%). A significant part of NGOs have a budget below RON 10,000 (23.3%). Returning to the question of differences between the size declared in the questionnaire or refused to be declared and the accounting data, we conducted an application to this effect by comparing MFP data with our survey data for social inclusion (MIS 2005). The MFP data showed that most grant scheme beneficiaries would have a budget somewhere between RON 100,000 and 1 million, a significant minority around RON 70,000 - 100,000. Thus, all the grant beneficiaries, bar one, declared significantly less than their fiscal statements.

The analysis of previous funding sources allows us to see to what extent the grant scheme beneficiaries have project-type experience with domestic or foreign funding. More than half (54%) of respondents declared at least one such project active during 2005-2007. In this period, and for these grant scheme beneficiaries, financing projects amounted to € 26.78 million (see table no. 8). The main sources were: PHARE (54.2%), ISPA (12.4%), World Bank (8.1%), Roma Education Fund (4.4%) and the Ministry of Economy and Finance (4.1%). Another 20 donors (almost all foreign) cover remaining of 16.75% of the above sum. The main beneficiaries of funding were NGOs - 50% of the amount, followed by private companies with 35.2% and public organizations with 14.7%. Organizations that applied for the grant scheme on social inclusion secured some € 6.5 million, meaning 24.5% of total € 26.78 million. Remember that for this scheme there were only 37 organizations. This could be explained by the higher share of an NGO in 2005 MIS scheme than in the other grant schemes.

Table no 8: Based on project financing of other sources in case of PHARE 2004-2005 grant scheme beneficiaries

No. crt.	Financier	Value euro	Percent
1	EC – PHARE	14,523,046	54.22
2	EC – ISPA	3,337,073	12.46
3	EC – SAPARD	940,848	3.51
4	World Bank	2,167,881	8.09
5	UNDP	177,376	0.66
6	UNICEF	83,846	0.31
7	WorldLearning / ChildNet	142,330	0.53
8	Dutch foundations	337,638	1.26
9	ILO	20,421	0.08
10	Open Society Foundation Soros	134,828	0.50
11	United Way	4,800	0.02
12	Ministry of Labour	263,255	0.98
13	ARDC	39,321	0.15
14	PACT	7,000	0.03
15	United Nations Organization for Industrial Development	689,868	2.58
16	Europe Fund	100,067	0.37
17	US Embassy	304,333	1.14
18	CNCISIS	857,143	3.20
19	Switzerland Agency for Cooperation and Development	216,864	0.81
20	Sponsorships	96,000	0.36
21	CCIR	2,000	0.01
22	EC - Socrates / Leonardo	68,024	0.25
23	Roma Education Fund	1,170,544	4.37
24	Ministry of Economics and Finance	1,101,000	4.11
	Total	26,785,506	100.00
	of which beneficiaries in following sectors:		
	Public	3,958,226	14.7
	Private	9,435,975	35.2
	Non-profit	13,391,305	50.0

Source: collected data inside ICCV project “Absorption capacity and management of structural funds by Romanian institutions in the field of social inclusion”

(4) *Drafting of the applications* for funding usually is realized inside the organizations by specialized personnel. Only 17.5% of respondents said they have turned to consulting firms. Among the types of grant scheme beneficiaries, the private organizations use consulting firms in 27.5% of cases (especially those who have applied for LLL 2004), unlike the public sector with 15.4% of cases and non-profit sector with just 8% of cases. This derives from the fact that firms have funding sources from their current activities and thus the funds for consulting services, while NGOs are dependent on their ability to find sources of financing, either through projects or through donations.

Regarding the training of those who draft projects for financing within organizations, the situation varies considerably by type of grant scheme beneficiaries. In the public sector, the personnel has completed specialized courses of short duration (54.5% of respondents) or has acquired experience by working on projects without a higher education degree (45.5%). The situation is understandable considering modest wages in public organizations. In the private sector,

the situation is more balanced, but here the highest ranking category is the one with only graduate courses of short duration (42%), followed by the category with only practical experience (36.8%) and finally university graduates (21%). In the non-profit sector, almost 60% are graduates of courses of short duration, 23% have higher education degrees, and only 18.8% had only accumulated experience of working on projects. Another advantage of NGOs is the strategic partnerships with other international or national NGOs. Nearly 15% of respondents indicated the existence of such partnerships, which primarily brings know-how.

The (5) *project management* is done by the head of organization in about 57% of cases, according to respondents. In other cases, this is done by a head of department or service (24.7% of cases) or an employee without a formal leadership role (10%). Rarely, businesses and NGOs entrust project coordination in some occasions to a person hired only for the duration of the project (7.6% of responses).

The experience of the project manager is an important factor. According to grant scheme beneficiaries, the manager coordinated similar projects in 52% of cases. For NGOs, the percent is higher (61.7%). Involvement in similar projects at least as a member of the team was declared by 24% of respondents. Only in 22% of cases there was no previous similar experience. For grant scheme beneficiaries with more than one contract signed on the 4 grant schemes, the share of managers with experience rises to 75% of grant scheme beneficiaries. Among managers with experience, about 49% have managed no more than 2 projects, and the other about 33% has up to 5 projects coordinated. About 5% of managers have over 10 active projects, the maximum being 25 projects.

Relationship with the managing authority

As shown in the first part, the success of EU funds absorption depends on how the managing authority and its regional branches function. Even in the case of demand-side absorption, this is relevant. Delays, cumbersome procedures, red tape or communicating difficulties or, on the contrary, promptly and good communication can avoid situations in which projects are hampered by the postponed disbursements or suspensions, assuming that the grant beneficiary fully complied with the rules of the applicant guide and of the financing contract and there is no proper cause for this course of action.

According to respondents, financial transfers according to the contract have been made by the managing authority as follows: a) proper time limits for nearly 60% of grant scheme beneficiaries, b) entirely, but with some delays for 19%, c) in whole, but with significant delays for 9% and d) only partially, at the end of the contract: 12%. Partial transfers, below the contract stipulated sum, took place mainly in the case of companies and to a lesser extent for non-profit organizations.

Public organizations have received all the sums stipulated in the contract (79%) or with some delays (21%), never only partially. The companies have received money in time (54%), with various delays (29%) or only partially (17%). For NGOs, the proportions are: 62% as agreed, with 30% delay and 8% partially. Among the grants schemes, partial transfers were found mainly at LLL 2004 (80%) and to a lesser extent at the AEM 2005. Inside MIS 2005 all the sums were fully transferred, even if they were late. Also, lack of experience in projects of grant scheme beneficiaries was an important factor. Over 82% of partial transfers were made to those with a single PHARE 2004-2005 contract.

Table no 9: Financial transfer towards grant beneficiaries on type of organization

Financial transfer	Total beneficiaries	Share as type of organization		
		Public	Private	Non-profit
Complete, in time	59.5	78.9	54.3	61.7
Complete, with delays	19.1	21.1	19.1	18.3
Complete, significant delays	9.2	0	9.6	11.7
Partially, at the end of contract	12.1	0	17.0	8.3
Total	100	100	100	100

Source: collected data inside ICCV project “Absorption capacity and management of structural funds by Romanian institutions in the field of social inclusion”

On the causes of delays, more than 40% of the respondents said the causes were not known or they were not made known by the authority. Other responses indicated as causes: significant delays in transfers (around 25%), great bureaucracy (13%) or delays in the evaluation of the project (approximately 10%). The situation has been overcome mainly by other sources of financial budget or credit in about 55% of cases and communication with the management in case for around 15% of respondents.

The questionnaire contained a series of questions about perception of grant scheme beneficiaries on their relationship with the managing authority. Thus, in terms of eligibility conditions, over 94% of respondents have declared that eligibility condition for appliance has been accessible. Also, almost 80% agreed that applicant guidelines were clear. A similar percent claimed that contract was signed in proper time. About 75% believe that the response to requests of the managing authority was prompt and about 70% believed that reporting forms are clear. Over 85% of respondents rated as effective the monitoring of the authority. As regarding human resources and technical facilities of the grant beneficiary, the perception was almost unanimous that they were sufficient enough to carry out the activities of the project. Responses about the feasibility of the initial project plan are similar. In conclusion, these positive responses on the perception derives from a very high share of grant scheme beneficiaries which have received the full amount of the money as contracted, even with delays (almost 88% in total) and from the fact that

almost 90% of problems were concentrated in a single scheme of grants - LLL 2004.

European Social Fund: perspectives

The last part of our research aimed 2004-2005 PHARE grant scheme beneficiaries' attitude towards post-accession funds subordinate in social domain, namely the European Social Fund, developed in Romania by the Operational Sector Program Human Resources Development (POSDRU -Romanian acronym). Among the options for information related to these programs, the first option indicated by over 93% of the respondents is the internet. The second option is divided between the media (46%), and the channels of communication of national institutions (30%) and EC representatives in Romania (19.5%).

Out of respondents, 76.8% declared their intention to submit projects for ESF funding; only 5.1% categorically rejected such a case, and 18.1% were uncertain. The most interested in accessing ESF funds are NGOs (85.5%), followed by firms (72.9%) and public organizations (68.4%). Intention to obtain post-accession funds is noticeably stronger among organizations with more than one PHARE 2004-2005 project and less noticeable among grant scheme beneficiaries of the LLL 2004 scheme (70%). At the same time, the option is not affected by partial or delayed transfers of funds to grant scheme beneficiaries. About 75% of those who say they want to get EU funds after accession would refer to the ESF. Other operational programs they are interested in are Economic Competitiveness, Environment, and Regional Development. A significant share (around 11%) is still undecided. Meanwhile, 60% of grant scheme beneficiaries state that they already have a person with responsibilities for writing applications for Structural funding. For those who say they will not seek to obtain grant funding post-accession, the main concerns are lack of experience, funds and uncertainty concerning the reporting and funding, each of these counting over 20% of the respondents.

Finally, regarding the usefulness of experience provided by PHARE 2004-2005 for the accessing structural funds in the future, the perception is mostly positive. With scoring from 1 to 10, only 13.1% of respondents marked below 8, while 30% of respondents gave marked 9, respectively, 10.

Conclusions

This paper aimed at providing a framework for the analysis and forecasting of EU structural funds absorption capacity regarding social inclusion in Romania by looking into the similar process for PHARE 2004-05 Economic and Social Cohesion, the last of the pre-accession funding.

Why is the absorption rate so important? First of all, the 2007-2013 budget of the European Social Fund in Romania for social inclusion amounts to € 644 million, out of which € 540 come from the EU budget (Romanian Government, 2007, p. 131). Secondly, under the present economic conditions – a worldwide, structural crisis manifest through a credit crunch and massive unemployment – such financing is vital for providing both stimulus and relief.

The reference point in this process is the 88.7% contracting rate for 2004 PHARE Economic and Social Cohesion and 82.7% for the 2005 edition. Compared to the 1993-2005 overall data for Romania (68.55%), this stands above. However, this is somewhat misleading. First of all, there is a natural process of gradual higher rates for a nation and its administration and businesses earns more experience in time. Secondly, this is still below the results of most of the Central European former Soviet bloc states and the average for EU candidate states (80%). Most concerning is the dismal contracting rate for the 2005 PHARE reference 03 social inclusion of just 19.5% (see tables 1 and 5).

How could this be explained? Our analysis points to several features, both favouring and disfavouring the involvement of eligible beneficiaries. Favourable features include: a) the involvement of SME in grant schemes, i.e. making the schemes more attractive for small business' real-world needs and getting them informed and involved, b) previous experience with international financed (govt and NGO funded) grant schemes, c) a degree of specialisation in project-type activities, i.e. human resources with project design and implementation skills (especially for NGOs). The main disfavouring feature could be described as a lack of vision for identifying target groups' needs or development opportunities, especially at local level and addressing them through a project log frame. This feature is particularly difficult to quantify and is itself subject to breakdown into underlying parts.

One has to addresses the issue of the difference between contracting and absorption rates. This leads to a simple issue: how many of the project grants failed, partially or totally. The average absorption rate for EU candidate countries is 67.8%, which means an approximate 12 percentage point gap between contracting rate and absorption rate. The gap's level for Romania is slightly lower, just 10 percentage points (see table 1). Our questionnaire data points to around 12 percentage points. However, without official data from the national managing authority and the lack of transparency, one has to wonder what the final absorption rate is for PHARE 2004-05 ESC.

This question leads us to a subset of methodological issues revealed by this research, which could be narrowed to the problem of providing additional data besides just the questionnaire. Our research has shown that looking into such a topic requires a high amount of social documents analysis. Without it, grasping the institutional framework and its logic is impossible. Furthermore, our findings

point to a requirement of multi-source data, not just from the grant scheme beneficiaries via questionnaire, but using administrative data (especially from the managing authority), official financial statements, interviews with what anthropologists call “well-informed informers” (insiders, people with close, real world involvement).

Our forecast of the contracting rate for first three years of ESF takes into account two factors: a) the structure of ESF Axis 6 Social inclusion financing and b) the PHARE 2005 contracting rate. The Axis 6 is divided into 2 groups by level of financial support schemes: strategic and grants.

The first one features a higher financing level and requires large-sized, consortium-type beneficiaries. We forecast these to have a higher contracting rate with, however, a significant risk from supply-side absorption capacity, i.e. the ability of the managing authority to duly address the timely disbursements to beneficiaries, thus leading to serious cash-flow problems.

The second one features lower level financing for small and medium sized beneficiaries. There are two such grant schemes opened as of Q1 2009, one covering the social economy and the other transnational initiatives – the exchange of good practices. Both of them rely primarily on NGOs as eligible beneficiaries and secondly on local and central government agencies. We forecast these grant schemes to have a lower contracting rate. This is based both on the PHARE 2005 reference .03 contracting rate of 19.5% (which featured the same target groups, but which included companies as grant beneficiaries, no longer the case now), and our research findings, which pointed to a small, but dynamic NGO group with experience in such projects. In addition, one must take into account the tougher rules for these grants in comparison to PHARE. While the eligible expenses amount is still high, over 90 per cent, the beneficiaries are required to run the project with a higher proportion of their own funds, followed by disbursements by the managing authority. We regard this as highly problematic, given the low level of NGO own funds (despite the expansion of the initial pre-financing by the authority), as we have seen from the research findings, and the general economic outlook.

At the moment, the latest available data (at end of first trimester of 2009) shows local and central government agencies to be the main beneficiaries of these grants (Romanian Government, 2009). We believe this to be the case for the first years of ESF programming, at least until the latest review of grant applications is completed by the second half of 2009.

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