

European Structural and Investment Funds vs European Funds Allocated through the National Recovery and Resilience Program

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Abstract. *At the moment, taking into account the crisis in which the states of the European Union and not only are, their main concern is the identification of funding sources in order to implement regional development strategies, respectively in order to consolidate their economies and counteracting the negative effects produced by the crisis caused by the COVID-19 pandemic and the war in Ukraine. Referring to Romania, taking into account its status as a member state of the European Union, in order to develop and mitigate the negative effects produced by the previously mentioned crisis, we can appreciate that the Romanian state will have to take full advantage, in the immediate period, of the opportunity offered by two efficient, effective and at the same time economical sources of financing, compared to the classic sources of financing, which are made available by the European Union, respectively: the European structural and investment funds allocated through the cohesion policies related to the two financial years: 2014-2020, respectively 2021-2027 but also by the funds allocated through the PNRR. For this reason, the research in this endeavor aims to highlight by comparison the two sources of financing that Romania will necessarily have to take advantage of in order to consolidate and develop its economy.*

Keywords: cohesion policy; structural and cohesion funds; PNRR; regional development

JEL classification: F15, F36, G10, G21, H00

1. Introduction:

Currently, in order to finance the cohesion policy, the member states of the European Union benefit from financing from European structural funds and investments allocated to the financial year 2014-2020 through the Europe 2020 Strategy in the amount of 351.8 billion euros¹. According to the regulation on the new Multiannual Financial Framework, the states of the European Union will benefit in the financial year 2021-2027 from a budget of approximately 1,074.3 billion euros². The 27 member states of the European Union will be able to benefit from these funds, which are known as European structural and investment funds. Thus, these funds, respectively financial instruments, will be able to be accessed by the member states during the 2021-2027 programming period, according to their own regional development strategies, in order to strengthen economic, social, territorial and cultural cohesion. As for Romania, it has the opportunity to access significant amounts to finance regional development, both within

¹ https://ec.europa.eu › pdf › presentation_final_ro, website accessed on 09.10.2022

² <https://www.fonduri-structurale.ro/2021-2027>, website accessed on 09.10.2022

the financial year 2014-2020 until 31.12.2023, and in the current programming period 2021-2027.

In addition to these funds, considering the COVID-19 pandemic and the geopolitical effects caused by the war in Ukraine at the level of the European Union, a new financing instrument was created, namely NextGenerationEU, which represents³ "a temporary recovery instrument, worth over €800 billion to help repair the immediate economic and social damage caused by the coronavirus pandemic." NextGenerationEU aims for a Europe⁴ that is „greener, more digital, more resilient and better prepared to face current and future challenges". NextGenerationEU represents the financial instrument through which the National Recovery and Resilience Program is financed at the level of Romania.

Taking into account what has been presented, in this approach we will try to analyze the impact of the European structural and investment funds vs the European funds allocated through the National Recovery and Resilience Program on the development of the Romanian economy.

2. European structural and investment funds

In order to be able to anticipate the impact of structural and investment funds on the Romanian economy, I appreciate that first of all, general elements regarding them must be known, respectively: their purpose, their usefulness, the way in which they can be used and the advantages they offer.

Regarding the purpose of the European structural and investment funds, it should be noted that it is represented by the elimination or at least the mitigation of those economic, social, cultural and territorial gaps existing between member countries and between the regions of a state. It must be understood that European funds are not the only means for achieving economic cohesion, as each state can opt to use other financing mechanisms in this regard. But, taking into account the status of a member state, European funds represent the most advantageous and accessible alternative for financing the regional development that it should take advantage of.

✓ *The utility of European funds*

Non-reimbursable European funds represent an effective financing solution because they are linked to a clear regional development policy, which specifies exactly how they must be spent. This regional development policy is developed at the level of the European Union, based on the regional development strategies of each member state. Practically, the non-reimbursable European funds target the main needs of each member state, effectively contributing to the financing of those priorities aimed at regional development. Another aspect that contributes to the efficiency of European funds, apart from the existence of the development strategy that directs them towards certain priority areas, is represented by the existence of a project through which the vision, the necessity, the opportunity of using non-reimbursable European funds must be demonstrated. In addition, through this project, the objectives and purpose of using European funds are presented, and at the same time, the project indicators and the strategic indicators assumed by the beneficiary are presented.

✓ *The way in which European funds can be spent*

In order to be efficient, they are distributed by the European Union to the member states in order to finance those needs and priorities identified in their own regional development strategies. What must be understood is the fact that each member state is responsible for the way it manages these funds, through partnership agreements with

³ https://ec.europa.eu/info/strategy/recovery-plan-europe_ro#cel-mai-mare-pachet-de-stimulente-din-istorie, website accessed on 09.10.2022

⁴ Idem 3

the European Union. For this reason, the role of each member state is to establish through its own regional development strategy how these funds are spent. Thus, through a regional development strategy, each state can distribute its funds allocated from the European Union to priority areas, such as: infrastructure, human capital, SMEs, information and communication technology, etc., with the aim of eliminating or at least reducing existing gaps between regions. In other words, it can be appreciated that the lack of a regional development strategy and realistic projects often leads to the inefficiency of European funds in the regional development process. This aspect not only stagnates regional development, but also causes significant financial losses. In this sense, we can refer to the co-financing effort made by each member state and, of course, to the expenses of preparing the documentation made in order to access the European funds that the applicants have. Taking into account what has been presented, it can be concluded that the absorption of non-reimbursable European funds necessarily involves a well-prepared and realistic strategic planning.

Thus, in order to benefit from these funds at the level of Romania, the following financing programs were established in the financial year 2014-2020, aiming at financing areas such as: research and innovation, digital technologies, support for the economy with low CO2 emissions, sustainable management of resources natural resources, the SME sector, etc.:

Funding programs 2014-2020	Financial allocation 2014-2020 (EURO)
OP Regional	6.860.000.000
OP Large Infrastructure	9.338.581.661
OP Competitiveness	2.379.787.234
OP Human Capital	4.596.057.078
OP Administrative Capacity	563.588.476
OP Technical Assistance	332.765.958
SUBTOTAL	24.070.780.407
PN Rural Development	10.968.146.956
POPAM	168.421.371
TOTAL BUTT	35.207.348.734

Source: Ministry of Investments and European Funds - Absorption stage for programs financed from the European Structural and Investment Funds (ESIF), the European Aid Fund for the Most Disadvantaged (FEAD) and payments made from the European Agricultural Guarantee Fund (EAG) to date of July 29, 2022.

Regarding the financial year 2021-2027, Romania was allocated approximately 45 billion euros in the form of structural and investment funds in order to ensure the financial sustainability of regional development. During this period, the funds will target the following areas:

No. Crt.	Areas covered by structural and investment funds in the programming period 2021-2027
1	Single market, innovation and the digital sector
2	Cohesion, resilience and values

3	Natural resources and environment
4	Migration and border management
5	Security and defense
6	Neighborhood and the whole world
7	European public administration

Source: https://ec.europa.eu/info/strategy/recovery-plan-europe_ro#cel-mai-mare-pachet-de-stimulente-din-istorie

In order to access the structural and investment funds related to the financial year 2021-2027 at the level of Romania, the following national financing programs were created, respectively:

Funding programs 2021-2027	Allocation (billion euros) 2021-2027
Educație și Ocupare	4,32
Transport	9,68
Sustainable Development	5,25
Health	3,88
Social inclusion and dignity	4,11
Just Transition	2,53
Technical support	0,96
Smart growth, digitization and financial instruments	2,20

Source: <https://mfe.gov.ro/sinteza-programelor-operationale-2021-2027/>

To these national funding programs 8 regional funding programs are added, respectively:

Funding programs 2021-2027	Allocation (billion euros) 2021-2027
Programul Operațional Regional București-Ilfov	1,46
Programul Operațional Regional Centru	1,38
Programul Operațional Regional Sud-Muntenia	1,57
Programul Operațional Regional Sud-Est	1,48
Programul Operațional Regional Vest	1,17
Programul Operațional Regional Sud-Vest Oltenia	1,20
Programul Operațional Regional Nord-Est	1,75
Programul Operațional Regional Nord-Vest	1,43

Source: <https://mfe.gov.ro/sinteza-programelor-operationale-2021-2027/>

The advantages of European funds: Among them we list: the efficiency, effectiveness and economy of these funding sources compared to classic funding sources. Practically, within the development process of a state, the stages related to the identification of needs and priorities, the identification of solutions, the development of

action plans, the estimation of the need for human, material and financial resources, the creation of documentation in order to obtain financing, etc. they must be prepared professionally, ahead of time. All these aspects must be provided in the regional development strategy of the respective state, an aspect that highlights the efficiency of the use of non-reimbursable European funds. Thus, when the opportunity arises to obtain financing from non-reimbursable European funds, applicants should no longer encounter problems regarding the eligibility of the investments they wish to finance or regarding other obstacles and be able to sign the financing contracts in a short time, so that the implementation of the desired projects can begin. I appreciate that this aspect underlines the effectiveness of non-reimbursable European funds. It should also be stated that strategic planning must not only target the absorption process of European funds, but it must target any financing mechanism that contributes to the development of an economy. Only through realistic strategic planning can positive results be obtained that really contribute to the development of a state, in a relatively short time and at a fairly low level of costs. For this reason, considering the mandatory requirement of strategic planning imposed by the process of accessing non-reimbursable European funds, I believe that in addition to the efficiency and effectiveness of European funds in the regional development process, their economy is also highlighted in comparison with other sources of financing. It is well known that European funds do not involve high costs, i.e. costs of administration, management, risk, insurance, interest, etc., costs that classic loans impose. European funds only require the applicant to ensure co-financing, an aspect that, in many cases, also appears in the case of loans.

Unfortunately for Romania, at this date, according to the application for submission, implementation and monitoring of funding requests related to projects that wish to be financed from structural and investment funds, MYSMIS2014, the absorption stage for the financial year 2014-2020 is only 66, 41%⁵. I appreciate that this aspect is a very worrying one, as there is a risk of disengaging some funds that will not be able to be accessed until 31.12.2023, the deadline for settlements within the financial year 2014-2020. Regarding the absorption stage of the funds related to the 2021-2027 programming period, this cannot be put into question because until now it has only been possible to sign the Partnership Agreement with Romania⁶, the strategic document that regulates the objectives and allocation of European funds for our country in the period 2021-2027 in the amount of approximately 45 billion euros⁷.

3. European funds allocated through the National Recovery and Resilience Program (PNRR)

According to the NBR⁸ "Within NextGenerationEU, Romania benefits from an amount of allocations of around 32.4 billion euros³, of which 17.4 billion euros represent grants and 15 billion euros represent loans under advantageous conditions. Almost 90 percent of these amounts are associated with the Recovery and Resilience Mechanism (RMR) – the main component of the NGEU. The MRR is a program to support reforms and investments undertaken by EU countries, the aim of which is to mitigate the

⁵ <https://www.fonduri-ue.ro/statistici>, website accessed on 09.10.2022

⁶ The agreement was signed on 05.10.2022 according to: <https://mfe.gov.ro/zi-istorica-pentru-romania-guvernul-si-comisia-europeana-au-semnat-la-alba-iulia-acordul-de-parteneriat-pentru-2021-2027/>

⁷ <https://www.nord-vest.ro/comisia-europeana-a-aprobat-acordul-de-parteneriat-cu-romania-documentul-strategic-prin-care-sunt-reglementate-obiectivele-si-alocarea-fondurilor-europene-pentru-tara-noastra-in-perioada-2021-2027/>, website accessed on 09.10.2022

⁸ <https://www.bnr.ro/DocumentInformation.aspx?idDocument=37498&directLink=1>, website accessed on 09.10.2022

economic and social impact of the COVID-19 pandemic, to make European economies more resilient and to facilitate their transition to a green economy. The additional funds that Romania can contract in the multiannual financial year 2021-2027 are those associated with REACT-EU, an initiative that continues and expands the measures to respond to the pandemic crisis and to remedy its consequences. REACT-EU resources should be used mainly for health investments, but also for providing support to SMEs (especially in the sectors most affected by the pandemic). At the same time, by supplementing the Funds for Rural Development, projects could be financed that would support the communities in this environment. Another component of the NGEU, in addition to the allocations from the standard multiannual financial year, refers to the Just Transition Fund, a program designed to support the regions most affected by the transition to climate neutrality, as well as to avoid a deepening of regional disparities. From the variety of funds that make up the NGEU, the MRR is the main instrument for the recovery of savings, in terms of the volume of allocations, consisting of grants and loans. In the case of grants, 70 percent of the allocations for each state were determined based on: (i) the population of that state, (ii) the inverse proportional relationship with GDP per capita, and (iii) the average unemployment rate from 2015-2019 compared to the EU average. The remaining 30 percent of the allocations are determined based on the losses recorded by the member states (in terms of real GDP) during the pandemic crisis. Considering these indicators, Romania is among the countries with the highest allocations in European terms (Chart C). The decision to allocate MRR resources is adopted by the European Council based on the National Recovery and Resilience Plans submitted by each state to the European Commission. The plan clearly establishes a detailed set of measures as a balanced response to the economic and social situation of the respective state, including from the perspective of addressing the challenges identified by the European Commission and adopted by the European Council in the context of the European Semester. In addition, other conditions refer to the amounts allocated to investments and reforms supporting the transition to a green economy (at least 37 percent of budget allocations) and the digital economy (minimum 20 percent of budget allocations). The first tranches of funds from the EU under the MRR would be sent to the member states as early as 2021, representing pre-financing in the amount of 13 percent of the total allocation."

In the case of Romania, the National Recovery and Resilience Plan of Romania (PNRR) was designed in such a way as to ensure an optimal balance between the priorities of the European Union and Romania's development needs, in the context of the recovery after the COVID-19 crisis that significantly affected the country, as it affected the whole European Union and the whole world.

The general objective of Romania's National Recovery and Resilience Plan (PNRR) is to promote the economic, social and territorial cohesion of the Union by improving resilience, in terms of the level of preparedness for crisis situations, the ability to adapt and the growth potential of the member states, by mitigating the social and economic impact of the crisis in question, especially on women, by contributing to the implementation of the European pillar of social rights, by supporting the green transition, by contributing to the achievement of the Union's 2030 climate objectives set to Article 2 point 11 of Regulation (EU) 2018/1999 and by respecting the EU objective of achieving climate neutrality by 2050, as well as the digital transition, thus contributing to upward economic and social convergence, restoring and promoting sustainable growth and the integration of economies Union, encouraging the creation of places of mu still of high quality, contributing to the Union's strategic autonomy alongside an open economy and creating European added value.

In order to meet this general objective, the specific objective of the Facility is to provide financial support to Member States to achieve reform and investment milestones and targets as set out in their Recovery and Resilience Plans. That specific objective

must be pursued in close and transparent cooperation with the Member States concerned.

The implementation principles of PNRR:

✓ *Equitable geographical distribution of funds.* The proposed investments in the PNRR are based on the fact that in recovering the gaps and modernizing Romania, no one will be left behind on the road to economic and social recovery. In direct or competitive allocation procedures, the balanced allocation of resources will be taken into account, so as to lead to the valorization of local or regional specifics in the interest of citizens and to the reduction of the polarization of territorial development. In this sense, some components have a territorial allocation provided for in the launch of project calls.

✓ *Decentralization.* The design of the PNRR was based on empowering central and local authorities to undertake ambitious reforms to facilitate the green and digital transition and lead to a high level of resilience. In the spirit of this principle, the implementation of the PNRR will aim to get closer to citizens and beneficiaries, thus providing a response to the subsidiary challenges of the communities.

✓ *The role of local authorities.* The PNRR was developed through a participatory process in which local and regional authorities participated, as well as their associative structures. The implementation of the PNRR will be based on the involvement of local authorities both in the definition of appeals, where appropriate, and in the monitoring and evaluation of the plan.

The PNRR budget has a financial allocation of approximately 29.2 billion euros⁹ targeting areas such as:

Areas covered by PNRR	Budget allocation
Green transition	Water management system – 1,884 mld euro We reforest Romania and protect biodiversity – 1372 mld euro Waste management – 1204 mld euro Sustainable transport – 7620 mld euro The wave of renovation – 2200 mld euro Sustainable energy – 1614 mld euro
Digital transformation	Digitization - 1,892 mld euro
Smart, sustainable and inclusive growth	Fiscal reforms and pension system reform – 0,482 mld euro Support for the private sector, research and innovation – 2,359 mld euro
Territorial and social cohesion	The local green and digital fund - 2120 mld euro Tourism and culture – 200 mld euro
Health as well as economic, social and institutional resilience	Health – 2455 mld euro Reforms in the social field – 0,217 mld euro

⁹ <https://www.fonduri-structurale.ro/2021-2027>, website accessed on 09.10.2022

	Reforming the public sector, increasing the efficiency of justice and strengthening the capacity of social partners – 0,167 mld euro
Policies for the new generation	Educated Romania – 3606 mld euro

Source: <https://www.fonduri-structurale.ro/2021-2027>

Unfortunately, just as it happens with the European structural and investment funds, Romania has the same problem with regard to the European funds allocated through the PNRR, namely it encounters problems with accessing them. I believe that these problems are related to a number of factors, the most important of which are political, institutional and legislative.

4. Conclusions

From the analysis carried out, we can draw the following conclusions regarding the impact of the European structural and investment funds and the European funds allocated through the PNRR on the Romanian economy:

- ✓ both types of funds encounter problems related to absorption;
- ✓ both the European funds allocated through the PNRR and the structural and investment funds represent effective financial instruments for financing the Romanian economy, as they target key areas that urgently need an infusion of funds;
- ✓ the European structural and investment funds aim at medium and long-term effects, pursuing the economic, social, cultural and territorial cohesion between the development regions in Romania;
- ✓ the European structural and investment funds aim to alleviate and even eliminate the economic disparities between the eight development regions in Romania and the regions of the European Union,
- ✓ the European funds allocated through PNRR aim at immediate effects on the economy, mitigating the negative effects caused by the COVID-19 pandemic and the current geo-political crisis, aiming to strengthen it in order to overcome future crises, developing a resilience capacity of the Romanian economy,
- ✓ the European funds allocated through PNRR require economic, legislative, social and environmental reforms to be accessed, which aims to harmonize the main areas of interest at the European level, which is why their access must be effectively carried out in favor of Romania, thus so as not to involve subsequent costs,
- ✓ the two types of European funds analyzed represent cheap financing mechanisms for the economy, since most of them are not refundable except for some components of funds allocated through PNRR, but these are also granted with an advantageous level of costs compared to classic financing mechanisms (credit banking and/or leasing).

Following what has been presented, it can be drawn as a general conclusion that Romania must identify efficient and effective methods in order to record a high absorption rate of the structural and investment funds allocated within the two financial years 2014-2020 and 2021-2027 and the European funds allocated through PNRR, as only under these conditions will it be able to strengthen your economy and at the same time develop it. I believe that the first measure in order to accelerate the absorption is the depoliticization of the institutions that are involved in the management of the two types of European funds and the involvement of real specialists in this process.

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