European Funds – Instrument for Economic Stability/Growth

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Abstract:*The enlargement of European Union has finally brought a growth of public resources designed for regional policy, but also visible disparities between the member states. The objective of a stronger social and economic cohesion, of reduction of differences of social and economic development between the member states and EU regions, as well as the promotion of sustainable development of EU are reached through structural funds, the European financing being designed to serve as lever regarding public investments in associated countries. This work analyses the elements which assure economic stability in Romania, in the last year of programming period 2007-2013, following the crisis which disturbed global economy. The emphasis is laid on non-refundable EU funds allotted for Romania, which were analyzed both from the point of view of approved projects (but whose implementation did not start yet)and regarding the contracted projects under way.*

Keywords:cohesion policy, structural funds, absorption rate, decisive factors of absorption capacity, economic crisis, operational programs.

JEL classification: F15, F36, G01, G10, H43.

1. Introduction

The financial crisis which began in 2008 at world level has created and still creates big problems for the contractors, who either benefited from a credit line, and now they handle with difficulty the repayment of debts or for being at the beginning and in the absence of other funding sources they gave up the project. The SMEs were the most affected by these negative effects, because there are perceived as having a higher credit risk than large companies. This crisis is a very valuable lesson for all the companies which are part of the economic system, reminding each that an economic growth based mainly on credit principal and irrational consumption can only lead to the collapse of the system.

The only anti-crisis program adopted by the government of Romania was the loan contracted from IMF, EU and World Bank. This loan has solved on a very short term some of the most stringent problems in Romania, but the costs involved by repayment, including the payments related to interests, raise large question marks as long as the lent money was not used to generate added value.

Thus, it is clear that another real program for the economic stability of the country, with even higher benefits would be the increase of the degree of absorption of European funds, and by this work we want to emphasize the impact of structural funds on the growth of economic stability. Moreover, with a high absorption of structural funds, Romania could become a favourite destination for foreign investors, the economic stability and by increasing the its potential for developing investment projects.

The role of structural funds (transfers from the EU budget) in regional development has been designed for various reasons, mainly because markets left to

self-regulate could not provide economic growth due to externalities (infrastructure, environmental issues) , market rigidities (lack of mobility on labour market) and incomplete information. The programming period 2007-2013 was constructed as one of maximum expansion of European funding programs marked by changes in the funds available to the European Commission by a more clearly grouping to structured finance instruments according to European policy objectives.

At the same time this period marked the doubling of the funds allocated for the eight countries that joined in 2004 and the structural funds allocation, for the first time, to Romania and Bulgaria, according to the analysis of Economist Intelligence Unit (2007). Structural Funds programming period for 2014 - 2020 is marked by proposals for Structural Funds restructuring, the increase of their intervention, integration of these funds with other financial instruments (including banking one's) and the introduction of Europe 2020 Strategy's objectives as priority targets (Droj, 2010).

In such a context, it is clear that another real program for Romania's economic stability, with even greater benefits would be the increase of absorption of EU funds, and through this work we want to emphasize the impact of Structural Funds on growth economic stability. Furthermore, with a high absorption of structural funds Romania could become a favorite destination for foreign investors, through economic stability and by increasing the its potential to develop investment projects.

2. Structural Funds in European Union

European Union Strategy for the preparation of EU regions and less developed countries to face the free market is given by cohesion policy, which is achieved through structural funds. Economic and social cohesion policy can be analyzed in terms of two components, vertical cohesion, referring to social disparities reduction and solidarity with disadvantaged social groups and horizontal cohesion, which focuses on reducing regional disparities and solidarity with less developed regions population. Based on this approach, EU regional policy is supported by EU funds through grants for convergence - competitiveness and employment - Europeanterritorial cooperation objectives, of the current financial year. During the period 2007-2013 EU Cohesion Policy ranks first in terms of expenses, surpassing for the first time thefunds for agriculture.According to figures provided by the European Commission, with a budget of 347,41billion Euro (35,5% of the total budget of EU) for the programming period 2007-2013, the social and economic cohesion policy has in vew three major objectives: convergence, regional competitiveness and occupation of workforce as well as European territorial cooperation.

Absorption capacity is generally defined as "low-income countries' ability to absorb productive, large amounts of foreign aid," the central issue being to give appropriate priority to grants received (Bourguignon and Sundberg, 2006). For allocating European funds it has been introduced the concept of absorption capacity, thus limiting the transfer of EU funds to a maximum of 4% of the GDP of each country. In compensation, to facilitate the absorption of funds by the new member states, the maximum co-funding rate from structural funds increased from 80% to 85%, being relieved certain eligibility criteria.(Georgescu, 2009).The link between the absorption capacity of structural funds and the regional economic situation represents at least a paradox, the practice proving that the most underprivileged regions face the greatest difficulties in the absorption of these funds, even if the need for the financial support of restructuring of the economic is primordial (Berica, 2010). The main explanation for this phenomenon is given by two factors: on one hand, the difficulties encountered by the regional authorities because of the lack of experience and qualification, followed bythe

bureaucratic procedures and the slow character of the decision-making process of EU under the circumstances in whichthe sequential procedures for programming at central level and especially regional level are not quite clear. Therefore, the problems related to the absorption capacity depend to a large extent on the institutional factors, both on the structures of European Union and the national structures.

Structural funds, from Agreementof Rome, are authorized for the following three objectives:

- Objective 1: poorly developed regions, especially those characterized by a GDP/inhabitant level below 75% of the EU average;
- Objective 2: the regions which are in process of economic and social reorganization, which depend on the sectors which are in decline, such as agriculture and fishing;
- Objective 3: the regions which are under way of development of education and increase of the number of employees from the economy of the country.

They are used to support investmentsin: education and health; development of SMEs (small and medium-sized enterprises); infrastructureand transport; environment; energeticsector; agriculture; tourism; research; professional training etc.

3. Structural Funds allocated to Romania

The non-refundable EU funds which were and still are accessible to Romania during the period 2007-2013 can be grouped in five financial instruments, out of which three are known as "structural and cohesion funds", and the last two are known as "complementary measures", designed for agriculture and rural development:

- European Regional Development Fund (ERDF);
- European Social Fund (ESF);
- Cohesion Fund (CF);
- European Agricultural Fund for Rural Development (EAFRD);
- European Fund for Fishing. (EFF).

For the programming period 2007-2013, the total amount corresponding to the five structural funds allotted for our country is 27,47 billion euro, and if we take into consideration the national contribution to the value of funds allotted for Romania it will reach a total of 33,53 billion euro (Ministry of Economy).

Out of these, those coming from structural and cohesion funds, Romania is allotted a budget of 19,67 billion euro, plus national co-funding (state budget, local budgets and private sector), in amount of about 9 billion euro. The structural funds are implemented through five Sectorial Operational Programs (SOP for Transports - 4,5 billion euro, for Human Resources Development - 3,4 billion euro, for Increasing Economic Competitiveness - 2,5 billion euro, for Development of Administrative Capacity - 208 million euro, for Environment - 4,5 billion euro), a Regional Development Program (POR - 3,7 billion euro; following the implementation of this program it is aimed to create better conditions for territorial balancing, both on economic level and social level of Romanian regions) ,and a technical assistance program (170 million euro). By doing an analysis of the current situation, we can see the higher degree of concentration for Regional Operation Program (ROP), Sectoral Operational Program for Environment (SOPE) and for Sectoral Operational Program for Transports (SOPT), which aim at rehabilitation of infrastructure, followed by Sectoral Operational Program for Increasing Economic Competitiveness (SOPIEC) andSectoral Operational Programfor Human Resources Development (SOPHRD), and to a lesser extent Sectoral Operational Programfor Administrative CapacityDevelopment (SOPACD). The Table no. 1 present the operational programs

which run these structural instruments and their structure in the total budget allotted to Romania.

Table no. 1.Operational Programs in Romania

Operational Program (OP)	Available budget 2007-2013 (mil. lei)	Percentage of available budget 2007-2013	Structural Instrument
Transport S0P	19.736	23,7%	FC şi FEDR
Environment S0P	19.505	23,5%	FC şi FEDR Regională
Regional S0P	16.106	19,4%	FEDR
Human Resources Development S0P	15.026	18,1%	FSE
Increase of Economic Competitiveness S0P	11.040	13,3%	FEDR
Administrative Capacity Development S0P	899	1,1%	FSE
Technical Assistance S0P	736	0,9%	FEDR
TOTAL	83.048	100,0%	

Source: www.fonduri-ue.ro- Ministry of European Funds

Being in the last year of EU budget programming 2007-2013, after more than 6 years from accession, Romania still faces a great challenge in the absorption of structural funds of European Union. Romania is on the first place in European Union regarding the absorption of European funds, at the end of 2012, according to a KPMG study, called EU funds in Central and Eastern Europe – Report regarding the progress made in the period 2007-2012, carried out in 10 countries from Central and Eastern Europe, the absorption rate was still low, compared to allotted funds and the general national income and considering the economic context in progress the national authorities committed to take measures for increasing the absorption. For the EU member states from Central and Eastern Europe (CEE), the EU funds contribute between 11% and 26% of their annual GDP, being an essential resource for competitive development and economic growth.

According to KPMG study, the economic welfare of the states from the region depends especially in economic crisis times, on the extent that they manage to attract European funds. According to the same study, at the end of 2012, although the contracting rate of structural funds in Romania neared the average recorded at the level of member states, regarding their absorption, our country was again on the first place in European Union. Thus, Romania ended the year 2012 with an absorption rate of about 12% compared to Bulgaria which had a rate of 34% or the first ones on the list Lithuania and Estonia with rates of 57%. As for the degree of contracting, Romania was still on first position(70%), while on the first step there was our

neighbor, Bulgaria (100%). The highest contracting rates (80%) were recorded at human resources projects and infrastructure projects, similar to the average from CEE. At the level of national average, with 70% absorption rate and 66%, there were the Research-Development, Communications and Technical Assistance projects.

Table no. 2. Capacity of absorption in Romania during 2007 - May 31, 2013

Program	Available budget 2007-2013 (mil. lei)	Projects submitted		Projects approved		Signed contracts		Domestic payments to beneficiaries	
		Nr.	*Total Value (mil. lei)*	*Nr.*	*Total Value (mil. lei)*	*Nr.*	*Total Value (mil. lei)*	*Total Value (mil. lei)*	*%*
SOPT	19.736	156	52.148	97	16.099	88	15.762	1.950	9,88
SOPE	19.505	643	38.918	446	20.945	362	19.879	5.345	23,96
ROP	16.106	8.320	57.985	3.786	18.530	3.456	17.287	7.397	40,77
SOPHRD	15.026	10.385	43.602	3.046	15.246	2.456	12.554	6.624	39,96
SOPIEC	11.040	15.269	76.927	3.907	11.023	2.671	8.264	3.216	24,60
SOPACD	899	1.371	3.674	420	1.089	418	1.054	309	32,92
SOPTA	736	139	951	118	603	109	459	150	20,14
TOTAL	*83.048*	*36.283*	*274.205*	*11.820*	*83.535*	*9.560*	*75.259*	*24.991*	*26,92*

Source: www.**fonduri**-ue.ro-Ministry of European Funds

The annual evolution of these programs is presented in figure no.1 which illustrates the relationships established between the EU allocations for the period 2007-2013, the value of projects submitted, approved and the value of projects with funding agreements signed until 31.06.2013. It is noteworthy that for all the operational programs the value of submitted projects exceeded the total value of EU funds allotted, and the total value of the projects approved for each operational program is a little less than the allocations from EU (except for PO DCA, PO AT and POS Transport), which were allotted in advance.

The effects of economic crisis are perfectly reflected by the subunit ratio between the value of projects with signed funding agreements and the value of approved projects. The explanation is simple: some beneficiaries of European funds did not have the financial capacity to assure co-funding and gave up their implementation, which had negative effects on the national economy.

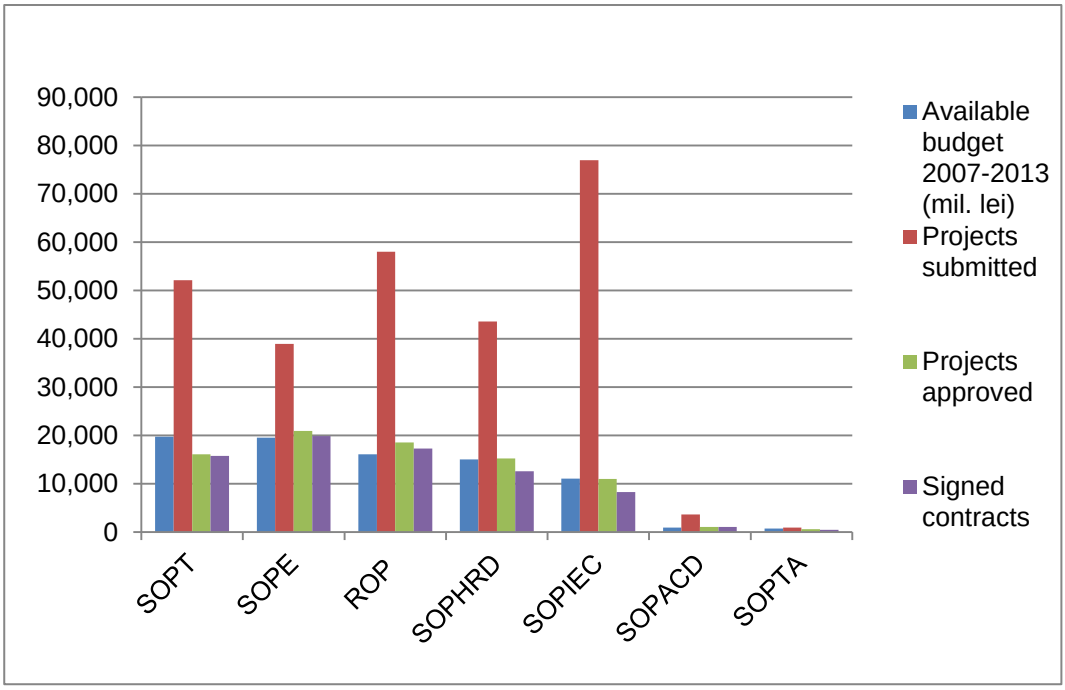

Figure no.1. Operational programs evolution between 2007 and May 2013 in Romania

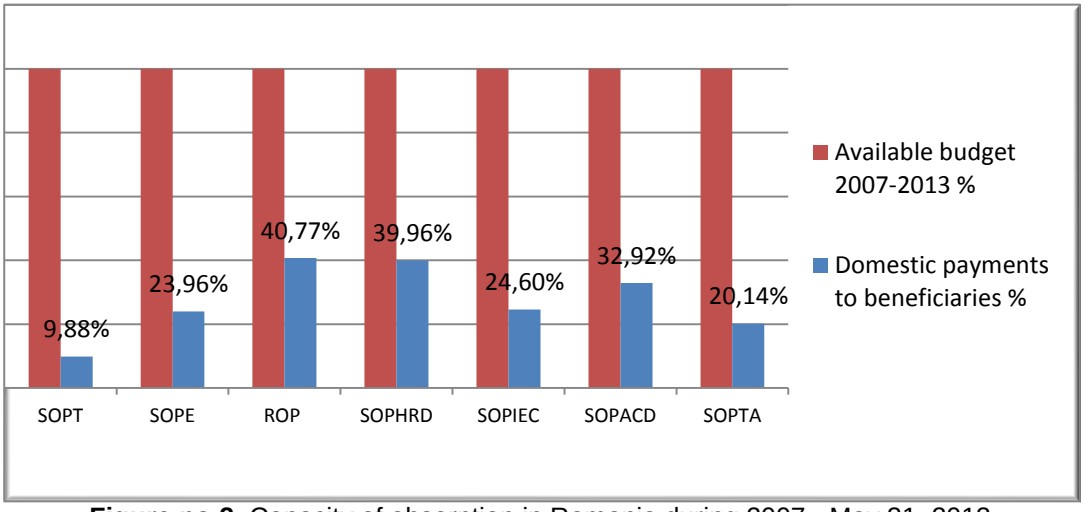

Figure no.2. Capacity of absorption in Romania during 2007 - May 31, 2013
Source: www.**fonduri**-ue.ro- Ministry of European Funds

While in case of approved projects value, Romania stands well, regarding the absorption capacity, at the end of May 2013, it only reached 26,92% (Table no.2), the Regional Operational Programme and the Sectoral Operational Programme Human Resources Development recorded the highest values, 40,77 % and 39,96% respectively (Figure no.2).

Wostner (2008) identified three factors which influence absorption capacity:

• the macroeconomic absorption capacity, which depends largely on GDP;

• managerial and administrative absorption capacity which refers to the ability and skills necessary for planning, for evaluating projects to ensure coordination between project partners to deal with administrative and reporting required by the Commission, and to finance and oversee the proper implementation;

• Financial absorption capacity, which relates to the ability to co-finance programs and projects supported by the EU, to plan and guarantee these national contributions in annual budgets.

Berica (2010) believes that there are two types of factors that influence the absorption of EU funds:

• internal factors related on the beneficiaries of these funds;

•external factors linked to institutions monitoring the implementation of European projects.

Based on the foregoing, we can conclude on certain issues that determine the low rate of EU funds absorption in Romania, namely:

• absence of a solid institutional organization for intermediary bodies networks and regional units, in whose duties is the management of Structural Funds at regional and local level;

• undue delays in preparing operational programs;

• an insufficient of training and qualification's degree for staff in certain intermediate bodies;

•various changes to the lists of eligible expenditures and delays in the reimbursement claims of payments incurred by the beneficiaries;

• low experience in project management for both public entities and private ones;

• reluctance of beneficiaries in accessing funds caused by the high level of co-financing.

4. Conclusions

Considering that the current programming period nears its end, Romania is in an essential point because it prepares the strategic planning of interventions designed for the future programming period 2014-2020.

With regard to the capacity to absorb structural funds in Romania, we can appreciate that it was limited and had many gaps in terms of legal and also in management terms. However, in the same time, a positive trend could be observed, resulted in an increasing number of projects that are already implemented. In case the budget expenditure cannot increase because the deficit must be kept under control, it is obvious that other solutions must be sought to stimulate investments and consumption. The only sustainable solution is increasing the degree of absorption of European funds, this money representing a capitalization of Romanian economy (Stoian, 2010).

Knowing the reasons for the low capacity in absorbing EU structural funds, since the 2007-2013 programming period is nearing completion, in my opinion, is compulsory intensifying the program of measures to strengthen administrative and financial capacity, started in the last year. This requires setting clear, realistic goals, ensure consistency between strategies related to structural funds, on one hand, and national policies, programs and measures for supporting socio-economic development, on the other hand, as well as a global indicator system of communication with potential and actual beneficiaries.

In conclusion, we can say that European funds have the main role in assuring the stability of Romanian economy, and their absorption has a special impact on economic growth.

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