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**Article**

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## THE EUROPEAN FUNDS AND THEIR ECONOMICAL EFFECTS IN ROMANIA

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### Abstract:

The absorption of the communitarian funds constitutes an objective on its own in the post-adherence strategy, taking into consideration the huge contribution that these funds will have in the recovery of the gap between our country and the other European Union member states. Using the European policy of cohesion, the access to these financial resources represents one of the main economical benefits.

**Key words:** European Funds, European Union, PND, operational programs

### Introduction:

Nowadays, the European Union is going through a period of identity redefinition and of its internal cohesion, in the context of the necessity of acknowledging itself as a competitive and dynamic actor in a continuously globalizing world, having as a background the “digestion” of the fifth wave of extension, started in 2004 with ten states and ended with Romania’s and Bulgaria’s adherence on the 1<sup>st</sup> of January 2007.

The Union goes through a process of reconnection with its own citizens and of regaining their sustaining for the European political project based on their preoccupations, at the beginning of the 21<sup>st</sup> century, perceived differently in comparison with the ones in the previous century.

The Union has to face the challenge of permanently adapting to the changes generated by a series of factors, internal ones (the integration’s deepening parallel with the extension, the aging and the decrease of the population number, the necessity of adapting to the European Unions’ institutions, the efficiency, the transparency and the decision’s legitimacy at a communitarian level, the communication with its own citizens) as well as external ones (the world crises of the natural resources and of the raw materials, the competition coming from the other poles of power, but not only, the terrorist threat, threats regarding the environment, such as: climate changes, natural disasters, diseases, etc ).

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In conclusion, the European Union is a continuously moving construction in an international context characterized by a profound dynamics. Thus, Romania's profile takes into consideration the existent opportunities, having as a goal the decrease of the typical vulnerability of a new member state of the European Union a coherent policy's accession of a coherent policy resulting in the development of the Romanian citizens' wealth.

After a decade of structural, legal and institutional reforms, as well as economical and social ones, for preparing the moment of adherence to the European Union, Romania must face a significantly changed context, having an increased level of interdependent member states, that need a rational and efficient strategic behavior.

First of all, the adherence to the European Union represents the opportunity and the means of increasing the standard of living of the Romanian citizens along with the European ones. The fact that, Romania, at the moment of adhering to the European Union, was a member state having a GNP a lot smaller than the European average, underlines the necessity of efficient use of the national resources and of the communitarian funds, as well as the active encouragement of the domestic and foreign investments.

Thus, Romania needs to maintain the rapid, balanced and durable economical increase, on a long term, and it also needs strong and efficient institutions, a coherent legislative system and a predictable fiscal system.

From the convergence point of view, the macro-economical frame has the role to sustain the durability of the economical growth, including the financing of physical infrastructure development and of the human capital.

The assurance of a permanent macro-economical frame for the period between 2007-2013 has represented a fundamental objective, characterized by the enhancement of the correlation process of the existent policies with the new policies, the continuation of the fiscal consolidation, of the inflation lowering and of the budget deficit level, according to the European Union's requirements.

The monetary, budgetary and fiscal policies, as well as the preparation for the adherence to the Euro zone will be thus subject to the logics of the multi-annual budgetary programming, that allocates the necessary sums to the key sectors (including the public-private partnerships' development) and to rationalize the expenses, taking into account the principle of tributaries. . .

In order to become a direct beneficiary of the communitarian funds, Romania has to assure a high level of absorption of these. The funds that Romania will get from the European Union are potential, while the contribution to the communitarian budget is certain and it represents an assumed absorption as a member state.

Complementary to the communitarian funds, the budgetary resources of the state and the ones extracted from the private sector are engaged in priority directions of development.

### **1. The European context of the structural funds' entry and development**

The European Union is an economical and political union, developed in Europe, being composed of 28 states. The origins of the European Union go back to the European Community of Coal and Steel (CECO) and to the European Economical Community (CEE), formed of six member states in 1958. During the following years, the European Union has been expanded by the adherence of new member states and has strengthened its powers by adding new economical, social and political domains in its abilities. The Treaty from Maastricht has put the basis of the European Union under the present name in 1993. The last

constitution amendments of the European Union have been represented by the Treaty from Lisbon that came into force on the 1st of December 2009. (Source Wikipedia).

This union of states having different levels of development has imposed, in time, through the adherence of new state and the deepening of the economical and social disparities, a convergence policy whose goal has been to reduce the differences between the development levels of different regions.

In this context, The Economical and Social Policy of Cohesion (PCES) finds its place. Thus, the PCES represents the fundamental policy of the European Union having as a goal the decrease of the economical and social development disparities between the member states or regions of the European Union; the improvement of the Unique Market's functioning; the promotion of a permanent and durable development of the European Union. 1/3 from the European Union's budget is allocated to this politics.

The PCES's intervention objectives are the following:

- Convergence for the regions where the GNP/citizen is under 75% of the European Union's average;
- Regional competitiveness and labor force – for the regions which are not eligible for the Convergence objective;
- The European territorial cooperation – for the regions, counties and cross border zones;

(Regulation CE 1083/2006, art.3).

The financial means by which the PCES is implemented are called Structural Instruments and contain: Structural Funds (the European Fund of Regional Development and the European Social Fund) and the Cohesion Fund. These three funds are known under the generic name of Structural Funds and Funds of Cohesion (FSC).

Structural Funds and Funds of Cohesion contribute, each of them, to the fulfillment of the three objectives, thus:

- The convergence objective is financed by the European Fund for Regional Development (FEDR), the European Social Fund (FSE) and the Cohesion Fund (FC);
- The objective of regional competitiveness and employment is financed out of the European Fund for regional Development (FEDR) and of the Cohesion Fund (FC);
- The objective of the European territorial cooperation is financed out of the European Fund of Regional Development (FEDR).

The European Fund for Regional Development (FEDR) sustains a durable economical development at a regional and local level by levying the local capacities and by varying the economical structures in fields such as technological development and research, innovation and entrepreneurship, informational society, Small and Medium Size Companies, environment protection, tourism, and energy.

The European Social Fund (FSE) contributes to the increase of the adaptability of the labour force and enterprises, the increase of the access on the labor force market, unemployment prevention, the prolonging of the active life and of the women's and immigrants' attendance level on the labor market, the advocacy of social embedded ness of the disadvantaged persons and the fight against discrimination.

The Cohesion Fund (FC) finances projects in the field of the environment protection and of transport across the European Union, projects in the field of durable development as well as projects on the improvement of air and road traffic, the updating of the urban transport, the development and updating of the multimodal transport.

Because of the fact that the basic objectives, more exactly the objectives regarding the convergence, the competition and the European territorial cooperation cannot be sufficiently fulfilled, in better conditions, taking into consideration the disparities' size and the limited financial tools that the member states have, in order to fulfill the convergence objective, they can be achieved in better conditions by means of a multi annual guarantee of the communitarian funding that permit the focus of the cohesion policy on the community's priorities.

This desideratum can be achieved by means of subventions. According to the CE Regulation no. 1605/2002 these represent direct financial contributions, given as donations from the budget to finance:

- either an action destined to promote the fulfillment of an objective that is part of the European Union's policy;
- either the functioning of an organism that has as an objective a general European interest or an objective that is part of the European Union's policy.

The subventions form the object of a written agreement and are part of an annual program published at the beginning of the year. This is brought into force by an invitation to make suggestions, except for the cases of exceptional urgencies. All the subventions given during this financial exercise are published annually, following the confidentiality and safety demands.

The subvention's grant is subject to the principles of transparency and equal treatment. The subventions cannot be cumulative, they cannot be given retroactively and they suppose co-financing. Moreover, these cannot have as a target or result the idea of producing profit on the beneficiary's behalf. One action can get only one subvention allocated from the budget in favor of the same beneficiary.

A subvention cannot be given for an action that has already been started unless the applicant can prove the necessity of starting a business before the signing of the agreement. In such cases, the eligible expenses for financing cannot date back before subvention request's handing in. Retroactive subventions cannot be given for actions that have already been finished.

Eligible requests of subventions are the ones presented in writing by the juridical persons who, on behalf of the beneficiary, when being in the situation of attribution, certify the fact that they are not in one of the situations presented in art.93 (debts at budgets, bankruptcy, convicted for fraud, corruption) and art.94 (conflict of interests, false declarations).

The criteria of selection must permit the evaluation of the applicant's capacity to fulfill the action or the proposed working program. The attribution's criteria previously announced in the invitation must permit the evaluation of the applications' quality, from point of view of fixed objectives and priorities.

The applications are evaluated, on the previously announced criteria of selection and graduation, by an evaluation committee, in order to establish the applications that can be financed.

Afterwards, being based on the evaluation, the main competent credit release authority shortlists the approved beneficiaries and the amounts. He is the one who informs the applicants in writing upon the decision regarding their request. In case of the application's rejection, the institution presents the reasons of rejection, especially regarding the previously announced selection criteria.

## **2. The European Funds and Their Economical Effects**

In order to evaluate in detail the economical effects of the structural financings we begin from the objectives and the priorities declared between 2007 and 2013. The main objectives have been connected to convergence as well as competitiveness through effects on the labor market. For instance, among the priorities we mention:

- equal easing to labor access,
- more productive and innovative methods of work,
- the increase of employees' level of qualification and engagement,
- institutions' modernization on the work market,
- active measures of work market's support,
- integration of under-privileged categories on the work market,
- educational reform,
- etc.

It is well known that the European financings taking place between 2007 and 2013 had a series of objectives connected to the increase of the European Union's convergence and competitiveness at an international level. That's why, the majority of these refer to the work market, by increasing the equality of the chances and qualification of the work force.

In the analysis of the convergence level, the used indicators are the GNP/citizen and the human development indicator.

The National Strategic Frame of reference 2007-2013 (CSNR, 2006) represents the "world strategy for application" (the Govern of Romania, 2012) the European funds in Romania. There have been seven operational programs established by means of this:

1. The Regional Operational Program (POR),
2. The Sector Operational Program for Increasing the Economical Competitiveness (POSCCE),
3. The Medium Sector Operational Program (POS Medium),
4. The Transport Sector Operational Program (POS Transport),
5. The Sector Operational Program on Human Resources Development (POS DRU),
6. The Operational Program on Management Capacity Development (PODCA),
7. The Operational Program on Technical Assistance.

Thus, CSNR is implemented by means of the operational programs which are part of the convergence and European territorial cooperation objectives. An *Operational Program* represents a document presented by a member state and adopted by the Committee, defining a development strategy according to a coherent and complete set of priorities, for whose fulfillment there is a need of a certain Fund.

Each of these programs has been divided into priority lines and major directions of intervention (DMI). The most important information for each type of operational program that has been developed in our country in the "Convergence" objective, mostly its structure and objectives, are presented in the following lines.

The details regarding the implementation strategy of the programs financed out of European funds are found, as it has already been said, in the National Reference Strategic Frame 2007-2013. Being elaborated in 2006 when Romania was in its economical ascension, the declared goal was *"the decrease of the disparities in the economical and social development between Romania and the European Union's member states by generating an auxiliary increase of 15-20% of the GNP until 2015 "*. (CSNR, 2006). The forecasts have been exaggerated and rootless, as it has been proved afterwards. They have been built on a background of a continuous economical development.

Romania's economical development lasted until the year 2008. From a real rate of an increasing 7,3% GNP in 2008, there has been registered a dramatic decrease in the following year, the value being of -6,6%, thus having an almost double decrease in value. During the entire period of the financial program, between 2007 and 2013, Romania's economy had fluctuant evolutions. Along with the first signs of crisis, the strategy of using the structural funds in our country has been changed. The goal has been the increase in the degree of the absorption and usage of the European funds for countervailing the effects of the international financial crisis. Moreover, the last one has had different effects in using the financings out of European funds in the member states (Healy&Bristow, 2013). But, in the majority of the cases, these have represented the help given in economy, despite the technical and institutional problems that have been met along the process of accessing the respective sums.

The decisions taken by the Romanian authorities have been to improve the absorption process. However, in the middle of 2012, the total rate of the European funds' absorption was of 9,17% for Romania (The Govern of Romania, 2012), the lowest in the European Union. Unfortunately, this position has been kept during the years, but the number of the absorbed funds has significantly increased, becoming more than

20% in 2013. Out of the seven operational programs, the most performing ones have been POR, POS Medium, POSDRU and PODCA. POSCE, POS Transport and POAT have registered lower contracting levels. The interesting thing is that exactly the last ones have “benefited” out of the international financial crises. Thus, the strategy’s restructuring for adapting to the new economical conditions have ended in the reallocation of the money, as follows: 60% for infrastructure, 20% invested in the human capital and 15% for increasing the competitiveness on a long term. Regarding the economical impact of the decision of relocating the funds, the opinions are divided and an evaluation of its fairness is requested. As previous analyses done on a older reveal the structural funds cannot fulfill their initial goal just because of the fact that the investments in the infrastructure do not have a significant impact on the long run (Rodriguez-Pose & Fratesi, 2004; Dall’erba & Le Gallo, 2003). The annual implementation rapports present succinctly the development of the implementation process on every type of program, out of the 7 existent ones in Romania. But, as the existent specialty literature shows ((Litan et al, 2013), the information given to the general public are incomplete.

The European Union has an institutional frame that regards the promotion of its values, the fulfillment of its objectives, the support of its interests, of its citizens and of the member states, as well as, assuring its coherence, effectiveness and continuity of its policy and actions.

The European Union’s institutions are the following:

- The European Parliament;
- The European Council;
- The Council;
- The European Committee;
- The European Union’s Court of Justice;
- The European Central Bank;
- The Court of Accounts.

According to the European Union’s Cohesion Policy, Romania’s social-economical development’s orientation is made of a strategic plan document and multi-annual financial programming, authorized by the Govern and elaborated in a large partnership. It is about the National Development Plan (PND), which is a characteristic concept of the European policy of economical and social cohesion (Cohesion Policy), designed to offer a coherent and permanent conception regarding the development of the European Union’s member states, transposed in development priorities, development, programs, projects, according to the principle of structural funds’ programming principle. In the context of Romania’s adherence to the European Union in 2007, PND has a major role of aligning the national development policy to the communitarian development priorities, by promoting the measures considered to be incentives of durable social-economical development at a European level.

Regarding the coherence policy, PND represents a tool of establishing the priority of the public investments for development, mainly oriented on the priorities and objectives compatible with the intervention domains of the Structural and Cohesion Funds. In this context, the underlining of the PND’s 2007-2013 specific character is necessary, which does not substitute the National Strategy of the economical Development, but it represents one of its major components. Among other things, PND 2007-

2013 fundamentals the priorities and the objectives of the development's strategy that will be negotiated with the European Committee for financing out of Structural and Cohesion funds between 2007 and 2013.

The elaboration of the PND 2007-2013 has been fulfilled according to H.G.no.1115/2004 regarding the elaboration, in partnerships, of the National Development Plan, which establishes the methodological principles, the institutional frame of work and the consulting mechanisms of partnership.

Thus, the National development Plan between 2007 and 2013 has as a target "the fast decrease of the social-economical disparities between Romania and the European Union's member states". At the elaboration of PND, it has been estimated that, between 2007 and 2013, Romania gained 10%points out of the existent development gap, the PND strategy being financed out of multiple sources: internal ones (state budget, local budgets, etc) and external ones (structural tools of the European Union, the European Union's funds of structural type for rural development and fishing, external credits, etc).

For the programming period between 2007 and 2013, PND has been elaborated in accordance with the orderliness of the specific programs' principles established in the Council's Regulation (CE)no.1260/1999 21<sup>st</sup> of June 1999 regarding the general dispositions for structural funds (art.8 – the complimentary and the partnership, art.11 – the appurtenance, art.15,16 – development plans, art.41 – evaluation, art.46 – informing and publicity), as well as other demands resulted out of the European Committee's recommendation regarding the programming and the management of the Structural Tools.

For the programming period between 2007 and 2013, the National development Plan fundamentals Romania's access to the Structural Instruments, representing the basic document on which the Fostering Communitarian Frame has been negotiated with the European Committee.

In this context, the priorities and the objectives of the PND 2007 -2013 are concentrated on the fields which are eligible for structural interventions (Structural Funds and Cohesion Fund).

PND 2007-2013 fundamentals the financial aid given by the European Union to approximately 4% of the GNP, yearly, at a commitment level, to which the national co financing is added.

The PND development priorities are the following:

- the increase of the economical competitiveness and of the economical development based on knowledge,
- the development and updating of the shipping infrastructure,
- the protection and the improvement in the environment's quality,
- human resources development, the occupation promotion and the social inclusion and the strengthening of the managerial capacity,
- the development of the rural economy and the productivity's improvement in the agricultural sector,



- the decrease of the development disparities between different regions of the country. The financial programming of the PND aimed at fulfilling a realistic general frame of the finance resources' development that should be used between 2007 and 2013 in order to increase the growth of convergence with the European Union, concluding with a global estimated sum of approximately 58,7 billion Euro, allocated on six PND national priorities of development.

#### **Financial world programming PND 2007-2013**

- mil. Euro – PND priorities	2007	2008	2009	2010	2011	2012	2013	Total
<b>P1. Competitiveness</b>	651,48	620,72	793,14	882,76	842,95	761,25	682,12	5.234,43
<b>P2. Transport Infrastructure</b>	2.094,99	2.517,48	2.465,25	2.071,29	1.819,84	1.832,20	1.853,75	14.654,79
<b>P3. Environment</b>	753,18	898,70	1.099,11	1.160,45	1.069,54	810,78	806,23	6.597,98
<b>P4. Human Resources</b>	711,65	912,51	1.297,08	1.317,59	1.313,22	1.115,85	940,72	7.608,60
<b>P5. Rural Development</b>	1.585,56	1.757,72	2.200,96	2.335,49	2.395,08	2.445,15	2.517,37	15.237,32
<b>P6. Regional Development</b>	1.294,79	1.280,99	1.397,96	1.336,37	1.342,35	1.344,55	1.342,97	9.339,98
<b>Total</b>	<b>7.091,65</b>	<b>7.988,12</b>	<b>9.253,50</b>	<b>9.103,95</b>	<b>8.782,98</b>	<b>8.309,78</b>	<b>8.143,16</b>	<b>58.673,10</b>

And, the PND structure of the financing resources between 2007 and 2013 are presented as follows:

- Communitarian funds -43%
- National public sources (central and local, including IFI credits) – 48%
- Private sources (private co financing associated with the communitarian funds) -9%

The implementation of the 2007-2013 PND provisions, according to the established strategy and under the conditions of efficiency, accuracy, transparency and financial correctness, implies significant efforts coming from the public institutions and of the beneficiaries. The PND represents the document on whose basis the National Reference Strategic Frame 2007-2013 as well as the Operational Programs out of which these funds will be implemented, have been created. In this respect, the PND's elaboration has developed in parallel with the one of the Operational Programs for Implementing the Structural Funds and the Cohesion Funds, thus assuring the coherence between these documents.

### **3.Conclusions**

The European funds have been created in order to help the member states to reduce the disparities between them. An evaluation of the structural funds' effects and their economical implications is extremely important as the structural funds must be taken into consideration together with the declared objectives of these programs. It is important to see if these objectives have been fulfilled and the degree of their fulfillment.

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