

INFLUENCE OF STRUCTURAL AND COHESION FUNDS UPON REGIONAL DEVELOPMENT

Păuțu Sorina Crina

West University of Timisoara, Faculty of Economics and Business Administration

Regional development and the difference cutback between the development regions of Romania represent the objectives required once Romania joined the European Union. Removing the differences of economic development between the regions among the European Union embodies one of the strategic objectives of the policy of European economic cohesion. In the view of achieving an intra and inter-regional cohesion, we consider that a great significance corresponds to the programmes of non-refundable financing, operationalized by means of structural Instruments of regional development. Highlighting the effects of non-refundable financing upon the economic development of the regions implies the identification of its determinant factors, the dynamic of the absorption level of available funds and a comparative ex-ante analysis during the implementation of the project and another one, ex-post. This is why there will be made a study upon the two Romanian regions with different level of economic development: the West Region (area with a high level of economic development) and the Nord-East Region (area with a low level of economic development). In order to measure the economic differences between the two regions and to highlight the level of economic development influenced by the non-refundable finances allocated by the European Union, we will take into consideration synthetic indicators, relevant for the analysis and comparable in terms of space. Therefore, the specific indicators relevant to the objective of our study are: the GDP - indicator for measuring the level of development, the Unemployment Rate - indicator for characterising the local labour market, and the Average Monthly Income due to its influence upon the standard of living. The research methodology entails a quantitative analysis which will test the validity of the statement according to which the programmes of non-refundable financing influence directly the level of development of a region on its two main components: economic development and social development.

Keywords: Regional Development, Cohesion Funds, Grant Funding Absorption

JEL Codes: R11, R58

Regional development is a priority of the European Union according to the Lisbon Strategy and the Intra and Inter-Regional Cohesion Policy. Currently the EU is structured in development areas called NUTS. Romania is part of the NUTS II development area. Therefore, an equal development of the EU regions is a challenge and an EU objective in order to create a strong and stable economy. Consecutively the European Union member countries are divided into development regions based on the county's proximity criterion of territorial equality of the regions.

EU principles and objectives regarding regional development and reducing regional development disparities between regions of Romania was adopted in national and local strategies, and included in the CNDR framework in 1999 are:

- reduce existing regional imbalances, stimulating balanced development, revitalization of disadvantaged areas;
- preventing the emergence of new imbalances;
- correlation of regional development policies with regional governmental development policies; stimulate interregional and international cooperation that contributes to economic development.

Currently in Romania there are 8 development regions, made up of 4-7 counties, the exception is the region consisting of Bucharest and Ilfov. The territorial organization in Romania took place in 1998 through Law 151/1998, in 2004 a new law being designed in what concerns the regional development Law 315/2004.

Developing regions of our country have been classified by levels of economic development. Each region was assessed based on key indicators such as GDP, income per capita, unemployment rate and SMEs, thus generating a classification of these regions. Regions with higher growth potential are represented by Bucharest - Ilfov, West and North-West, and with low development potential as the North-East Region. In order to achieve homogenous economic development and alignment of economic development, it was necessary to customize development programs specific to each area of development in hand.

Classification of regional development areas in terms of economic development is mainly given by the regional disparity index, through which a classification of regions is achieved. To follow the evolution of the two regions analyzed, in what follows there will be presented the regional disparities index for the period:

	2003	2004	2006	2009
North-East Region	0,723	0,692	0,675	0,676
Western Region	1,129	1,147	1,149	1,140

Table 1 : Regional Disparity Index - Sources: Convergence Programme 2006 - 2009, Government of Romania

According to a Eurostat (2) study, regional disparities (3) in the current new Member States were much higher compared to EU 15 since 1999. From this moment on (1999), except for Poland, disparities have increased in all these states, Romania recorded the strongest growth in this respect - from a report from 2.1 to 2.7 in 2004, between the developed (Bucharest - Ilfov) and the least developed regions (North East) European Union using its programs of pre-accession and post-accession funding supports Member States in the unification of territorial development.

Thus, Romania during accession benefited from grants allocated by region depending on the development of the region and its specificity, such as PHARE, ISPA and SAPARD. PHARE pre-accession funding program was structured in two parts Phare CES and Phare CBC. Non-refundable funds allocated through the Phare CES were implemented by 2010, according to data provided by the Ministry of Regional Development in respect to the contracted projects and payments made.

After accession, Romania due to the GDP of less than 75% of the Community's average all regions are eligible for structural funding financing through Objective Convergence.

So far the regional level is allocated through the Regional Development Fund of the European Union, a funding program allocated according to the development of each region of Romania. This program has allocated different amounts to the development regions according to the regional needs identified. Although each region can benefit from all operational programs established nationwide, the regional operational program (ROP) is allocated to regions offering the possibility to standardize regional economic development in our country.

According to the National Development Plan 2007-2013 Romania's development directions were established by analysis of the situation in Romania on EU priorities, based on which financing directions were established for each operational program.

Due to development disparities between regions in the distribution amounts ROP is different by region. Since the two development areas analyzed, the North-East and West Region disparities identified because financial allocation through ROP differs between the two regions, North

Eastern Region has been allocated an amount of 724.09 million Euros and West Region 458.77 million Euros.

Therefore in analyzing the influence of non-refundable funding on regional development it is absolutely necessary to be analyzed both programs of pre-accession and post-accession funding, thus having a much clearer view on regional development based on the financial support allocated by the European Union.

Due to current economic situation nationwide and the economic crisis we tackle, the only real solution for regional development and the unification of the 8 Romanian regions is the EU support offered through Structural and Cohesion Funds in 2007 -2013, but especially through ROP.

Regional economic development is conditioned by several factors acting directly and indirectly on the regions. These influences can be on social, cultural, economic and political levels but also on geographical factors. For the present study although between all factors there is inter-conditionality and direct connection, the economic factors are the ones analyzed.

In the article published by *CE Cambridge Econometrics European cities and regional development* in terms of identifying factors of influence on regional development, there is specified that they are difficult to identify due to unavailability of data from developing regions, making it difficult to develop effective economic development policies.

The most relevant drivers of regional development in the European Union and the regions in Romania, according to Ronald L. Martin - *A Study on the Factors of Regional Competitiveness* and the *Second Report on Economic and Social Cohesion* (2001) regional competitiveness factors are the following ones :

- Employment levels and the productivity levels of those in employment;
- Employment concentrations in sectors (productivity is highest in business and financial services; in agriculture, productivity is only half the average of other sectors);
- Demographic trends such as outward migration and an aging population have a negative effect on a region's competitiveness (and the inverse is also true);
- Investment as measured by gross fixed capital formation over time (the accumulated stock of capital);
- Investment in knowledge economy assets (R&D, education and ICT, telecoms, internet access are relatively more important than investment in fixed investments, especially in advanced regions);
- Infrastructure endowment (although the report notes that "Every region has its own specific needs in terms of both overall scale of transport networks and particular modes of transport. A minimum level of transport infrastructure is necessary for regional competitiveness, but this is not necessarily the same level in all regions");

- Level and nature of education (for instance share of population with degrees and with IT proficiencies);
- Innovation and RTD (for instance RTD expenditure and patent applications)

According to studies and research conducted on the subject of regional development, it shows that regional development is on a high level of GDP (by region), through high growth rates, with a high purchasing power of citizens (high average income per capita) and by low rates of unemployment. The above mentioned is determined by several factors such as:

A.Existence of a regional "economic effervescent" displayed by high levels of local entrepreneurship.

B.Specialization of regions in highly productive and profitable fields productive.

C.Capacity for innovation and knowledge production. Various comparative studies have shown that the most developed ones (in terms of economic criteria) are those that have a high capacity for innovation and knowledge generation.

D.Capacity of human resources – it refers to the existence of high education capital. Developed regions enjoy a well-developed labor market and have the ability to attract and keep highly qualified human resources, especially in highly productive areas.

E.Infrastructure and accessibility - developed regions have high levels of economic growth because, by the quality and density of communication and transport infrastructure, they can "reduce distances" reducing the transaction costs between persons and companies.

According to European Competitiveness Index the indicators used to measure regional competitiveness in terms of economic performance are:

- Regional GDP / capita
- Labour productivity
- Unemployment rate
- Employment rate on long-term (indefinite contracts)
- Monthly gross income
- Activism rate (active pop in total population)

In order to observe the influence of non-refundable funding on regional development we will analyze two development regions of Romania, the North-East region (one of the least developed regions) and the Western Region (region ranked on the second position in terms of economic development). The analysis of the two regions is based on the absorption of non-refundable funding and on the economic development indicators: total regional GDP and per capita, unemployment rate, employment rate and monthly average net nominal earning - data collected from the National Statistics Institute.

Grant funding absorption

According to reports at regional level offered by Regional Development Agencies regarding the Regional Operational Program, the following situation arises:

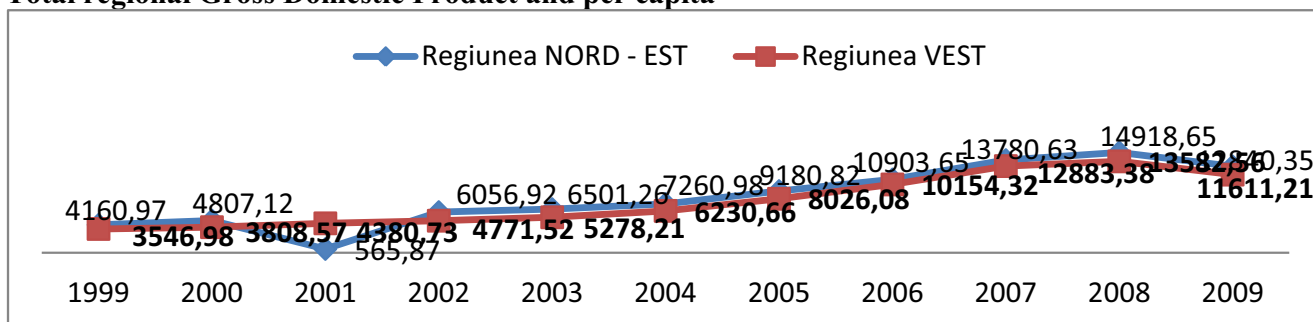
- West Region - currently contracted projects worth 390.35 million Euro grant value representing 92.73% of total amount allocated.
- North East Region - currently contracted projects worth 601.29 million Euro grant value representing 91.28% of total amount allocated.

Hence we can notice that in the development between the two regions there is a difference in terms of percentage value grants, but the amount of different contracts, with a contracted value of the grant is greater in the North-East Region due to the difference of the amount initially allocated between the two development regions.

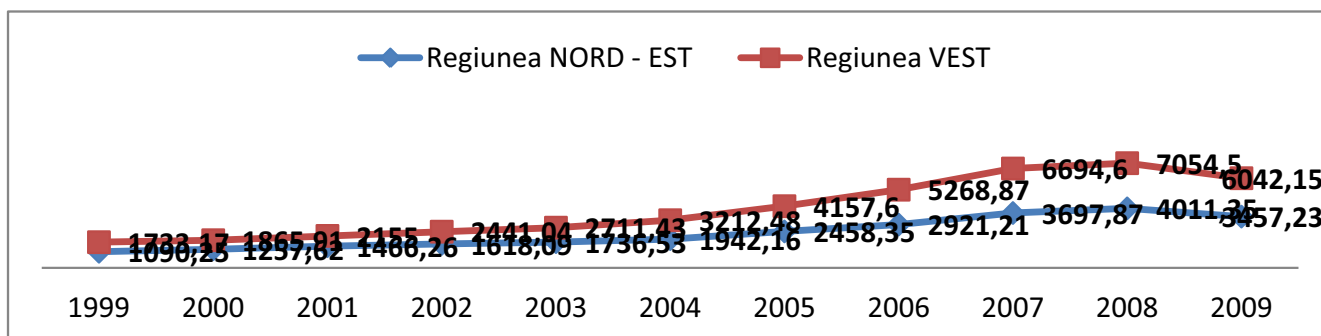
According to studies and reports in this field, the North-East Region is considered to be the winner in absorption grants such as PHARE, SAPARD and ISPA, which proves the ability of economic recovery as evidenced by the article "Moldova wants to leave the area position of the poorest in the EU" published on *Stiri financiare in timp real (Financial news in real time)* in 2008.

Absorption index of PHARE on regional level in the West region was of 84, 7% according to *Analizei de Impact a Finantarilor Nerambursabile Alocate regiunii de Vest si Gestionate de ADR VEST in perioada 2000 – 2008* developed by West ADR in 2009. As indicated earlier, we can conclude that in terms of grant funding absorption, the North-East Region is more interested in attracting grant funding although initially it was classified at the end of the ranking in terms of regional development. This may be due to the inability to identify other sources of sustainability and economic development in the region due to the current situation of economic crisis. Although the West is more developed economically we can observe a real interest in attracting grant funding, identified as a way of developing the regional economy. In order to study grant funding involvement on the regional economy it is necessary to follow the main indicators of regional development in the period 1999 - 2010 compared between the two areas.

Total regional Gross Domestic Product and per capita



Graphic 1 Total Regional Gross Domestic Product- euro million



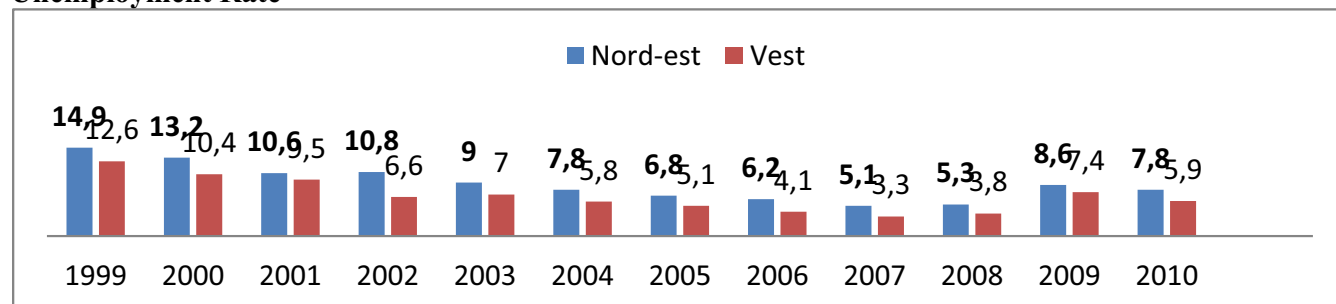
Graphic 2 Regional Gross Domestic Product per capita – euro milion

According to data collected from the National Statistics Institute of Romania in terms of regional Gross Domestic Product and per capita gross regional domestic product and their processing in the two regions of development we can observe the different and chaotic evolution compared between the two regions.

Regional gross domestic product in North-East has higher values than in the Western Region, but the trend of growth and decay evolves similarities between the two regions but with a much smaller decrease in the Western region than in North- East ,especially starting with 2008 with the advent of economic crisis, lifting out the economic stability of the Western Region compared to the North-East.

In terms of gross regional domestic product per capita, it differs from the evolution of its gross domestic product. This contradicts the total regional GDP according to data, regional GDP per capita is higher in value than in the Western Region than in North-East and its trend during 1999 - 2009 is much more significant in the West than in the North East although in the evolution of this area regional GDP / capita is growing. A significant mark on the indicator was added by the economic crisis in Romania since 1999 which caused a decrease of the indicator, but higher in the Western Region than in North-East contradicting the total regional GDP.

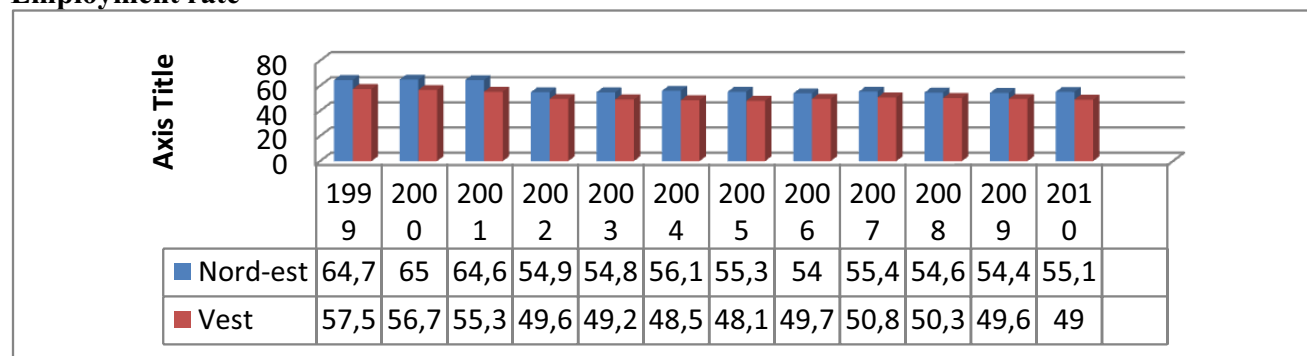
Unemployment Rate



Graphic 3 Unemployment Rate

Evolution of unemployment rate in the two regions analyzed presented in the previous chart highlights a higher unemployment rate decreased in the North East than in the Western Region. The percentage of the unemployment rate fell in the North East region in the analyzed period total of 7.1 demonstrating concern this area to reduce disparities in economic development of regions and to maintain jobs and even by creating new jobs. Although the Western region has economic growth and a high economic potential greater than the North East region, in the analyzed period, the unemployment rate fell to 6.7 percentages only, which may result in the case in which this development in the future maintains to a uniform indicator of the economic development impact, on the equalization of the two regions.

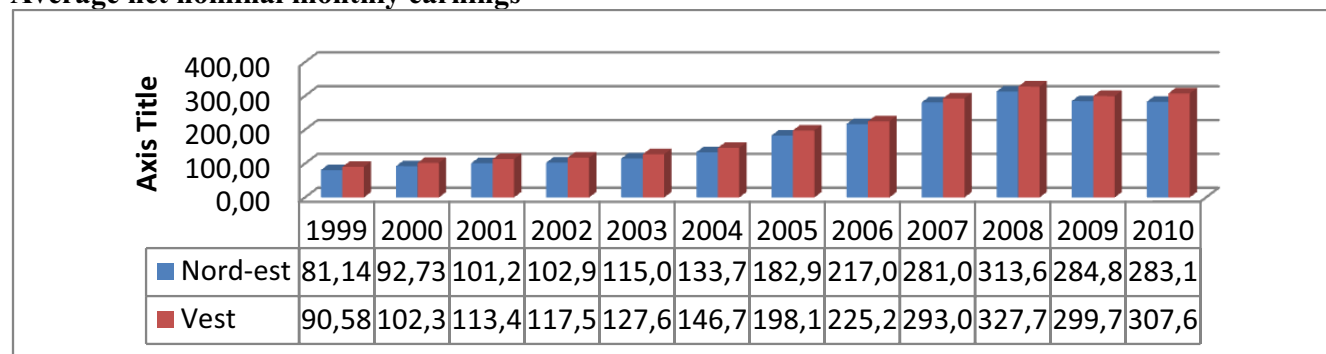
Employment rate



Graphic 4 Employment rate

Regarding the employment rate of population in the two regions its fluctuation is greater in the North-East rather than in the Western Region, however the employment rate is much higher in the North-East, which shows the existence of several jobs and a greater number of people employed. A significant difference between the two regions of development started in 2008, together with the economic crisis, as in the North-East the employment rate has decreased initially insignificantly in 2009 and in 2012 has a nearly percent, while in the Western Region the employment rate since 2008 continues to decrease by up to 0.7% annual rate.

Average net nominal monthly earnings



Graphic 5 Average net nominal monthly earnings - euro

The average monthly earning is higher in the Western Region than in the North-Eastern Region, and the tendencies of growth or decrease between 1999-2010 have the same trend. Given the development of both areas this trend is normal and real.

Conclusions

Using data presented and trends of the indicators but also the absorption rate of grant funding we can conclude that their effect is much stronger in the North-East than in the West, with a greater impact on population and economic development in the two regions analyzed. All in all the employment rate is an indicator that illustrates that during the crisis in the North-East it grew, the main driver of this growth being the grant projects that created jobs, leading to lower unemployment and employment increase of the population.

Another indicator the evolution of which is much better in the North-East, is the unemployment rate and the gross domestic product that also can be influenced in part by grants through regional economic recovery. The greatest contradiction which highlights the profile of regional economic development is the per capita gross domestic product whose value is much higher in the Western Region than in the North-Eastern Region, which proves the economic potential of regional development of the Western Region.

Another important aspect observed is the awareness of the North-East that the grant is the main source of economic development especially during the economic crisis that Romania is still facing. As discussed we conclude that regions with lower economic potential are more interested in attracting grant funding and the rate of absorption and the amounts raised are higher than in areas with high economic development potential.

The major challenge is still represented by having homogenous regions with or without economic development grants allocated to the economic development regions.

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