

## **A REVIEW OF ROMANIAN STRUCTURAL AND COHESION FUNDING OBJECTIVES AND OUTCOMES**

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**Abstract:** *Following the 3 main objectives of the European Union: convergence, regional development and territorial cooperation, it is acknowledged that, without doubt, there are benefic results of Structural and Cohesion funds upon Member States economies, but these results were not equally distributed. Consequently, some researchers manifest a documented skepticism with regards to the persistence of the territorial dynamics equilibrium, because of the liberalization of the markets. Some critics point towards the mechanisms of cohesion policy, although their visible role is to prevent the concentration of economic activities and accelerate the process of economic integration. In the context of the actual contradictory discussions regarding Romania's current absorption rate of Structural and Cohesion funds, it is interesting to analyze if the inflows of capital - as reimbursements of expenses by the European Commission to the Romanian private and public beneficiaries – compensate the outflows of capital – as contributions of the Romanian government to the consolidated budget of the European Union. Approximately 21 billion euro represents the positive balance of Romania in relation with the European Commission. For the 2007-2013 programming period, the beneficiaries had the possibility to make eligible expenses until the end of 2015. The reimbursement of expenses is extended until 30<sup>th</sup> June 2016, and by 31<sup>st</sup> March 2017, Romania must declare the final balance of payment and the final expenses statement to the European Commission. From the Romanian Centre of Economic Policies (2003) perspective, it can be stated that the economy is influenced by the capital inflows of Structural and Cohesion funds, by stimulating the demand and the offer. On short term, the demand is influenced, because the national budgets for implementing the cohesion policy objectives are increased; on the basis of what the Romanian Centre for Economic Policies (2003) namely defines “the multiplier effects”, the offer is being stimulated, through the consumption components, the output and the national income.*

**Keywords:** structural, cohesion, funds, operational, programs, objectives.

**JEL classification:** O12, O21, O52.

### **1. Background**

With regard to the European financial assistance, it can be stated that in Romania, specific concepts appeared in the institutional environment and the economic speciality language since the pre-accession period to the European Union, when

this country benefitted of pre-accession funds during the 2000-2006 programming period: the ISPA, PHARE and SAPARD funds.

However, the debut of using these funds was rather shy for Romania's public and private potential beneficiaries, because of the rigid and incomplete legislation, the legal and institutional basis being readjusted only after the end of 2007. Of course, in the same period, there were some narrow concerns related to the researches of the potential of these funding opportunities, given that it was not known the impact of the pre-accession funds on the Romanian economy, potential beneficiaries and target groups were not clearly identified and the economic effects that implemented projects could bring on macroeconomic or microeconomic scale were not defined. Obviously, the most visible reluctances came from the private sector, which confronted with a paradox: although it was specified that the pre-accession funds were nonrefundable, it was hard to understand the fact the applicant, in most situations, had to make a bank-loan, or to ensure that he / she had enough personal financial resources to comply with the co-financing rate requested by the European Union legislation in force. The public sector, through the co-financing capacity provided by the central or local budgets, had managed to overcome the above mentioned paradox and to initiate development projects on one of the three pre-accession funds.

After the accession to the European Union, Romania had a period of one year, namely 2007, in which had strived to make all the administrative and institutional steps for the good functioning of the programming period 2007-2013. From that moment on, the concepts of the European funding had started to become more visible, with the population having easy access to the consultancy, training and information about Structural and Cohesion funds. The application methodologies had become more transparent, together with the publication of applicant's guide for each operational program, priority axis and financing measure, which clarified the objectives, the requirements and eligibility criteria of the potential beneficiaries. Also, there was observed a development boom of the project management and European funds consultancy sector.

According to the Financial Balance of the Romanian Ministry of Public Finances (2015), it is deducted that, by 31<sup>st</sup> December 2015, Romania had benefitted of European financial assistance in total amount of 32.51 billion euro, meaning the programming periods 2000-2006 and 2007-2013. Romania had contributed with 12.27 billion euro to the consolidated budget of the European Union. From the same data (2015), it is deducted that 993 million euro were paid by the European Commission as advances in the actual programming period 2014-2020.

### **1.1. Short review of European funding policies and pre-accession funds**

Economic and social disparities among regions and the necessity of eliminating them were reflected for the first time in the Treaty of Rome, in 1957. Further, the year 1958 marked the establishment of the European Social Fund and the European Agricultural Guarantee Fund. The year 1975 brought in, with the accession of Denmark, Ireland and Great Britain, the concept of redistribution among the reach and the poor zones of the European Community, so it was established the European Regional Development Fund (Idu, 2006). Later, in 1986, with the accession of Spain and Portugal, the concept of economic and social

cohesion was introduced, as a necessary premise for the formation of the single market (Idu, 2006).

In 1988, the European Commission doubled the financial resources allocated for the European funds for the next years, implementing the cycle of multiannual programming periods, starting with the 1988-1993 period (Idu, 2006). In 1993, cohesion had become priority objective for the single market, following that two years later, with the accession of Sweden and Finland, the less populated regions were allocated consistent funds, marking the start of 1994-1999 programming period (Idu, 2006). In 1999, the basis of structural funds reform were set, accentuating the necessity of financing social groups and disadvantaged regions, forming the premises of launching the 2000-2006 programming period. Starting with the year 2000, the European Union has supported candidate states from Central and Eastern Europe in their accession preparation efforts with three financial instruments: ISPA, PHARE and SAPARD (Iacovoiu, 2006).

PHARE (*Poland Hungary Aid for Reconstruction of the Economy*) was created at the beginning of 1989 for Poland and Hungary (Idu, 2006), with the scope of facilitating their transition from the communist to the democratic regime (Săvescu, 2005). Meanwhile, other states from Central and Eastern Europe were included in the program: in 1996, 13 states were receiving PHARE nonrefundable assistance, of which 10 candidate countries: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia (Săvescu, 2005), and 3 non-candidate countries: Albania, Bosnia-Herzegovina and Macedonia – these ones until 2000 (Iacovoiu, 2006). However, starting with 2004, together with the expansion of the European Union, only Romania and Bulgaria continued to benefit from PHARE assistance (Săvescu, 2005). Romania benefitted of 1.6 billion euro, during 1997-2006 period, with the following objectives: development of legal and administrative structures, development of civil society, promoting and strengthening of the democracy, protection of human rights, cross-border cooperation, promoting of economic and social cohesion (Iacovoiu, 2006).

ISPA (*Instrument for Structural Policies for Pre-Accession*) has financed, throughout 2000-2006 period, projects in the environment and transport infrastructure, with the scope of alignment of candidate countries to the environment standards of the European Union (Săvescu, 2005). During 2000-2006, Romania benefitted of approximately 1 billion euro from ISPA assistance and Bulgaria received approximately 441 million euro (Iacovoiu, 2006).

In case of SAPARD (*Special Pre-Accession Program for Agriculture and Rural Development*), Romania benefitted of the premises of participation to the common agricultural policy and single market of the European Union. The financing objectives of this program were: the improvement of life conditions in rural communities, the encouraging of productive and processing of agricultural goods sectors, which correlates to the job creating objective in the rural sector and implicitly the assurance of an adequate level of income for the rural inhabitants (Săvescu, 2005), with an annual volume of 150 million euro assistance for Romania during 2000-2006 period (Iacovoiu, 2006).

## **1.2. Structural and Cohesion Funds in Romania during 2007-2013 period**

Structural and Cohesion funds are a continuity of pre-accession funds and are represented by the structural instruments (Structural Funds: European Regional

Development Fund, European Social Fund – and the Cohesion Fund) and the complementary funds (European Rural Development and Agricultural Fund, European Fisheries Fund, European Agricultural Guarantee Fund).

From the situation presented by Romanian Ministry of European Funds (2015a), summarized in Table 1, it is deducted that during 2007-2013 period Romania had evolved to an absorption rate of 63.31% at the end of 2015, representing an amount of approximately 12 billion euro allocated through 7 operational programs.

From the author's point of view, the absorption rate clearly presents growing perspectives up to 70%, because not all the reimbursements of expenses are currently finalized by the European Commission; there was also brought into discussion the clause of retrospective projects, meaning the intention of Romanian government to request the European Commission the reimbursement of expenses made in projects financed by the national budget and / or private external loans, which meet all the financing criteria imposed by the European Union legislation.

**Table 1 – Absorption rates on operational programs at 31<sup>st</sup> Dec 2015**

Operational Programs* 2007-2013	Allocations 2007-2013	Financed Contracts	E.U. Contrib.	National Contrib.	Beneficiary Contrib.	Submitted Expenses	Absorption Rate**
	Bill.Euro	Number	Bill.Euro	Bill.Euro	Bill. Euro	Bill. Euro	%
<b>ROP</b>	3.966	4675	4.532	0.699	0.561	2.535	63.91
<b>SOP-E</b>	4.412	531	5.057	0.940	0.102	2.735	61.99
<b>SOP-T</b>	4.288	136	3.253	0.574	0.003	2.656	61.94
<b>SOP – IEC</b>	2.536	5690	2.917	0.525	1.311	1.921	75.75
<b>SOP –HRD</b>	3.476	4106	4.530	0.478	0.332	1.895	54.51
<b>OP – ACD</b>	0.208	454	0.241	0.005	0.041	0.186	89.21
<b>OP – TA</b>	0.170	168	0.183	0.002	0.031	0.138	80.79
<b>Total</b>	<b>19.057</b>	<b>15760</b>	<b>20.713</b>	<b>3.223</b>	<b>2.381</b>	<b>12.066</b>	<b>63.31</b>

Source: Own representation based on Ministry of European Funds (2015a)

\* ROP = Regional Operational Program; SOP – E = Sectoral Operational Program Environment; SOP – T = Sectoral Operational Program Transport; SOP – IEC = Sectoral Operational Program Increase of Economic Competitiveness; SOP – HRD = Sectoral Operational Program Human Resources Development; OP – ACD = Operational Program Administrative Capacity Development; OP – TA = Operational Program Technical Assistance.

\*\* Absorption rate refers to the total expenses statement value submitted to the European Commission in relation to the financial allocation value, on each operation program

Regional Operational Program situates at an absorption rate of 63%, meaning almost 2.5 billion euro, being managed by the Romanian Ministry of Regional Development and Public Administration. The main beneficiaries were the local public authorities, which focused on the rehabilitation or local roads, renovation of schools, thermal insulation of blocks of flats, etc.

Sectoral Operational Program Increase of Economic Competitiveness was transferred in 2014 from the Romanian Ministry of Economy to the Romanian Ministry of European Funds, presenting an absorption rate of 76%, which is almost 1.9 billion euro, having as main beneficiaries the universities, research centers, private enterprises, IT&C industry.

Sectoral Operational Program Transport, transferred in 2015 from the Romanian Ministry of Transport to the Romanian Ministry of European Funds has an absorption rate of 62%, meaning 2.6 billion euro, with main beneficiaries like the Romanian Railroad Company, Romanian Company of Highways and Roads, etc.

Sectoral Operational Program Environment, transferred in 2015 from the Romanian Ministry of Environment to the Romanian Ministry of European Funds, presents an absorption rate of 62%, that is almost 2.7 billion euro, financing water and sewerage works, landfills, flood prevention works, etc., for beneficiaries like the local public utilities companies, the Agency for the Environmental Protection, etc.

Sectoral Operational Program Human Resources Development, transferred in 2014 from the Romanian Ministry of Labor to the Romanian Ministry of European Funds, has an absorption rate of 54%, that is 1.9 billion euro, financing projects of training, labor force occupation, discrimination combating, conducted by non-governmental organizations, local and central public authorities, etc.

Operational Program Administrative Capacity Development, managed by the Romanian Ministry of Regional Development and Public Administration, addresses to the public institutions and situates at an effective absorption rate of 89%, which is 186 million euro.

Operational Program Technical Assistance, managed by the Romanian Ministry of European Funds, has an absorption rate of 81%, which is 138 million euro, covering expenses like: wage increases for the ministry servants, seminars, headquarters rents and expenses, etc.

In contrast with the low absorption capacity of the operational programs, Romania stands for a good reputation in agriculture: from the information provided by the Romanian Ministry of Agriculture and Rural Development (2015), it is deduced that the agriculture sector has recorded an absorption rate of 91%, meaning 6.83 billion euro, by December 2015, through the National Program for Rural Development 2007-2013, as a continuity of the SAPARD pre-accession program.

An optimal absorption rate, of approximately 98%, that is 7.6 billion euro, was recorded in the case of hectare direct grants, from the European Agricultural Guarantee Fund, by December 2015 (<http://www.capital.ro/apia-grad-de-absorbtie-de-98-in-perioada-de-programare-2007-2013.html>, accessed 27 April 2016).

## **2. Correlations between Romania's strategic objectives and the 2007-2013 operational programs**

In determining a critical assessment through the research, it is necessary to make an analysis of the basis objectives of the Romanian operational programs, as they were conceived in the document entitled "National Strategic Reference Framework 2007-2013" (Romanian Government, 2006), which is derived from the "National Development Plan 2007-2013" (Romanian Government, 2005).

Although this document should stand for a comprehensive analysis of the development needs at national level, it must be taken into account that it was conceived in the pre-accession period, meaning that strategic objectives within it may not exactly fit to the outcomes of the projects financed through Structural and Cohesion funds, along the operational programs.

As deduced from the ex-ante evaluations of the operational programs, it was not possible to obtain a set of conclusive data, so the development indicators from the priority axis and financing measures / sub-measures of these programs do not necessarily stand with the generalized needs reflected in the "National Strategic Reference Framework 2007-2013" (Romanian Government, 2006).

Some researchers, like the Institute for Public Policies (2011; 2013), expresses a critical vision and states that it is not known if, for example, if the OP Administrative

Capacity Development can contribute to the increase of tax collection degree, or if the 50 hospitals provided to be rehabilitated through Regional OP represent a sufficient indicator, or if the SOP Human Resources Development contributes, in reality, to the increase of employment degree or it just prepares people for jobs who do not have thorough requests on the labor markets. The opinions of the researchers from Romanian Academic Society (2013) reflect that, at least for the transport, environment and economic competitiveness sectors, there is a correlation degree between the financing priorities and the national objectives. Even so, the Institute for Public Policies (2011) denotes the problem of massive financing of small and medium enterprises, without clear evidences of their contribution to the real economic growth.

### **2.1. Objective 1: Balanced territorial development**

From the analysis of the “National Strategic Reference Framework 2007-2013” (Romanian Government, 2006), it is deduced that the balanced territorial development objective focuses on the stopping of the accentuation of development disparities among regions and the restructuring of rural and urban areas.

Analyzing the Annual Implementation Report of Regional OP (2014), it is found that the biggest amount of money were allocated for roads rehabilitation, afferent to the Priority Axis 2, which financed a decent number of projects of the local and central public administrations.

As it can be agreed with Institute of Public Policies (2011) point of view, still it is not known if the length of kilometers of roads rehabilitated through these projects is correlated to the operational program indicator’s value, which is 877 kilometers.

Tourism, an objective reflected through indicators like “number of projects implemented in the accommodation field” (Institute for Public Policies, 2011) does not present reports which could reflect a real increase of tourists numbers in the financed areas.

With less information on the social services infrastructure projects and the lack of correlations between their indicators and the Romanian Ministry of Labor, it can be agreed with Institute of Public Policies (2011) which states that amount of money were allocated rather for the preservation of the actual social services instead of supporting new alternatives.

It is also generally accepted that consistent amounts of money were allocated for business laboratories in many areas of Romania, without knowing their economic impact on the life of the newly created enterprises and on the final beneficiaries, as well as prices, quality and duration of their goods and services.

### **2.2. Objective 2: Consolidation of administrative capacity**

From the analysis of “National Strategic Reference Framework 2007-2013”, it is deduced that, for this objective, the investments should contribute to the improvements of quality standards in the supply of public services.

From the 2012 Annual Implementation Report of OP Administrative Capacity Development (Management Authority of OP-ACD, 2013), the numbers indicate a concentration of approximately 75% of the total financed projects to the central public authorities, while only 25% of the financed projects were implemented by the local public authorities.

A critical point of view was also supported by the Institute for Public Policies (2011), which states that the allocation of these funds has not taken into account that the day-by-day services for citizens are mainly given by the local city halls.

If referred to the priority sectors assumed by this operational program, which are health, education and social assistance, it is found that it is hard to assume if these priorities correlate with the financed projects objectives, as resulting from the 2012 Annual Implementation Report (Management Authority of OP-ACD, 2013), even if effective tendencies of health or education systems computerization were reported.

### **2.3. Objective 3: Human capital development**

The “National Strategic Reference Framework 2007-2013”(Romanian Government, 2006) provides that this objective follows the support of education system and the training of individuals, having as financing correspondent the SOP Human Resources Development.

It is generally accepted that the investment in human capital is harder to quantify in results and implicitly, the most problematic when attempting impact evaluations. However, at first sight, the immediate objectives could transpose in more jobs, a higher level of performance in the employees and employers activities, qualitative training, etc.

As agreed to the Institute of Public Policies (2011) point of view, most of the times, by the low level of indicators established through the applicants guides, like the number of trained persons, it is not known if these trainings will generate the increase of employment rate or better jobs for employees. Also, it is found that the consultancy or training firms and the non-governmental organizations are massive beneficiaries of this operational program, for the education sector, as well as for the social economy and employment sectors.

### **2.4. Objective 4: Environmental protection**

From the 2014 Annual Implementation Report of SOP Environment (Romanian Ministry of European Funds, 2015b), it is deducted that most of financed projects have targeted the implementation of nature protection systems, fewer being aimed at the pollution reduction and flood preventing.

The Institute of Public Policies (2011) appreciates that the main problem of this operational program is represented by its specific structure, which determines that the projects submissions do not necessarily stand for an open competition of resources among eligible beneficiaries, most of them public authorities.

### **2.5. Objective 5: Development of transport infrastructure**

As resulted from the “National Strategic Reference Framework 2007-2013” (Romanian Government, 2006), the transport infrastructure needs massive improvements of the road and railroad network, as well as the Danube navigation and the airports.

From the 2014 Annual Implementation Report of SOP Transport (Management Authority of SOP-T, 2015) it is observed that the major concerns of accessing financial resources were oriented towards road infrastructure, with the exception of a few railroad and airport rehabilitation projects.

## **2.6. Objective 6: Dynamic production and entrepreneurship**

From the 2013 Annual Implementation Report of SOP Increase of Economic Competitiveness (Management Authority of SOP-IEC, 2014), it is found that the most part of financed projects have focused on small and medium enterprises investments and assistance, and fewer projects on research and development or IT&C sectors.

The Institute for Public Policies (2011) states that the main problem of this program consists of the difficulty of demonstrating, on medium and long term, about how productive or other investments types in an enterprise are capable of producing economic value, which can contribute to the economic growth objectives established at national level.

## **3. Conclusions**

Following the analysis of specialty literature of the strategic objectives transposed into the operational programs of the 2007-2013 period, it is found that it cannot be established an exact correlation degree between the national objectives elaborated in 2007 based on economic development indicators from the 2000-2006 period, and the recent absorption tendencies of Structural and Cohesion funds at the extension period of 2014-2015.

However, it is noted that a possible mismatch of the national objectives with the reality of the projects evaluation outcomes does not necessarily stand for a negative fact: this situation demonstrates that these objectives must step in line with the dynamics of the economic development of Romania and must be updated at shorter periods of time.

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