

COMPARATIVE ANALYSIS OF INVESTMENTS MADE IN ROMANIA FROM EUROPEAN FUNDS BETWEEN 2007 - 2013 AND 2014 – 2020

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Abstract: *One of the main topics of debate in the specialized literature is the analysis of the efficiency of public and private investments and the impact of investments related to economic development, especially at the level of the European Union. The research methodology used in this paper involves data analysis, observation, modeling and interpretation of sensitivity analysis results. I will present the performance of the operational programs in Romania from the two 7-year multiannual budgeting periods of the European Union, 2007 - 2013 and 2014 - 2020. The purpose of this paper is represented by the analysis of investments made through European funds in Romania as well as the way in which the efficiency of these investments can be increased so that European money can lead to an increase in the quality of life in our country. In this paper I want to contribute to the development of literature by analyzing the limits of the use of European funds in Romania in the field of infrastructure and in a future paper I want to extend this analysis to other countries in the European Union. The absorption rate in the period 2007 - 2013 at the level of Romania was about 90%, Romania losing about 2 billion euro, enough money to achieve 400 kilometers of the highway at an average cost of 5 million euros per kilometer. From my point of view, the money received from the European Union has changed Romania for the last 14 years since the accession of 2007. Regarding the financial allocation for the period 2014 - 2020, there is a 72% increase for the Regional Operational Programme, so that for the regional development the beneficiaries have available 6.86 billion euros compared with 3.96 billion euros as they were allocated per funding periods 2007 - 2013. The North East Region, which is one of the least developed region in the European Union, has a lower allocation than the West Region, one of the most developed regions in Romania. This aspect is paradoxical and does not support the balanced territorial development and the reduction of the gaps between the regions.*

Keywords: *EU funds; public investments; investment analysis; development.*

JEL Classification: *H72; H83; Q56; R53.*

1. Introduction

In this paper I will analyze the effects of public investments in Romania and I will realize a comparison between the former financing period 2007 - 2013 and the actual financing period 2014 - 2020 in terms of allocations and absorption within the operational programs. At the same time, it should be mentioned that the institutional architecture has changed slightly between the two periods of multiannual budgeting

at European level. I will perform an analysis of the allocation by regions correlated with the population of each region and with the regional allocation per capita.

The purpose of this paper is represented by the analysis of investments made through European funds in Romania as well as the way in which the efficiency of these investments can be increased so that European money can lead to an increase in the quality of life in our country. This paper aims to develop specialized literature in the field of European funds. At the same time, I want to make a comparative analysis and present the aspects that have positively and negatively influenced the absorption of European funds in Romania.

The main cause that led to the reduced absorption of European funds in Romania in the period 2007 - 2013 was represented by the excessive bureaucracy. It is encouraging that for the period 2014-2020 the bureaucracy has been reduced so that project beneficiaries no longer have to submit so many supporting documents, no longer need to be signed and stamped on each page and the MySMIS system was created to load scanned documents for submission of the financing request, for signing the financing contract but also the reimbursement requests and the notifications made during the implementation period of the projects.

The main infrastructure investments made from structural funds at national level are represented by sections of the highway between Bucharest and Constanta and between Sibiu and Nadlac as well as the rehabilitation of some railway sections. It is noted that after the accession to the European Union, more than 600 kilometers of motorway were made in Romania, many kilometers in relation to how much was achieved until accession but few kilometers in relation to the performances achieved by other central European member states such as Hungary, Poland or the Czech Republic. At local level, in Oradea investments were made in various fields such as: development of an Industrial Park, construction of overpasses, Unirii Square - the main public square of the city, rehabilitation of Oradea Fortress, construction of an Aquapark or investments in schools, hospitals, bicycle lanes or thermal rehabilitation of apartment buildings. Oradea is an example of good practices regarding the exponential development of a city using European funds. Thus, with its own contribution of 2 million euros, a city can make investments of 100 million euros for projects that have a non-reimbursable aid rate of 98%. These European investments are much more efficient than investments from the local budget or bank loans.

There is a problem of allocating money through the Regional Operational Program in Romania. The North East Region, which is one of the least developed region in the European Union, has a lower allocation than the West Region, one of the most developed regions in Romania. This aspect is paradoxical and does not support the balanced territorial development and the reduction of the gaps between the regions.

2. Literature review

The analysis of the impact of the use of European funds on the member countries is a topic intensely analyzed in the literature and below I will present the main ideas from specialized articles that are current.

Papaioannou (2016) shows in his paper that the efficiency of the public sector because of the European influences the way in which public investment is taken care of contributes to the creation of the economy at European level. Thus, in Romania there is a limitation on the efficiency of the public assistance sector and it leads to the efficient reduction of public investments.

Panayiotou and Medda (2013) mentions that investments in infrastructure play an important role for economic development. The authors claim that OECD member states need 50 trillion dollars of investments in transport infrastructure, utilities and social infrastructure. At the same time, these investments are expected to be financed mainly by the private sector. I consider that in Romania most investments in infrastructure must be made by the state and the public investments will attract private investments.

De Jong, Ferdinandusse, Funda and Vetlov (2017) analyzed 12 economies in the European Union between 1960 and 2013 and confirmed the existence of a correlation between the growth of the public capital stock and economic development. This fact shows that investments from structural funds are important in Romania and they can lead to economic development.

De Mare Gianluigi, Granata Maria Fiorella and Nesticò Antonio (2015) presents the fact that there is a problem regarding the sources of financing of public works. The most important sources of financing are sources from European funds as well as from public-private partnerships. Private investors analyze an investment from a monetary point of view, public investors must also analyze from a socio-economic point of view and not just financially. In my opinion, the structural funds are very efficient for public investments because they cover both the financial aspect of the projects and the socio-economic aspect. At the same time, the European Union wants to achieve a convergence process between the Member States.

William Cullison (1993) shows that there is a stronger correlation between investment in human capital and education and the growth of Gross Domestic Product in relation to investments in infrastructure and the growth of Gross Domestic Product. It could correlate with investments from European funds in human capital in Romania that are poorly developed, not having an equally strong impact in terms of economic development.

The result of the research Varblane (2016) mentions that the Baltic states (Estonia, Latvia and Lithuania) have managed to benefit from the use of European funds for development but it is necessary to continue a knowledge-intensive economic policy. Romania must use the model of the Baltic countries because they have managed to reach a more advanced level of European integration and real convergence.

Cocosatu (2016) performs a technical analysis of the programming period 2007 - 2013 as well as the importance of the Partnership Agreement for the period 2014 - 2020 and its observance by the Managing Authorities and the beneficiaries of European projects.

3. Comparison between the EU budget allocation and performance of operational programmes for Romania in 2007 - 2013 and 2014 – 2020

In this section I will present the performance of the operational programs in Romania from the two 7-year multiannual budgeting periods of the European Union, 2007 - 2013 and 2014 - 2020. Thus, I will present only the programs financed from the European Regional Development Fund, the Cohesion Fund and European Social Fund. The Structural Funds represented Romania's chance to develop and it is the opportunity to achieve a convergence with other Member States of the European Union.

As can be seen in this table, during 2007 - 2013, the smallest absorption was achieved on the operational programmes that financed the large infrastructure, Transport Operational Programme and Environment Operational Programme. This is a negative aspect because Romania needs the development of the infrastructure in order to reduce the disparities with the states of Western Europe. Another problem of the use of European funds in Romania is represented by the European funds for human resources. Thus, these funds were not fully used, although there are very high needs for professional qualification so that the objective of increasing the employment is achieved.

Table 1: The performance of the operational programmes in Romania during the programming period 2007-2013

Romanian Operational Programmes 2007-2013	Financial allocation 2017-2013 (billion euro)	Current Absorption rate (31.03.2017)
Regional Operational Programme	3,966	93,41%
Environment Operational Programme	4,412	84,48%
Transport Operational Programme	4,288	81,07%
Increase of Economic Competitiveness Operational Programme	2,537	100,00%
Human Resources Development Operational Programme	3,200	90,81%
Administrative Capacity Development Operational Programme	0,208	100,00%
Technical Assistance Operational Programme	0,170	100,00%
Total	18,781	89,08%

Source: Ministry of European Funds in Romania Available: https://www.fonduri-ue.ro/images/files/implementare-absorbtie/Anexa_1-Stadiul_absorbtiei_2007_-_2013_martie_2017.pdf [26 Jan 2020]

The absorption rate in the period 2007 - 2013 at the level of Romania was about 90%, Romania losing about 2 billion euro, enough money to achieve 400 kilometers of the highway at an average cost of 5 million euro per kilometer.

There were 3 operational programs that had 100% absorption but unfortunately were the programmes (Increase of Economic Competitiveness Operational

Programme, Administrative Capacity Development Operational Programme and Technical Assistance Operational Programme) with a smaller allocation than the programmes that support the large infrastructure.

During the 2007-2013 programming period, a series of investments were made in Romania. These investments had an important effect in the economic growth and in the increase of the employment, because many projects involved the creation of new jobs. This period was the first multiannual period of 7 years in which Romania was a member state of the European Union, it was a period of accommodation for our country and we hope that it was a sufficient preparation for the programming period 2014 - 2020 and the multiple challenges to be faced by Romania and Europe starting with 2020.

The main causes of low absorption within the 2007 - 2013 Operational Transport Program are represented by excessive bureaucracy and lack of competition between applicants for European funds so that the main beneficiaries (highway company, railway company or Bucharest subway company) are not pressured to improve their administrative capacity and the ability to implement projects. Another cause of low absorption within the Transport Operational Program is the fact that large infrastructure projects are the most difficult and involve a long preparation period of 2-3 years for the feasibility study, a year or two for public procurement and 3 - 5 years for the execution of construction works, so these are projects that last between 6 and 10 years, a duration that exceeds the duration of a European financial cycle of 7 years. Romania did not have projects ready to start the execution of works in 2007 and this fact cost our country the loss of approximately 2 billion euros in the programming period 2007 - 2013, due to the absorption of only 90% of the allocation for our country.

Table 2: The performance of the operational programmes in Romania during the programming period 2014-2020

Romanian Operational Programmes 2014-2020	Financial allocation 2014-2020 (billion euro)	Current Absorption rate (03.04.2020)
Regional Operational Programme	6,860	22.86%
Large Infrastructure Operational Programme	9,219	26.42%
Competitiveness Operational Programme	1,330	28.17%
Human Capital Operational Programme	4,372	27.26%
Administrative Capacity Operational Programme	0,553	23.57%
Technical Assistance Operational Programme	0,253	60.51%
Total	22,586	25.91%

Source: Ministry of European Funds in Romania Available: <http://mfe.gov.ro/stadiul-absorbției-fondurilor-ue/> and https://www.fonduri-ue.ro/images/files/implementare-absorbției/Anexa_1-Stadiul_absorbției_2007_-_2013_martie_2017.pdf [07 May 2020]

From my point of view, the money received from the European Union has changed Romania for the last 14 years since the accession of 2007. It should be mentioned that there are certain restrictions of the European Union for the allocation of important amounts of money to areas such as research or combating climate change, areas for which Romania has not been very well prepared. During the 2014 - 2020 programming period, the operational programs did not undergo major changes. There was a merger of the Environmental and Transport Programmes that form the Large Operational Infrastructure Programme. Regarding the financial allocation for the period 2014 - 2020, there is a 72% increase for the Regional Operational Programme, so that for the regional development the beneficiaries have available 6.86 billion euros compared with 3.96 billion euros as they were allocated per funding periods 2007 - 2013.

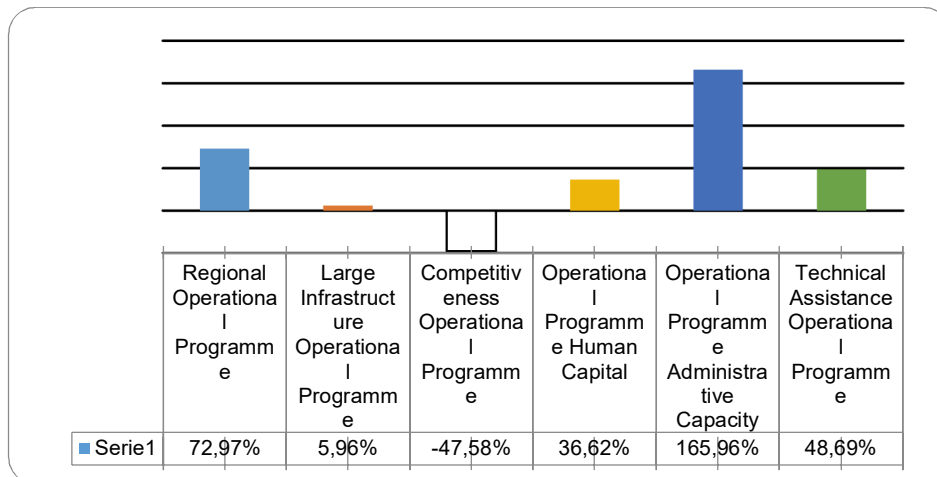


Figure 1: The evolution of the allocation on the operational programs in Romania in the periods 2007 - 2013 and 2014 - 2020

Source: Ministry of European Funds in Romania Available: <http://mfe.gov.ro/stadiul-absorbției-fondurilor-ue/>

All operational programs have benefited from an increase in the financial allocation except the operational program competitiveness. It should be mentioned that some of the areas financed by the old competitiveness program from 2007 to 2013 were transferred to other programs, which is one of the reasons for the decrease of the allocation.

There is a 20% increase in the structural and investment funds allocated to Romania through the regional development policy and the European Social Fund.

The main cause that led to the reduced absorption of European funds in Romania in the period 2007 - 2013 was represented by the excessive bureaucracy. It is encouraging that for the period 2014-2020 the bureaucracy has been reduced so that project beneficiaries no longer have to submit so many supporting documents, no longer need to be signed and stamped on each page and the MySMIS system was created to load scanned documents for submission of the financing request, for

signing the financing contract but also the reimbursement requests and the notifications made during the implementation period of the projects. At the same time, the applicant's guidelines have remained too complicated and the eligibility conditions are extremely restrictive and limit many potential beneficiaries to apply for European money.

4. The importance of investments from European funds in Romania - analysis by regions

Romania is a net beneficiary of European funds and these have contributed to the development of the Romanian infrastructure and to the increase of the standard of living. Through the Structural Funds, projects were financed, which involved creating jobs, supporting companies and the business environment, improving environmental conditions and developing human resources.

One of the areas where the biggest improvements were seen after Romania's accession to the European Union is represented by the motorways. Thus, at this moment in Romania there are over 300% more kilometers of the highway than before the accession to the European Union. At the same time, it should be mentioned that the rate of investments in highways and expressways is much lower in relation to the investment requirement established by the Romanian Transport Master Plan. One cause of the slow pace of highway construction is the low administrative capacity, the high bureaucracy and the low involvement of CNAIR (Romanian Roads and Highways Company) in order to solve the problems that arise in the implementation of the projects.

Table 3: Highway completed in Romania

Highway completed in Romania (kilometres)		
Period	Number of kilometres	Percentage
1972 - 2006	210	24,73%
2007 - 2013	397	46,76%
2014 - 2019	242	28,50%
Total	849	100,00%

Source: Made by the author using information from the Romanian Master Plan of Transport

At the same time, we notice improvements in terms of airport infrastructure in Romania, and in this area investments are also made from European funds. A negative aspect is represented by the investments in the railway, investments that go very hard in relation to their need.

Through the Regional Operational Programme 2014 - 2020, investments are made in sustainable urban mobility, the Romanian municipalities being eligible. This program funds the purchase of new trams, electric or hybrid buses, the creation of pedestrian and bicycle areas and the creation of dedicated lanes to make public transport more attractive for people. An important part of these investments aims to reduce pollution.

It is noted that after the accession to the European Union, more than 600 kilometers of motorway were made in Romania, many kilometers in relation to how much was

achieved until accession but few kilometers in relation to the performances achieved by other central European member states such as Hungary, Poland or the Czech Republic.

Table 4: Financial Allocation for the Regional Operational Programme 2014 – 2020

Financial Allocation for the Regional Operational Programme 2014 – 2020	Euro	Population (2019)	Financial allocation per capita
North-West Region	661.501.601	2.552.112	259
Center region	637.958.976	2.318.272	275
North-East Region	808.296.792	3.198.564	253
South-East Region	685.967.466	2.396.171	286
South Muntenia Region	726.590.035	2.929.832	248
Bucharest - Ilfov Region	334.659.131	2.315.173	145
South-West Region	552.559.258	1.926.860	287
West Region	543.326.856	1.777.474	306

Source: http://www.adrse.ro/Documente/Planificare/PDR/2014/Programe/Plan_financiar.POR.2014_2020_dec.2014.pdf [28 Jan 2020] and National Institute of Statistics from Romania, <http://statistici.insse.ro:8077/tempo-online/#!/pages/tables/insse-table> [28 Jan 2020]

As we can see from the table showing the allocations through the Regional Operational Program 2014 - 2020, the allocation by regions is not very balanced. In the European Union, developed regions receive more money per capita compared to less developed regions. Thus, the capital region that has a GDP per capita comparable to the major European capitals has an allocation of 145 euro per capita and the West Region has the highest per capita allocation of 306 euro, although it is not the poorest region. The North East Region, which is one of the least developed region in the European Union, has a lower allocation than the West Region, one of the most developed regions in Romania. This aspect is paradoxical and does not support the balanced territorial development and the reduction of the gaps between the regions.

5. In conclusion

Romania lost over 2 billion euro in the programming period 2007-2013 and it is important to learn the necessary lessons so that in the period 2014-2020 they will not lose money anymore. It is important to absorb the entire amount of the European funds allocated to reduce the discrepancies with other Member States. From my point of view, the money received from the European Union has changed Romania for the last 14 years since the accession of 2007. One of the areas where the biggest improvements were seen after Romania's accession to the European Union is represented by the motorways. Thus, at this moment in Romania there are over 300% more kilometers of the highway than before the accession to the European Union. The beneficiaries of the European projects and the managing authorities from Romania need to increase their administrative capacity in order to increase the absorption of European funds.

During the 2007 – 2013 programming period, the smallest absorption was achieved on the operational programmes that financed the large infrastructure, Transport Operational Programme and Environment Operational Programme. This is a negative aspect because Romania needs the development of the infrastructure in order to reduce the disparities with the states of Western Europe.

Regarding the financial allocation for the period 2014 - 2020, there is a 72% increase for the Regional Operational Programme, so that for the regional development the beneficiaries have available 6.86 billion euros compared with 3.96 billion euros as they were allocated per funding periods 2007 - 2013.

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The main limitation of this article is represented by the fact that it was analyzed the absorption of structural funds only from Romania. In future articles I want to extend this analysis to other former communist states from Central and Eastern Europe as well as to the states in Western Europe so as to compare the results in our country with the results of absorption in other European states.

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