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**Performance and Risks in the European Economy**

**The Importance of Structural and Cohesion Funds on Regional  
Development in Romania**

**Manuela Panaitescu<sup>1</sup>**

**Abstract: Objectives:** the financing of regional policy and, in general terms, of the economic and social cohesion from structural and cohesion funds is important due to its results, with regard to costs and net benefits on the development of Romania; **Prior Work:** this work continues prior research carried out for the “European Programs and Projects Management” MA thesis; **Approach:** the primary methods used were the analysis of the legal framework and other official European documents and the observation of their influence on Romania; **Results:** While during the pre-accession period the financial instruments created by the EU for Romania had been made after the model of structural and cohesion funds, precisely in order to get the national authorities ready for the reality implied by its membership, the EU common position on regional policy and coordination of structural instruments and documents further stated that the Romanian authorities do not yet have the adequate capacity to manage the structural instruments, which obviously has implications in terms of costs.

**Keywords:** economic integration; international institutional arrangements; economic development

**JEL Classification:** F15; F36; F55; O10

## **1. Introduction**

Regional development is a concept aiming at stimulating and diversifying economic activity, fostering investments in the private sector, curbing unemployment and, last but not least, leading to better living standards. The Ministry of Regional Development and Public Administration (MDRAP) implements the government policy in the field of regional development, as well as in other areas within its scope. The MDRAP also ensures the preparation, coordination, monitoring and oversight of using the grants given to Romania by the European Union for the programmes in its area of responsibility.

## **2. Goals of Regional Development Policy**

The goal of the regional policy in Romania is to level the major economic, social and territorial disparities with the other European countries, contributing to fulfilling the objectives of the strategy. The main areas targeted by the regional policy are: developing the enterprises, the labor force market, attracting investments, transferring technologies, developing the SMEs sector, improving the infrastructure, the quality of the environment, the rural environment, healthcare, education and culture.

The basic objectives of the regional development policy are:

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<sup>1</sup>Senior Lecturer, PhD, Danubius University of Galati, Faculty of Economic Sciences, Romania. Address: 3 Galati Blvd., Galati, Romania. Tel.: +40372361102, fax. +40372361290. Corresponding author: manuelapanaitescu@univ-danubius.ro.

- reducing the existing regional imbalances, focusing on stimulating a balanced growth and revitalizing the underprivileged areas (with delays in development), preventing new imbalances;
- meeting the criteria of joining the European Union structures and of accessing the financial assistance tools available to member states (structural and cohesion funds);
- correlating with the government development sector policies, stimulating inter-regional, internal and international cooperation, which contributes to the economic development and which complies with the legal provisions and international agreements signed by Romania.

### 3. Financing Regional Policy

After joining the EU in 2007, Romania has enjoyed financial assistance in the form of structural funds – the Regional Development European Fund and the Social European Fund, along with the Cohesion Fund.

The funds are used, for instance, in improving the transport infrastructure and expanding the internet networks to remote areas, stimulating the small and medium enterprises in underprivileged areas, implementing environment projects and improving the level of education and competences. Moreover, investments are energy efficiency and countering climate change.

Since 2008, along with the breakout of the economic crisis in Europe, EU's regional policy has been adapting to the changing needs and worse financial conditions. The European Commission is collaborating with the EU countries, especially with those currently receiving special macroeconomic assistance, the so-called “financially-assisted countries” (Ireland, Romania, Latvia, Portugal and Greece). This is supposed to contribute to speed up access to the EU funds and making supplementary payments in advance. The financial planning in Romania's National Development Plan for the 2007-2013 period has led to the total amount of 58.7 billion Euros, earmarked according to priorities so as to produce more convergence with the EU:

**Table 1. Financial Earmarking According to Priorities, 2007-2013 (%)**

Competitiveness	Human resources	Transportation	Environment	Rural development	Regional development
9	13	25	11	26	16

*Source: Processed Information from the National Development Plan, [www.fonduri-ue.ro](http://www.fonduri-ue.ro)*

Structural funds are financial tools used for eliminating the economic and social disparities between various regions, so as to reach cohesion between the eight regions of development that Romania is split into. For the 2007-2013 timeframe, seven Operational Programmes were conceived (Law 315/2004). Each of them applies to a certain field that needs to be improved:

1. The Increase Economic Competitiveness Sectorial Operational Programme (SOP IEC) – meant primarily for consolidating and creating a business environment favoring the development of enterprises. SOP IEC is set to stimulate research-development-innovation activities and increase energy efficiency for sustainable development. Therefore, projects seeking to develop the business environment, investments in research and high-performance equipment, developing windmill farms and solar panel facilities.
2. The Human Resources Development Sectorial Operational Programme – supports investments in improving the education and professional training system. Activities related to labor forces

adaptability, continuous professional training, promoting equal chances, social inclusion are also financed.

3. The Transportation Sectorial Operational Programme – finances projects aiming to improve the road, rail, air, river and maritime transportation networks.

4. The Environment Sectorial Operational Programme – seeks to improve living standards and the quality of the environment. It finances projects seeking to prevent floods, improve public utilities, central heating network, preventing natural risks in vulnerable areas.

5. The Regional Operational Programme – finances projects meant to reduce inter-regional disparities by improving the regional and local public infrastructure, consolidating the regional and local business environment, developing regional and local tourism and promoting it.

6. The Administrative Capacity Development Operational Programme – focuses on investments in the public administration by improving the public servants' individual performances and modernizing working methods.

7. The technical Assistance Operational Programme – ensures support for the efficient coordination and implementation of Structural Tools in Romania.

The Cohesion Fund finances actions that are part of the transportation and environment fields and can intervene in projects in the field of energy or transportation, as long as they present definite advantages for the environment: energy efficiency, using renewable energy sources, developing the railway system, supporting intermodality and consolidating public transportation.

#### **4. The European Funds Absorption Capacity**

The absorption capacity is an extent to which a country is capable of efficiently spending the financial resources given to it by the EU. To assess the funds absorption capacity, one need to analyze how structural and cohesion funds are administrated, taking the following into account:

- the projection capacity, which must be assessed depending on the requests imposed by the European Commission's Regulations on structural funds;
- how funds work, i.e. whether they are administrated effectively and efficiently;
- the performance, which indicates the extent to which the structural funds were administrated effectively and efficiently and which is a variable measuring the results of the end of the planning period (2013).

For Romania, a main reason of concern is the insufficient administrative capacity. The public administration is characterized by an incoherent legal framework, the frequent used of emergency ordinances, a low level of inter-ministerial cooperation and excessive red tape. Its efficiency is also undermined by deficient competences and a lack of transparency in recruiting personnel, as well as increased rotation of the top level personnel. The poor administrative capacity is visible in the EU funds absorption rate. According to the recommendations of the European Council on Romania's National Reform Programme for 2013 (Brussels, 29 May 2013), the absorption target set for the end of 2012 within the EU financial assistance programme had not been reached and there had been a considerable difference between it and the actual amount of absorbed funds. Throughout most of 2012, the EU funds absorption rate stagnated after the national and European auditors also identified a series of deficiencies in the accounting and control systems related to public procurement. There is a considerable risk that a substantial part of the structural and cohesion funds be disengaged in 2013.

**Table 2. Structural and Cohesion Funds Absorption (June 2013)**

Operational Programme	Submitted projects	Approved projects	Contracts/ Financing decisions	Payments to beneficiaries (millions lei)
SOP IEC	15,364	3,980	2,692	3,216.09
SOP HRD	10,387	3,048	2,458	680,600
SOP Transportation	158	97	88	1,949.80
SOP Environment	644	446	362	5,678.36
OP Regional	8,328	3,794	3,464	7,600.77
OP ACD	1,371	420	418	312.63
OP Technical Assistance	140	118	109	149.96
<b>Total</b>	<b>36,392</b>	<b>11,903</b>	<b>9,591</b>	<b>25,713.61</b>

Source: Ministry of European Funds, the Centre for EU Structural Funds (CIIS)

The absorption rate can be calculated according to several indicators, the most relevant of which are:

1. EU contribution payments according to the EU 2007-2013 earmarking (payments made for projects from the funds earmarked by the European Commission, excluding the national contribution, money which is supposed to be later reimbursed by the European Commission) and
2. Amounts reimbursed by the European Commission according to the EU 2007-2013 earmarking (the amounts reimbursed by the Romanian state via the Ministry of Finances for each programme).

As seen in the table below, the absorption rate is 27.51% on the first indicator and 15.18% on the second one.

**Table 3. Indicators for Calculating the Absorption Rate (June 2013)**

Operational programme	2007-2013 earmarking (million Euros)	Payments to beneficiaries in the account of the EU contribution	Amounts reimbursed by the EC (million Euros)	EU contribution payments according to the EU 2007-2013 earmarking %	Amounts reimbursed by the EC according to the EU 2007-2013 earmarking %
SOP ICE	2,554	1,998	369	24.48	6.77
SOP HRD	3,476	3,699	577	40.82	16.28
SOP Transportation	4,566	1,949.7	467	9.83	6.46
SOP Environment	4,512	2,605.7	708	25.23	15.46
OP Regional	3,726	4,370.5	1,196	41.64	29.56
OP ACD	208	275	51	33.17	24.63
OP Technical Assistance	170	143	32,5	20.04	18.93
<b>Total</b>	<b>19,212</b>	<b>15,040.9</b>	<b>3,400.5</b>	<b>27.51</b>	<b>15.18</b>

Source: information processed from the Bulletin on 6 July 2011, the Centre for EU Structural Funds (CIIS)

## **5. Impact of Implementing the Projects Financed with European Funds**

The direct and immediate impact of implementing the projects financed with the help of the structural and cohesion funds can be estimated in terms of its contribution to several indicators: jobs, state budget revenues, balance of payment, a ripple multiplying effect in the economy.

### **5.1. Case Study - the Human Resources Development Sectorial Operational Programme (SOP HRD)**

The Human Resources Development Sectorial Operational Programme – one of the most important programmes and financed from the European Social Fund – engaged partners from the academia, from the educational and research fields, social partner and the non-governmental sector, from public administration, government agencies, de-concentrated services, as well as a large number of training and consultancy companies in Romania. As mentioned by the Council for National Coordination of Territorial Pacts for Jobs and Social Inclusion in the Paper on the Status of Implementing the Human Resources Development Sectorial Operational Programme, drafted in January 2013, the total amount of SOP HRD exceeds by little 4 billion Euros.

The importance of the funds directly attracted through the SOP HRD projects is relevant:

- over 20,000 jobs filled by the personnel involved in its implementation and paid from the European funds (personnel from the university and pre-university establishments, trainers, consultants, assessors, human resources experts, managerial and administrative personnel, accountants, legal experts, auditors, technicians, researchers);
- the direct revenues for the Romanian state after implementing the SOP HRD are directly proportional to salaries – between 1 and 1.5 billion Euros from taxes and fees on the paid salaries;
- the impulse given by the entrance of the SOP HRD funds into the economic circuit is significant, with notable effects on the dynamics of the national economy at a time of dropping foreign investments, lower internal demand as a result of the austerity measures, with the European funds generally representing one of the few alternatives for bouncing back;
- settling the balance of payments, as the financing via SOP HRD are primarily distributed to beneficiaries in Romania, hence they return in a large amount to the state budget, unlike in the case of other operational programmes, where a significant amount of expenditures are meant for payments to contractors or foreign imports.

Besides the immediate benefits, in the medium and long run, it must be underscored that the SOP HRD projects have the potential to bring significant added value, materialized in parameters such as the improvement of labor productivity, the adaptability of the labor market, the organizational maturity, the transfer of good practices, social inclusions, and last but not least multiplying entrepreneurial initiatives.

## **6. Deficiencies in Implementing the Projects Having an Impact on the Absorption Rate**

- delays in reimbursing the payment requests submitted by the beneficiaries, making it impossible to correctly plan the financial flow and leading to debts to the state, suppliers, employees, the revenue authorities blocking the accounts, payment failures;
- reducing the pre-financing given to the beneficiaries from 30% to 3-5%, which brought the latter into a situation where they spend in advance, exceeding the pre-financing;

- the lack of transparency in making payments, as the single reimbursement registrar is not operational and accessible for all beneficiaries to be able to check the status of the reimbursement requests;
- drafting unclear instructions, that may be subject to interpretation or that may be interpreted differently by the project officers;
- the abusive attitude of management authorities who do not comply with their contractual obligations on the due payment dates, the correct informing of the beneficiaries, answering clarification requests;
- the information systems made available by the management authorities do not manage to functionally meet the requests for reporting and communication and are difficult to use.

## 7. Conclusions

In an economic context marked by uncertainty, the lack of resources and a labor market severely hit by high unemployment, the European funds should be support factor for jobs, social inclusion and the development of human resources. However, the mechanisms of the Romanian state in charge of the good management of the European funds are finding viable strategies too late, if at all, to eradicate the causes having led to European funds being blocked back in 2012 (especially SOP HRD and SOP Environment). The absence of measures is endangering the growth of the absorption rate, with severe prejudices to the image of the operational programmes, with negative effects on the functioning of the private and non-profit sector, and is leading to questions about the chances of the people forming the target groups of these programmes to live a better life through education, continuous professional training, active measures for creating jobs, complex interventions supporting the groups and the underprivileged, while also endangering the jobs of the experts who, through their experience and expertise, contribute to professionally implementing the contracted projects, often providing services that are complementary to those provided by the state institutions.

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