

The Contribution of the European Funds to Regional Development Progress in Romania

Corneliu Russu

Centre for Industry and Services' Economy, Romanian Academy, 125 Calea Victoriei, Sector 1, 010071, Bucharest, Romania
e-mail: corneliu_russu2007@yahoo.com

Abstract

The article summarizes the objectives and operational programs of the European Union's Cohesion Policy in the 2014-2020 budget exercise, the state of Romania's absorption of European funds at the end of 2018, as well as the provisions of the operational programs with the most significant effects on the regional development in Romania and assessments of these effects. The overall conclusion that emerges from the presented issues is that European funds have made a substantial contribution to the regional development in Romania, but their low absorption rate has prevented achievement of more progress.

Keywords: *development region; Cohesion Policy; operational program; European fund; absorption rate.*

JEL Classification: R11

Introduction

Through its regional development policy, focusing on the essential coordinate of the growing role of the regions in the development of the Community as a whole, the European Union proves to be a leading actor on the world stage in this field. The policy is drafted as being carried out on two axes: a vertical one, which looks at the relations between the regions and the top European institutions - the Council of Europe and the European Commission; the other horizontal, which concerns the relations between the regions. This format for the establishment and implementation of the European Union's regional development policy was carried out at the Permanent Conference of Local and Regional Authorities in 1975, initiated by the Council of Europe, on the basis of the decisions adopted being subsequently constituted the Regional Policy Committee and the European Regional Development Fund, which proved to be an effective tool in achieving the regions' growth targets regarding investment for economic growth, job creation and European territorial cooperation.

"Europe of Regions" - a syntagm for the key role of the regions in the Community as a whole, together with those of the states and local communities, in the economic and social development of the Union -, is based on a regional policy that has to harmonize two rather opposite realities: on the one hand, the existence of the European Single Market which means removing all the barriers to economic and social development that all regions can benefit equally; on the other

hand, there are significant development disparities between regions, which means that many regions have a considerable economic and social handicap and have great difficulty in capitalizing on the benefits of removing barriers and in successfully facing intense competition in the Single Market. Against this background, reducing development disparities between Member States and between regions is a key objective at EU and country level, on the basis that these disparities are important obstacles in the process of achieving the full integration of those entities into the Community as a whole. This key objective is achieved based on the EU Cohesion Policy, which provides thematic objectives, detailed in operational programs for which consistent European funds are allocated.

The Objectives and Programs of the European Union's Cohesion Policy in the 2014-2020 Budget Exercise

After the 2007-2013 budget exercise, in the new 2014-2020 exercise, strategic programming for the EU's Cohesion Policy is taking place in a new vision, in line with the provisions of the Europe 2020 Strategy, which consists in: setting out a Common Strategic Framework by the European Commission; the development by each Member State of a Partnership for Development and Investment Partnership negotiated with the European Commission, a national strategic document setting out the thematic objectives of development and the allocation of European funds; the setting out the Subsequent Programs, which provides firm commitments by the Member States to achieve the objectives set by the Union in relation to the programming of Community funds.

For the mentioned period, the Cohesion Policy comprises 11 thematic objectives to support economic growth, namely (European Commission, 2014):

1. Strengthening R & D and innovation;
2. Improving access to ICT, using and improving its quality;
3. Increasing the competitiveness of SMEs;
4. Supporting change to the low-carbon economy;
5. Promoting adaptation to climate change, prevention and risk management;
6. Preserving and protecting the environment, promoting the efficiency of resource use;
7. Promote sustainable transport and improve network infrastructures;
8. Promoting sustainable and quality use of the workforce;
9. Promoting social inclusion, combating poverty and any discrimination;
10. Investing in education, training and lifelong learning;
11. Improve the efficiency of public administration.

During the mentioned period, Romania invests in all the thematic objectives presented through the operational programs 2014-2020, which continue the programs from the 2007-2013 period and are the following: HCOP - Human Capital Operational Program; COP - Competitiveness Operational Program; LIOP - Large Infrastructure Operational Program; OPTA - Operational Program Technical Assistance; RDOP - Regional Development Operational Program; ACOP - Administrative Capacity Operational Program; OPADP - Operational Program Assistance to Disadvantaged People.

Among the thematic objectives listed, for regional development concern, particularly, 1,2,3,4,6,7,8 and 10, and among operational programs RDOP, OPC, HCOP and LIOP.

The state of absorption by Romania at the end of 2018 of the European funds allocated to these programs is detailed in the following table.

Table 1. Stage of absorption of European funds 2014-2020 allocated to RDOP, OPC, HCOP and LIOP, at 31/12/2018

Program	Funds allocated by the EU (mld. Euro)	Share of amounts requested from the EU within the EU allocation of PO (Current Absorption Rate) (%)	Share of reimbursements from EU (Effective Absorption Rate) (%)	Share of the amount received from the EU in the amount of assigned funds * (%)
RDOP	6,860	12,78	8,09	14,34
COP	1,330	17,01	15,31	21,65
HCOP	4,372	14,87	13,38	19,71
LIOP	9,219	17,77	15,05	21,50

* It includes received pre-financing and actual reimbursements from the EU

Source: Ministry of European Funds. The Evolution of European Funds in Romania. Stage of absorption for programs funded by the Structural and Investment European Funds (SIEF), the European aid fund for the most deprived persons (EAFDP) and payments from the European Agricultural Guarantee Fund (EAGF), on December 31, 2018.

The effective absorption rate of European funds, as a percentage of actual reimbursements in the total amount of Community funds is, five years after the start of the current seven-year financial year, extremely low for all the programs presented in the table, and in particular for the RDOP (about a seventh). The scarcity of the absorption is due to the weak administrative capacity to support fund applicants (businesses, including SMEs, private entrepreneurs intending to start a business, etc.) to draw up rigorous substantiated and eligible projects, known to be the technical difficulties of preparing and submitting them.

The profoundly negative effects of the poor absorption of Community funds can be realistic assessed if it take into account that these funds are intended to remedy the main weaknesses in the areas specific to operational programs, as outlined in the next chapter, presenting the main provisions and expected effects of each of the operational programs considered to be of interest to our approach.

Main Provisions of Operational Programs with the Most Significant Impact on Regional Development in Romania

The content of this chapter is a synthesis of the materials presented on the website of the Ministry of European Funds regarding the four operational programs presented below which we considered to have the most significant effects on the regional development in Romania.

The Regional Development Operational Program (RDOP)

Under this program, the main issues addressed by allocated Community funding are:

- modest R & D and innovation performance, low demand for business for the results of these activities, and hence limited transfer of R & D results to businesses;
- reduced entrepreneurial culture, the limited ability of many SMEs to withstand on the market, the modest competitiveness of most enterprises included in this dimensional category;
- poor condition of infrastructure, low accessibility of many areas;

- considerable potential for increasing energy efficiency, which, although in improvement, has numerous reserves to be capitalized and which consists in significantly reducing consumption in economic activity, public infrastructure and population;
- poor environmental protection, high pollution in large urban areas;
- under-dimensioning and poor quality of educational, health and social services infrastructure;
- existence of many degraded urban areas with regard to housing and public utilities.

Established on the basis of a comprehensive economic analysis that highlighted these issues, the RDOP has the strategic objective to increase the economic competitiveness of the regions and improve the living conditions of the population, based on support for the improvement of the business environment, infrastructure and services, so that regions can capitalize superior resources, comparative and competitive advantages that they possess by increasing their scientific and innovative potential.

In order to achieve this strategic objective, 11 priority action axes have been established, with 6,86 billion euro of funds allocated by the European Union through the ERDF, and about 1,5 billion euro by the national contribution (Regional Development Operational Program 2014-2020).

To achieve this strategic objective, 11 priority action axes have been set up, with 6.86 billion euro funds allocated by the European Union through ERDF and about 1.5 billion euro national contribution

Of the 11 priority axes, the following are directly related to our issue, according to the Ministry of Regional Development and Public Administration, Regio – Regional Operational Program:

- AP1.** Promoting technology transfer with a total budget (European funds and national contribution) of 206.51 million euro, aimed at creating, upgrading, expanding and equipping 60 technology transfer entities;
- AP2.** Improving the competitiveness of SMEs, with a total budget of 877.11 million euro, aimed at the construction, extension and upgrading of SME production facilities and services, including endowment with tangible and intangible assets. Financial instruments provide guarantees for up to 80% of firms requesting loans, as well as subsidized loans, i.e. at a lower interest rate than the market rate. The estimation is that 2,500 SMEs will be supported under this axis;
- AP3.** Supporting the transition to a low-carbon economy with a total budget of 2374.56 million euro, with action directions increasing the energy efficiency of public and residential buildings, investing in public lighting, improving urban transport by creating modernized traffic paths, cycling tracks, the purchase of ecological and electrical transport means;
- AP6.** Improvement of road infrastructure at national level, with a total budget of 1068.36 million euro, intended to ensure the modernization / rehabilitation of the county road network that ensures the direct or indirect connectivity with the European TEN-T network. It is estimated that it will be upgraded with the allocated budget about 2,100 km. county roads, and over one million people will benefit from enhanced access to TEN-T corridors;
- AP10.** Improving the educational infrastructure with a total budget of 352.19 million euro, through which the rehabilitation and modernization of the network of educational units of all levels and construction of new units, the financing of vocational schools, technological high schools and universities should be accomplished. The estimation is that 115,000 people will benefit from actions under this priority axis.

Competitiveness Operational Program (COP)

The program provides investments to improve the still limited competitiveness of a good share of economic agents and targets two areas with substantial input - R & D and ICT infrastructure. The two areas covered by the Program have an appreciable multiplier effect for the dissemination of their effects across the economy, which ensures, on the one hand, the increased competitiveness of economic activities and, on the other hand, the progressive intelligent specialization in fields generating consistent added value

The areas of smart specialization correspond to those specified in the National R & D and Innovation Strategy 2014-2020, which are: bio-economy; information and communication technology - ICT; energy, the environment and climate change; eco-nano-technologies and advanced materials.

The financial envelope available for this program is of 1,330 billion euro, the sum being provided by two specific budget lines: EFRD - Less developed regions, which provide around 1,081 billion euro; EFRD - More developed regions, which provide 0.249 billion euro.

Competitiveness of economic activities is one of the main challenges for Romania's economic and social development, which implies increasing the scientific and innovative potential for development of products, technological processes, services and business, as well as developing a competitive business environment able to integrate efficiently itself in international value chains. Through its conception and objectives, the COP indirectly contributes to the reform and development of education, health, culture, and poverty alleviation on the qualitatively superior coordinates. R&D and Innovation and ICT focus on priority sectors where Romania has competitive advantages, ensuring its superior value, both areas having an appreciable potential for intelligent specialization of the economy.

In the field of R & D and Innovation - Priority Axis 1, the Program aims at: promoting investments in these activities for the development and modernization of the specific infrastructure and increasing the capacity to ensure excellence in the field; ensuring synergies between R & D units, universities and businesses; stimulating demand for R & D products; setting up networks and innovative clusters; supporting technological development, pilot lines, rapid uptake of new products, the creation and development of advanced and first production capacities, especially for key generic technologies and the diffusion of general-purpose technologies.

In the ICT field - Priority Axis 2, the COP aims at: expansion of broadband and high-speed networks; developing ICT-specific products and services; expanding e-commerce; stimulating ICT demand; stimulating the adoption of new technologies and networks specific to the digital economy by economic operators, public institutions, NGOs and the population; enhancing ICT applications for e-Government, expanding e-Learning

The estimated impacts of the investments made under Priority Axis 2 are, for the year 2020, the following ¹: to cover 100% of the national territory with high-speed broadband infrastructure, as well as 80% of the broadband infrastructure with speeds above 30 Mb/s and 45% with broadband infrastructure at speeds above 100 Mb/s at fixed locations; 60% of the citizens' total number and 45% of the disadvantaged persons number will regularly use the internet; 30% of the total number of citizens will buy online and 5% will buy online from other EU countries; 20% of the total number of SMEs will market their products and services online; the rate of use

¹ Ministry of European Funds. 1. Strategy for the Contribution of the Operational Program Competitiveness to the Union Strategy for smart, sustainable and inclusive growth and achievement of economic, social and territorial cohesion

of e-Government services will be 35%; 20% will be the proportion of citizens returning online forms; Romania's contribution to the European digital library will be about 750,000 articles.

Human Capital Operational Program (HCOP)

The program provides investments established on priorities, objectives and actions to be taken to capitalize on human capital by creating conditions for increasing the participation of the population in the labor market, high turning to account labor potential, facilitating access to employment of superior quality, improving the intra- and inter-regional labor mobility, increasing the employment rate of young people, increasing the access and participation in the labor market of the disadvantaged categories, matching the demand for skills and labor market expertise and the offer in this field.

To improve the level of skills and expertise are targeted the economic sectors with a competitive potential - food, textiles / leather goods, pharmaceuticals, automotive and automotive, woodworking, furniture, ICT - as well as intelligence specialization areas mentioned above Competitiveness Operational Program.

The specific interventions of this Program are destined to improve the access and participation of the population to pre-university education, especially compulsory and tertiary education, as well as the quality of these types of education, to increase the share of the population that performs lifelong learning, to gradually adapt the systems education and training at the real demands on the labor market.

In order to achieve the objectives of the Program, seven priority axes were set, namely:

- AP1.** The "Youth Jobs" initiative, targeting regions where the unemployment rate among young people aged 15-24 exceeds 25%. In the period 2014-2015, the regions concerned were Center, South-East and South Muntenia, and in the period 2017-2020 - South-West Oltenia, South-East and South Muntenia - all the less developed regions. European Union support - 302.2 million euro, national contribution - 26.7 million euro;
- AP2.** Improving the situation of young people in the NEETs category (Not in education, employment or training), targeting the ineligible regions under the previous Initiative, as the need to support young people in the labor market exists in all developed and less developed regions. Between 2014 and 2016, the eligible regions were Bucharest-Ilfov, North-East, North-West, South-West Oltenia, and between 2017-2020 - Bucharest-Ilfov, North-East, North-West, West and Center. European Union support - 317.1 million euro, national contribution - 57.1 million euro;
- AP3.** Jobs for all, targeting all regions. EU support - 1100.2 million euro, national contribution - 195.6 million euro;
- AP4.** Social Inclusion and Poverty. EU support - 940.5 million euro, national contribution - 169.7 million euro;
- AP5.** Local development under the responsibility of community, targeting all regions and benefiting cities with more than 20,000 inhabitants and rural areas, and cities with a population of up to 20,000. EU support - 201.1 million euro, national contribution - 10.9 million euro;
- AP6.** Education and competences, targeting all regions. EU support - 1252.6 million euro, national contribution - 226.0 million euro;
- AP7.** Technical support

The estimated effects of the investments made under the priority axes presented were, as a benchmark 2018, the following:

- AP1** - about 59,000 NEETs unemployed aged 16-24 years receive support;
- AP2** - 32,326 young people in the same situation receive support;
- AP3** - 55,467 persons and 405 micro-enterprises and SMEs benefit from support;
- AP4** - 56,000 people at risk of poverty or social exclusion from marginalized communities, 163 social economy entities, 487,930 persons who had access to preventive / early diagnosis medical services receive support;
- AP5** - development of 70 strategies / analysis / action plans / community development benefits from support;
- AP6** - 10,939 pupils / students, 7843 pupils / apprentices, 1009 doctoral students / postdoctoral researchers, 14,525 rural children participating in education programs, 14,281 rural students participating in education programs, 21,750 young people and adults from the rural environment participating in education programs, 45,582 teachers and support staff participating in training / exchange of good practice programs, etc., 1153 rural children aged up to 5 years from the rural environment participating in education programs receive support;
- AP7** - Improving the capacity of Management Authorities and Intermediate Bodies of the HCOP to effectively implement the Program, the capacity of beneficiaries to successfully implement ESF-type projects, and the degree of information of beneficiaries and potential beneficiaries of the Program.

Large Infrastructure Operational Program (LIOP)

This program finances actions in four areas - transport infrastructure, environmental protection, risk management and adaptation to climate change, energy and energy efficiency -, with an allocation of around 10.8 billion euro in the financial year 2014-2020, of which 6, 94 billion euro EFRD and 1.62 billion euro national co-financing.

In order to achieve the objectives of the Program, its financing strategy was established on eight priority axes.

- AP1.** Improving mobility through the development of the TEN-T network and the metro, aiming to achieve time savings in crossing the distances on the central TEN-T network (target value for 2013: 74.1 minutes / 100 km), and in the distance covered on the reduced rail network (target value for 2023: 79.2 minutes / 100 km.); the increase in the volume of goods transported on the waterways by 20% in 2020 compared to 2010;
- AP2.** Development of a high-quality, sustainable and efficient multimodal transport system to support the creation and consolidation of the single European multimodal transport space by investing in TEN-T, increasing mobility on the TEN-T road network, increasing accessibility areas with reduced connectivity to TEN-T road infrastructure, increasing the sustainable use of airports, increasing the volume of goods transited through intermodal terminals and ports, increasing safety and security in all modes of transport and reducing the impact of transport on the environment, reducing time staying at transnational communication points;
- AP3.** Development of environmental infrastructure under resource efficient management conditions, aiming at: closing of 240 non-compliant urban landfills and increasing the preparedness for recycling of waste (reducing the amount of biodegradable waste at storage to 35% since 1995, increasing the share of waste recycled / recovered in the total amount of municipal waste collected); increasing the level of collection and treatment of urban waste water and the degree of provision of drinking water to the population;

- AP4.** Environmental Protection through biodiversity conservation measures, air quality and decontamination monitoring of historically polluted sites, which aims at: increasing the level of protection and preservation of biodiversity and reestablishment of degraded ecosystems, increasing the level of air quality assessment and monitoring at national level, reducing historically polluted areas;
- AP5.** Promoting climate change adaptability, risk prevention and management, which aims to: reduce the impact on the population and the damage caused by natural phenomena associated with the main risks posed by climate change, mainly floods and coastal erosion; raising the level of preparedness for a rapid and effective response to the disaster of intervention teams;
- AP6.** Promoting clean energy and energy efficiency to support a low carbon economy, which aims to: increasing energy production from less exploited renewable resources - biomass, biogas, geothermal (in 2020: share of renewable energy in gross primary energy consumption to be of 24%, target proposed by Romania superior to that established at the level of the European Union through the Europe 2020 Strategy; in 2013 the level of the indicator was, for Romania, 22.9%); increasing energy efficiency by monitoring the energy consumption of industrial consumers; reducing the average electricity consumption of dwellings (2023 target: 1.20 Mwh / dwelling / year); increasing savings in primary energy consumption produced by high-efficiency cogeneration (target for 2023: economy of 232.0 thousand toe);
- AP7.** Increase energy efficiency at the level of centralized district heating in selected cities, aiming to: increase energy efficiency in centralized transmission and distribution systems of heating energy in selected cities (target for 2023: 15.0% loss of energy supplied) ; increasing the energy efficiency in the centralized system of heating energy supply in Bucharest (target for 2013: 15.0% loss of energy supplied);
- AP8.** Intelligent and sustainable systems of electricity and natural gas transport, which aims to: increasing the capacity of the National Energy System for the take-up of energy produced from renewable resources (the target for 2023: 3200 Mw NPS capacity to take safely over the production of energy from renewable resources); 20.0 billion cubic meters per year transport capacity of the National Natural Gas Transport System at the interconnection points); increasing the degree of interconnection of the National Gas Transport System with other neighboring countries (target for 2023: 20.0 billion m³ / year of NNGTS transport capacity at interconnection points).

Conclusions

The progress of the development regions in Romania in their economic and social emancipation has been greatly supported by the European funds allocated to solve the main problems existing on this plan and highlighted by prior, thorough and judiciously-oriented diagnostic analyzes.

The thematic objectives pursued by the European Union's Cohesion Policy in the 2014-2020 budget exercise are capable to support economic growth at national and regional level and concern areas where there are dysfunctions, delays and difficulties in adapting to structural change, in alignment to Community standards - R&D and Innovation, ICT development, SME competitiveness, environmental protection and gradual building of low-carbon economy, improved infrastructure, adaptation to climate change, better use of labor, social inclusion improvement of, education and public administration.

The operational programs for which the European funds have been allocated in the period mentioned correspond to these thematic objectives, namely are intended to improving the quality of human capital, increasing the competitiveness of economic activities, improving

infrastructure, supporting regional development, increasing the administrative capacity of central, county, municipal and communal authorities, providing technical assistance, helping disadvantaged people.

Despite the generous size of EU funds allocated to Romania, their absorption rate at the end of 2018 was low, about one fifth on average for funds with a major impact on regional development - the Regional Development Operational Program (14.34%), the Competitiveness Operational Program (21.65%), the Human Capital Operational Program (19.71%), the Large Infrastructure Operational Program (21.50%). The modest rate of absorption of European funds, an important leverage available for efforts intended to regional development and improvement of the situation in the other mentioned areas, highlights the low administrative capacity of the central and county authorities to ensure the necessary conditions for the proper preparation of the financing applications for the projects, designed to solve the problems of the nature of the mentioned ones, with the chance to be approved by the experts of the European Commission

The low level of absorption rate of European funds is so much the more blamable as the effects of consumption of absorbed funds are appreciable in that it solves a large part of the issues concerned, which highlights the large losses recorded by Romania and its development regions in capitalizing large investments where local participation is low.

References

1. *** Regional Development Operational Program 2014-2020, European Union, Romanian Government, *Structural instruments 2014-2020*.
2. Academia Română, 2002. *Dezvoltarea regională și integrarea europeană* (Simion, E., Iancu, A.(coord.)), Grupul de reflecție Evaluarea stării economiei naționale, ESEN – 2. Integrarea României în Uniunea Europeană, Institutul Național de Cercetări Economice, Centrul de Informare și Documentare Economică
3. Agenția de Dezvoltare Regională București-Ilfov, 2014. *Planul de dezvoltare regională București-Ilfov 2014-2020*.
4. Agenția de Dezvoltare Regională Centru, 2014. *Planul de dezvoltare regională Centru 2014-2020*.
5. Agenția de Dezvoltare Regională Nord-Est, 2014. *Planul de dezvoltare regională Nord-Est 2014-2020*.
6. Agenția de Dezvoltare Regională Nord-Vest, 2014. *Planul de Dezvoltare a Regiunii Nord-Vest 2014-2020, Transilvania de Nord 2020, Regio*.
7. Agenția de Dezvoltare Regională Sud-Est, 2014. *Planul de dezvoltare regională Sud-Est 2014-2020*.
8. Agenția de Dezvoltare Regională Sud Muntenia, 2015. *Planul de dezvoltare regională 2014-2020 Regiunea Sud Muntenia*.
9. Agenția de Dezvoltare Regională Sud-Vest Oltenia, 2014. *Planul pentru dezvoltare regională 2014-2020*.
10. Agenția de Dezvoltare Regională Vest, 2014. *Planul pentru dezvoltare regională Regiunea Vest 2014-2020*.
11. European Commission. *Regional Policy. Making Europe's regions and cities more competitive, fostering growth and creating jobs*, available through <http://europa.eu/Iby34KD>
12. European Commission, 2014. *An Introduction to EU Cohesion Policy 2014-2020*, June 2014, EU Publication Office.
13. European Commission, 2016. Key achievements of Regional Policy. Commission staff working document. Ex-post evaluation of the ERDF and Cohesion Fund 2007-2013, SWD (2016) 318 final, Brussels.
14. Government of Romania, 2014. *Romania –National Strategy for Competitiveness 2014-2020*, Bucharest, 2014.
15. McCann, P., and Ortega-Argilés, R., 2013. Redesigning and reforming European regional policy: The reasons, the logic and the outcomes, *International Regional Science Review*, 36(3), pp. 424–445.

16. McCann, P. and Ortega-Argilés, R, 2015. Smart specialization, regional growth and applications to EU cohesion policy, *Regional Studies*, 49(8), 2015, pp. 1291–1302.
17. Mereuță, C., 2018. *Some Microeconomic Landmarks of the Transition Process in Romania*, Economic Publishing House.
18. Uniunea Europeană – FEDR, 2013. Guvernul României, Ministerul Dezvoltării Regionale și Administrației Publice. *Instrumente structurale 2007-2013. Strategia națională de dezvoltare regională 2014-2020*, 2013, Bucharest.