STRUCTURAL FUNDS AND OVERCOMING THE ECONOMIC CRISIS

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ABSTRACT: *The European Commission is the authority that supervises the European Union structural funds, which are meant to finance the measures of structural aid at the community level, aiming to promote the regions lagging behind in development, to reconvert the areas affected by industrial decline, to fight against the long-term unemployment, to help the youth professional insertion or to promote the rural development. Besides the Structural Funds, other financial instruments are in use, namely the Cohesion Fund. Between 2007 and 2013, Romania will benefit from structural funds in the amount of 32 billion Euros, granted by the European Union. Such funds need to be effectively managed and they have to reach where development is an imperative; otherwise, they are in danger of being forfeited. The paper herein aims to give a general presentation of the structural funds, a highlight of the dissimilarities between them and the pre-accession funds, the explanation of the criteria for granting the structural funds, as well as an in-depth analysis of the National Strategic Reference Framework 2007-2013. At the same time, beyond the absorption obstacles (documentation, evaluation, bank credits), the structural and the cohesion funds are presented as solution to overcome the current economic crisis.*

Key words: structural funds, operational program, cohesion policy, economic crisis

JEL codes: F15, F36, F39

Introduction

For the 2007-2013 interval, the European Union will dispense to Romania structural and cohesion funds adding up to 19.7 billion Euros, implemented by seven operational programs, both sectorial and regional, plus eight more territorial cooperation programs, developed with other countries. This money will be alloted to the projects in the area of basic infrastructure (60% of total), economic competitiveness (15%), human capital (20%) and administrative skills (5%). Romania is bound to use these funds in order to 'develop itself to reach the European standards' for key areas, such as transportation, professional training, environment, energy, research, informational society or tourism services. Similarly, the decision of the European Commission, as a response to the financial crisis, to increase the flexibility margin among priorities for five times (from 2% to 10%) has created the premises of a higher absorbtion of the structural funds, by steering the remaining funds to areas where the impact is the greatest.

Structural funds: general presentation. Dissimilarities towards the pre-accession funds

The *structural funds* represent financial instruments that the European Union uses to decrease the economic and social disparities among regions, aiming to achieve the economic and social cohesion. The *Objectives of the European Union Cohesion Policy for 2007-2013* are as follows:

- The objective of 'Convergence': meant to accelerate the economic development for the regions lagging behind, by investments into human capital and the basic infrastructure.
- The objective 'Regional Competitiveness and Employment', aiming to strengthen the competitiveness and attractiveness of the regions, as well the employment capacity, in a double approach (employees and employers).

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- The objective 'European Territorial Cooperation': intended to consolidate the cooperation at the cross-border, trans-national and inter-regional levels.

The Structural Funds finance the Operational Programs. For the 2007-2013 period, Romania will be alloted 19.667 billion Euros, and the three *Structural Funds* will be as follows:

- FEDR – European Regional Development Fund: investments in transporation, creating new jobs, projects of rural development, entrepreneurship.
- FSE – European Social Fund: promotion of inserting the unemployed and the disadvantaged groups of people into the labor market, by financing certain measures of training and systems of recruiting and assistance.
- FC – Cohesion Fund: assistance for the newest European Union Member States with a GDP per capita lower than 90% in the community average.

Besides the above, two more *complementary instruments* will be implemented:

- FEADR – European Fund for Agriculture and Rural Development
- FEP – European Fund for Fisheries

Generally speaking, the structural funds and cohesion ones follow in relevance the Common Agricultural Policy in the EU budget.

The European Regional Development Fund (FEDR) supports the durable economic development at both regional and local levels, by rallying the local capacities and diversifying the economic structures in areas such as research and technological development, innovation and entrepreneurship, informational society, SMEs, the environment protection, tourism, energy, etc.

The European Social Fund (FSE) is a fund that contributes at increasing the adjustability of the employment force and of the companies, in a larger accessibility to the labor market, avoidance of unemployment, extension of the active life and raising the participation degree of women and immigrants into the labor market, supporting the social inclusion of the disadvantaged people and fighting discrimination. The European Social Fund (FSE) is implemented in accordance with the European Employment Strategy and focuses on four main areas: the increase of the employees and companies adjustability, the improvement of the access to employment and participation into labor market, the betterment of the social inclusion degree by fighting discrimination and easing the access of the disadvantaged people to the labor market, as well as promoting the partnership for a reform in the employment and inclusion areas. The Regulations nr. 1081/2006 of the European Parliament and Council on July 5, 2006, include the stipulations that regard the European Social Fund (FSE) and abrogates the Regulation nr. 1784/1999.

The European Agricultural Fund for Rural Development (FEADR) and the *European Fund for Fisheries* (FEP) do not belong to this category, even if they operate in a system that is similar with the structural funds. It is the Department of Agriculture that oversees these funds. For the agricultural sector, though, the European Union separately grants support, by direct payments and market measures, which have distinct operating mechanisms from FEADR and FEP.

The regulations that concern the European Regional Development Fund (FEDR) define the role of FEDR and the intervention areas, as well as the promotion of public and private investments, which lead to the reduction of the regional disparities within the Union. FEDR backs up programs that target regional development, economic progress, competitiveness increase and the territorial cooperation. The financiar priorities include, among others, research, innovation, environment protection and risk prevention and also the investments into infrastructure (at least for the least developed regions). The regulation nr. 1080/2006 of the European Parliament and Council on July 5, 2006, includes the stipulations regarding the European Fund for Regional Development and abrogates the Regulation nr. 1783/1999.

The Cohesion Fund (FC) supports the measures in the environment protection sector and of the pan-European transport networks. The fund is open to the Member States whose gross domestic product is smaller than 90% of the community average, namely the new ones, i.e. Greece and Portugal. Spain is eligible to be granted financing from the Cohesion Fund, in a transition system. During 2007-2013, FC and FEDR rather support multi-annual investment programs, managed in a less central, than individual projects that require the approval from the European Commission. The regulation nr. 1084/2006 on July 11, 2006 defines the requirements of constitution and operation of the Cohesion Fund and abrogates the Regulation nr. 1164/94.

The fifth Regulation introduces the *European Group for Territorial Cooperation* (EGTC), whose intention is to facilitate the cross-border, trans-national and/or the inter-regional cooperation, among local regions and authorities. The regulation nr. 1082/2006 of the European Parliament and Council on July 5, 2006, constitutes the legal basis of their incorporation.

All of the above-mentioned instruments finance development projects similar to those in the pre-accession stage, as PHARE, ISPA and SAPARD, but on an obvious larger financial availability. The structural funds are different than the pre-accession ones. Firstly, the responsibility for their management falls entirely on the Romanian authorities, whereas the European Commission is fully responsbile for PHARE, ISPA and SAPARD. Among *the main differences versus the pre-accession funds*, we mention:

- *Allotment on multi-annual programs (7 years)* : as opposed to the pre-accession funds, the Structural and Cohesion Funds (FSC) do not finance individual projects, but multi-annual programs of development, drafted in unison by the regions, Member States and Commission, based on the recommendations made by the Commission for the entire European Union. Their distribution is carried out in virtue of the programming principle, which involves the diagnosis of the current circumstances, the formulation of a multi-annual integrated and coherent strategy and definition of realistic objectives to be reached. The current programming interval is 2007-2013.
- *Decentralized (national) funds management* : FSC are the main tools of the European Union, meant to promote the economic and social cohesion, as well as the unity. The Member States are fully responsible for the development of the areas that find themselves in danger, where the Union helps them have better results than ones derived from acting on their own.
- *The FSC management responsibility is of the Member States, while the Commission only provides the ex-post control.* Moreover, whilst the main priorities in a development program are defined in cooperation with the Commission, the national and regional authorities bear the responsibility for the projects selection and management. At the same time, the institutions appointed as Management Authorities are in charge with drafting and managing the Operational Programs, even if a part of their tasks may be assigned to the Intermediary Organizations.

Criteria of granting the structural funds

- *The principle of additionality*: additionality represents the level of the eligible public spending that a European Union Member State makes from it own resources, for the entire programming interval of time, for the same measures financed from structural funds, including the public co-financing concordant with such measures. The FSC that the European Union Member States benefit from are designed to complete and not to replace the national or equivalent expenditure of a Member State.
- The *principle of reimbursement*: unlike PHARE and ISPA, FSC operates on the principle or reimbursement, as SAPARD. This involves the fact that the Final Beneficiaries make the payment to the suppliers of works or services from their own funds; on a later date, based on the honored invoices and promissory notes that evidence the payments, the reimbursement of the expenses will be required.
- *The principle of automatic pullout – The rule n+3/ n+2*, where N is the year of assignment, n+3 is the year during which the funds being assigned in the year ‘n’ should be spent up. The remaining amounts within the above-mentioned interval will be lost. For the 2007-2013 period, the rule n+3 will be applied, and for 2011-2013, the rule n+2 will be valid.

- *The principle of partnership* plays an essential role in the implementation of the Structural Funds. In compliance with the General Regulations concerning FEDR, FSE and FC, the Member States and the Commission have to set forth the community actions upon a durable consultation. And all the most representative national, local and regional organisms should get involved during all the stages (programming, monitoring, evaluation). They will include economic, social, sectorial and territorial partners, plus the NGOs, and allow for the principle of equal rights to promotion for men and women, as well as the durable development by integrating the environment protection.
- *Compliance with the national regulations related to:* state aid, public acquisitions, environment protection and equality of opportunity.

A General Regulation defines the common principles, the rules and standards of implementation of those three cohesion instruments, namely the European Regional Development Fund (FEDR), the European Social Fund (FSE) and the Cohesion Fund (FC). In virtue of the principle of common management of the Union, the Member States and the regions, this regulation marks out an updated process of programming, based on the Community Strategic Guidelines regarding the Cohesion, as well as the related documents and the common standards as regards the financial management, the control and the evaluation of the pending operations.

The Council Regulation nr. 1083/2006 on July 11, 2006 stipulates the general provisions that may be applied to the European Fund for Regional Development, the European Social Fund and the Cohesion Fund and abrogates the Regulation nr. 1260/1999.

The main obstacles that the new European Union Member States have to deal with are reflected by the low ability to effectively use the European funds, by the lack of expertise in drafting large projects at European standards, by the deficit of transparency in auction process initiation and similarly by the poor understanding of the methods that enable the access to the structural funds. Some EU Member States are affected by corruption, a phenomenon that makes the governmental officials falter in taking certain decisions and the local authorities brush off the European procedures. Moreover, the ability of absorption of the European funds is also greatly impacted by the political conflicts in the Member States. It is a well-known fact that the states that joined the EU in May 2004 took two years to absorb under 10% from the structural funds allotted to increase the economic competitiveness; this percentage only refers to the payments made for all the structural funds-financed projects for the 2004-2006 interval; the value contracted in the absorption degree is higher, but still under 40%.

The National Strategic Reference Framework 2007 - 2013

On July 2007, upon the European Union request, our country adopted the National Plan of Reforms (PNR), conform to the model of the Lisbon Strategy. PNR recommends the method that Romania should adopt to raise its economic competitiveness and describes each of the priorities that include measures and actions on a deadline to complete, with insured budgetary resources, as well as the institutional frame that will provide the governmental support required to implement the reforms.

PNR is looking at the 207-2012 period, and the objective of the planned policies in the document lies in reaching the economic and employment performance recommended by the Lisbon Strategy, correlated with a fair social system. All these elements are adequate for Romania to acquire a durable development.

While drafting PNR, the Department for European Affairs has started from a detailed analysis of the current situation in the main areas of the economic and social life in Romania, upon acceeding to the EU. Hence, the following *priorities for reforms* have been estalished:

- Improvement of the administrative capacity – this is a horizontal priority of an utmost importance, which aims to provide the frame required for supporting competitiveness by specific measures in key areas: public policies, management of the community funds, the capacity of the public authorities to launch public acquisitions, the reform of the justice system;

- Improvement of the governmental expenditure quality and management – intends to contribute with the efficieny of the lucrative investments within the context of a careful macro-economic policy;
- Improvement of the markets performing – it refers to the energy market and of communications, including the investments made to inter-connect with the European networks;
- A continuous progress of the business environment – it includes the reduction and reorientation of the state aid, the increase of the quality in the regulation framework and facilitation of the access to capital;
- The increase of the employment percentage and the participation rate for the labor market – it involves the building of a labor market to favor creating employment places, the improvement of the companies and employees' adjustibility capacity, the stimulation of employment and the quality of human resources;
- The improvement of life quality by a durable management of the recycable resources and atenuation of the weather changes effects - it deals with the increase of the energy efficiency, management of the natural resources, the bio-diversity preservation and pollution reduction.

PNR is in full agreement with those four sectorial strategies of development, promoted by means of the National Plan of Development 2007-2013, the National Strategic Reference Framework 2007-2013, the Program of Convergence 2007-2010 and the National Plan of Rural Development (NPRD) 2007-2013. PNR has been drafted in line with the Declaration of the Commission 'Working together for growth and jobs, a new start for the Lisbon Strategy' and the integrated Recommendation for growth and employment (2005-2008).

Romania is supposed to be given over 8 billions euros by NPRD, while the 24 measures of the program are gradually implemented, starting wih 2008. To receive NPRD financing, the farmers will not have to prove the financing ability, but to file a statement on their responsibility.

For April –May 2007, the National Council of Private Small and Medium Enterprises in Romania (CNIPMMR) carried out a study, in partnership with the German Technical Society (GTZ), in order to find out how equipped are the SMEs in our country to access and use the structural funds. The study enabled the participation of 1,178 SMEs in all the areas of activity and regions of development, as well from all the categories if sizes, namely micro-companies, small and medium entreprises. Findings of this study showed the high percentage of the companies that would not intend to access the European funds – almost 54%. 'The reason for such attitude towards these funds is the negative experiences that they had to go through in the past years. Another one would be the red-tape and lack of transparency.', stated Mr. Ovidiu Nicolescu, Prof. Ph.D.and President of CNIPMMR.

In June 2007, the Economist Intelligence Unit (EIU) publication has grabbed the readers' attention with the idea that Romania and Bulgaria will have difficulties with the absorbtion of the European funds, received between 2007 and 2013. EIU wrote about 'the inability of the two countries to absord the structural funds, due to the poor administrative capactiy. Currently, the procedures of accessing the structural funds are complex, and the authorities are overwhelmed by their comprehension', from the point of view of the EIU analysts. Under these circumstances, they have warned that Romania and Bulgaria will find themselves in the situation when they will give more money to the community budget than receive.

For our country, this is clear-cut situation: according to the European rules, we have to give 1% of GDP to the EU budget. Theoretically, for 7 years (2007-2013), Romania should be given circa 7 billions euros per year. Between 2001 and 2005, Romania used only 40% of the pre-accession funds for agriculture and rural development that Brussels allocated for it. The experience of the states who accedeed in 2004 was not very reassuring. For these 10 countries, the absorption capacity of the community funds for the 2004-2006 window did not exceed an average of 20%. It was only in 2006, three years into their accession status when Poland managed to attract 26%, Hungary 28%, the Czech Republic 23.7% and Slovakia – 28.2%.

On June 25, 2007, the European Commission approved the National Strategic Reference Framework 2007-2013, a document that provides the legitimate base for granting money out of the European Regional Development Fund, the European Social Fund and the Cohesion Fund. The National Strategic Reference Framework (CNSR) 2007-2013 represents the national strategic document that sets forth the intervention priorities of the Structural Instruments (European Regional Development Fund, the European Social Fund and the Cohesion Fund). It is the Department of Economy and Finance that issued the CNSR, by the Authority for Coordination of the Structural Instruments, in a strong partnership with structures of the public central and local administration and non-governmental organizations. CNSR is the link among the national priorities of development, included in the National Plan of Development 2007-2013 and the priorities at the European level – the Cohesion-related Community Strategic Orientations 2007-2013 and the revised Lisbon Strategy. Starting from the current social and economic situation and the long-term development needs of Romania, CNSR aims to use the Structural Instruments, in order to reduce the disparities of economic and social development between Romania and the Member States of the European Union, by generating an additional growth of 15-20 of GDP until 2015. To this purpose, four thematic and one territorial priorities have been pointed out at: a) the development of the basic infrastructure to match the European standards; b) the increase of long-term competitiveness of the Romanian economy; c) the development and a better use of the human capital in Romania; d) the strenghtening of an effective administrative capacity and promotion of a balanced territorial development. To achieve a strategic vision of CNSR, the European Commission allots to Romania the amount of 19.67 billion euros for the 2007-2013 interval: 19.21 billion euros will go to the 'Convergence' objective and 0.46 billion euros for the 'European Territorial Cooperation'.

The national financing, in parallel with the one from the European budget is another tough issue for the Romanian authorities. The assignment for the 'Convergence' objective of CNSR requires a national co-financing, estimated at 5.53 billion euros, collected from both public sources (77% in the co-financing total), and private (23%). The implementation of the strategic actions stipulated by CNSR and, implicitly, the actual access of the Structural Instruments are carried out by the Operational Programs: Operational Program – Increase of the European Competitiveness, Sectorial Operational Program of Transport, Sectorial Operational Program of Environment, Regional Operational Program, Operational Program of Administrative Capacity Development, Sectorial Operational Program of Human Resource Development, Operational Program of Technical Assistance.

The Regional Operational Program aims to support the regions that are lagging behind in their development. This Program enables to identify the more prosperous regions and also the weaker ones, in order to capitalize on their specific resources, insufficiently exploited up to present, so that it will help accelerate their economic growth. The funds will be alloted on a differentiated basis, in dependence on their general development degree and inversely proportional with the GDP/capita numbers. Thus, the regions less developed will benefit, proportionally, from a higher financial aid.

The structural funds may be used to finance certain projects of a major impact upon the regional and local development for: the rehabilitation and upgrading the infrastructure of transport, education and health, the improvement of the business environment by developing the support structures of business (industrial parks, technological, logistic, of business, etc.), the support of the private antrepreneurs initiatives, the capitalization on the tourism and cultural potential by promoting the rpgroess of the tourist infrastructure and the antrepreneur initiatives in this field, assistance in the development of the urban centers with an economic growth potential, in order to create an appropriate context to make them act like motors of regional and local development.

Conclusions

The European Union cohesion policy may bring an essential contribution to overcome current economic crisis and to the amelioration of the economic situation of the Member States and the EU regions. It is a policy meant to provide the economic growth and the social development and really energize the economy, on short, medium, and also long-term. The structural funds stand for the 'ace up the Romania's sleeve' during the economic crisis. 'Out of the total amount of the structural funds, 5.77 billion euros are the direct contribution on competitiveness programs and 15.8 billion euros an indirect contribution for the programs of regional development, of the human resources, environment and transport. An addition would be the state aid, given as national grants for SMEs and the regional investments, estimated to have the value of over one billion EUR' (Bănăţeanu, CCIB 2008). Therefore, within the economic crisis context, the access to such structural funds has become an imperative and programs like POSDRU (one the FSE-financed programs) become more and more important.

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