European Research Studies,
Volume XII, Issue (2) 2009

The Role of Structural Funds in Economic and Social Cohesion Process

By

Diana-Mihaela POCIOVĂLIŞTEANU [1], Emilian M. DOBRESCU [2]

Abstract:

The coehsion policy adopted by European Union can not materialize without the existence of structural funds. The economic and social disparities between the member countries of European Union and between the regions of EU, too, is reduce through these instruments. The integration of Romania in European Union in 2007, and the use of structural funds in present and in the future, is an opportunity which contribute at the economic development of our country.

Keywords: *structural funds, cohesion policy, economic development*

JEL Classification: O11, R11, H83

1. Introduction

The European Union is among the most prosperous regions in the world. The European Union includes 27 member countries since 2007. Romania and Bulgaria have been integrated on 1 January 2007, in the year that the EU celebrated the 50th anniversary of the signing of the Treaty of Rome, which represented the creation of the European Economic Community - March 25 1957.
The Union now counts 493 million inhabitants. Not all Europeans have the same advantages and opportunities of success in socio-economic terms. The difference is made by the area in which they live, if a region is prosperous or poor, an area in

[1] *Ph.D., Assoc. Prof., Faculty of Economics, "Constantin Brâncuşi" University, Bucharest, Romania tel:+40.726187718, email: dianap@utgjiu.ro*
[2] *Ph.D., Prof., "Spiru Haret"University, Bucharest, Romania, , email: dobrescu@acad.ro*

expansion or economic decline, an urban or rural area, the periphery of the European Union or in one of its economic centers. In these circumstances economic and social cohesion is necessary, and is also one of the main objectives of the European Union.

Structural and cohesion funds are generically, the second investment as a share after the Common Agricultural Policy of the EU budget. For the year 2007, the European Commission has allocated a bigger share to objectives for economic and social cohesion and for increased economic competitiveness (43 percent) than for the agriculture sector (34 percent) that was - as a share - the largest investment in the budget EU for a long time. In 2006, EU has allocated 39 percent for economic competitiveness and cohesion, compared with 36 percent for agriculture. Structural funds and cohesion are financial instruments through which the EU tries to eliminate economic and social disparities between regions in order to achieve economic and social cohesion.

2. Economic and Social Cohesion and Appearance of Structural Funds

As defined by Article 158 of the Treaty of the European Communities, cohesion is necessary to promote the "general development" and requires the reduction of "disparities between levels of development of different regions and the lack of progress of disadvantaged regions, including rural areas. Economic and social cohesion has become the focus of the EU since the adoption in 1986, the Single European Act (The Treaty of Maastricht, this policy was included in the Treaty establishing the European Community). The policy of economic and social cohesion of the European Union is, above all, a policy of solidarity. Economic and social cohesion is a principle that expresses solidarity between Member States and between different regions of the European Union.

Established in 1993 to help Spain, Portugal, Greece and Ireland - which, economically, were situated at a lower level compared with other Member States, Cohesion Fund already has passed through a process of reform in 1999 (with the entire political structure) and has had two stages of operation: 1994-1999 and 2000-2006.

Areas in which the Cohesion Fund actions are environmental protection and trans-European networks associated to transport infrastructure; financial support is not structured on schemes but on the projects, each project receives funding at the rate of 80-85% of the total eligible costs. Financing of the two areas is balanced, each receiving 50% of the budget allocated to this fund. Projects are selected and implemented by the beneficiary Member States, which are also responsible for their financial management and monitoring.

The principle favors balanced development and sustainable reduction of structural differences between regions and between countries and promotion of equal opportunities. In practical terms, it’s achieved through various financial instruments, in particular the Structural Funds.

3. Objectives of the Policy of Economic and Social Cohesion

The policy of economic and social cohesion of the European Union for the period 2007-2013 has three main objectives:

1. Convergence is an objective supported by 80% of the budget for structural and cohesion funds aimed at regions of the EU Member States that have a GDP / capita less than 75% of Community's average and regions that fall under the so-called " statistical effect ";
2. Regional competitiveness and employment is the second objective, financed with 15% of the budget for structural and cohesion funds aimed at regions that are not eligible under the convergence objective;
3. European territorial cooperation objective is supported by only 5% of the budget for structural and cohesion funds and refers to the transnational and trans-frontier cooperation and integration.

Community is acting through the Structural Funds, Cohesion Fund and other financial instruments to support the achievement of these general goals. Tasks, priority objectives and organization of the Structural Funds are defined by the Council on a proposal from the European Commission and with the assent of the European Parliament. Thus, the Treaty contains provisions for coordination of economic policies, implementing policies, in particular the single market and to use existing Structural Funds and Cohesion Funds.

The original version of the Treaty of Rome - which came into force in 1958 - makes no explicit mention of the Structural Funds or common regional policies. Only when faced with the first expansion and the economic crisis of the 70s, in which attention was focused on the regional problems, proposals have been submitted to develop a policy in this area. Since then, the Structural Funds have suffered various reforms that have made regional policies to occupy an increasingly important position among the activities of the European Union.

We can synthesise the objectives of the cohesion policy an its financing from Structural Instruments in the Table no. 1.

The objectives of the cohesion policy an its financing from Structural Instruments
Table no. 1

Objectives	Structural funds and instruments		
Convergence	**ERDF**	**ESF**	**CF**
Regional competitiveness and employment	**ERDF**	**ESF**	
Territorial cooperation	**ERDF**		

4. Structural Funds

The Structural and Cohesion Funds are financial instruments through which the EU acts to eliminate economic and social disparities between regions in order to achieve economic and social cohesion.

For the 2007-2013 period there are three financial instruments known as the Structural Funds, respectively:

- The European Regional Development Fund (ERDF) that supports sustainable economic development at regional and local level by mobilizing local capacities and diversification of economic structures in areas such as research and technological development, innovation and entrepreneurship, information society, SMEs, environmental protection, tourism, energy;
- European Social Fund (ESF) fund that contributes to enhancing the adaptability of labor and enterprises, increasing access to the labor market, preventing unemployment, extend asset life and increasing labor market participation of women and immigrants, supporting inclusion social disadvantaged persons and combating discrimination;
- Cohesion Fund (FC), the fund finances projects in the field of environmental protection and trans-European transport network projects in the field of sustainable development and projects aimed at improving air traffic management and road transport modernization of urban development and modernization of multimodal transport; and two complementary actions, namely:
    - European Fund for Agriculture and Rural Development (EAFRD) ;
    - European Fisheries Fund (EFF).

These two funds will be managed by the Romanian Ministry of Agriculture. Separately, for the agricultural sector, the EU will support through direct payments and market measures, these having different goals and mechanisms for conducting EAFRD and EFF projects. All the 5 tools above-mentioned finance development projects similar to those funded during the pre-accession period by PHARE, ISPA and SAPARD, but obviously having a much higher financial scale.

Structural Funds are different from those in the pre-accession period. First, responsibility for their managing is 100% that of the Romanian authorities, while in the PHARE, ISPA, and SAPARD programs, the European Commission had a predominant role.

The relation between Pre-accession funds and Post-accession funds

Pre-accession funds	**Post-accession funds**
Phare – Social and Economic Cohesion	**European Regional Development Fund (ERDF)**
Phare – CBC –Vicinity programs	**European Regional Development Fund**
ISPA	**Cohesion Fund (CF)**
SAPARD	**European Fund for Agriculture and Rural Development**

Among the main differences from pre-accession funding we might include:

- *Multi-annual assigning of programs* (7 years). Unlike the pre-accession funds, the Structural and Cohesion Funds (FSC) does not finance individual projects but development programs multi drawn together by regions, Member States and the Commission, based on guidance proposed by the Commission for the Union. Their allocation is based on the principle of programming that involves diagnosis of the current situation; formulate an integrated and coherent multi-definition and the targets to be achieved. The future programming period is 2007-2013.
- *Decentralized (national) management of funds*. The Structural and Cohesion Funds are the main instruments of the European Union aimed at promoting economic and social cohesion and solidarity. Member States bear the primary responsibility for developing the areas in difficulty; the Union will help them to achieve better results than if they act on their own. The responsibility of management of the Structural and Cohesion Funds is that of the Member States, the Union ensuring only the ex-post control. Moreover, while the main priorities of a development program are defined in cooperation with the Commission, selection and management of projects are the responsibility of the national and regional authorities. Responsibility development and management of operational programs belongs to the institutions designated as Managing Authorities, even if some of their powers may be delegated to intermediate bodies;
- *The principle of additionallity***.** Additionallity represents the level of public spending that the Member States of the Union carry on their own during the program period, for the same types of measures financed from structural

funds, including those related to public co-financing arrangements. The Structural and Cohesion Funds from which benefit the EU Member States are intended to complement and not replace the national effort.

- *Operate on the principle of repayment.* Unlike the PHARE and ISPA, the Structural and Cohesion Funds operate on the principle of reimbursement, just like SAPARD. This implies that the final beneficiary pays the providers of work or services of their own funds, and subsequently on the basis of paid invoices and payment orders for which payment was made, requested reimbursement of expenses incurs.
- *Rule n +3 / n +2.* N is the commitment, n +3 is the end year, which funds engaged in "n" should be spent. The amounts spent in the range mentioned are lost. In the period 2007-2010 rule applies n +3 and in the period 2011-2013 rule n +2.
- *The principle of partnership.* The partnership plays a fundamental role in implementing the Structural Funds. According to the General Regulation on ERDF, ESF and FC Member States and the Commission must draw the community in close consultation and during all phases (programming, monitoring and evaluation) must involve the most representative bodies at national, regional, local level. These must include economic, social, sectoral, territorial partners, including NGOs, and should take into account the principle of promoting equal opportunities between men and women and sustainable development by integrating environmental protection.

Structural Funds is not a single source of funding within the EU, but each fund covers its specific thematic area. Funds do not fund individual separate projects. 14 areas can be financed from structural and cohesion funds of the EU research and technological development, computerization of society, transport, energy, environmental protection and risk prevention, tourism, culture, urban and rural regeneration; support for companies and entrepreneurs, access to stable labor places; social inclusion for disadvantaged people, developing human capital, investment in social infrastructure, including health and education, promotion of partnership development.

These funds finance regional development multi annual programs put together by regions, Member States and the Commission, based on guidance proposed by the Commission for the entire European Union.

Implementation of structural funds is based on a number of principles, as follows:

- *Focus on the priority measures for development*. FS intervention is concentrated on those territories and populations which face the greatest difficulties. Applying the principle of concentration led to the establishment of a limited number of areas of intervention;

- *Programming or internal coherence* is the expression of a multi-phrase approach and leading to the development of multi-annual programs of development.

It is also the result of a process leading to a decision taken in partnership. The measures adopted then become the responsibility of management authorities;

- *The partnership* involves a closer collaboration between the Commission and the relevant authorities, at national, regional or local level in each Member State in the preparatory phase of the implementation of measures;
- *Subsidiarity*, which was established by the Maastricht Treaty. In general terms, this means that a higher authority will not be able to act if a goal is achieved satisfactorily at a lower level. One consequence of this is that it remains at the discretion of management authorities appointed by the Member States to selected projects that will receive funding and supervise their implementation;
- *Additional or external coherence* according to which the EU structural aid should be additional and not replace the resources already employed by national, regional and local development in their regions and the labor market.

Structural aid actually means, in this way, an added value for eligible territories. Member States are obliged to maintain the financial commitments at the same level as at the beginning of the programming.

Economic and social cohesion remains an essential dimension of the policy of the European Union and its priority must be kept in perspective following extensions and acceptance of new member states.

4. Structural Funds in Romania

In Romania, the structural funds can be used to finance projects with major impact on regional and local development:

- Rehabilitation and modernization of transport infrastructure, education and health;
- Improving the business environment by developing structures to support business (industrial parks, technology, logistics, business, etc.).
- Supporting private initiatives for entrepreneurs;
- The potential tourist and cultural development by supporting tourism infrastructure and entrepreneurial initiatives in this area;
- Supporting the development of urban centers with potential for growth in order to create conditions to act as engines of regional and local development.

The total absorption of the European funds - is only a theoretical case, hypothetically - will enable Romania to record until 2013, a pace of GDP growth of 15 percent per year and an investment growth of 28 percent, according to a study of the Romanian Center for Economic Policy , Conducted in April 2007 for the National Commission for Forecasting. In the 2007-2013 periods, Romania should attract European funds for agriculture amounting to 13 billion euros, from a total funding of about 30 billion euros. Demand for labor will be higher than the bid, which could create some problems of development in a number of economic sectors. Thus, in 2007-2020 over 500 thousand new jobs will be created in our country if there is a full absorption of European funds. As the degree of annual absorption for the latest states joining the EU on 1 May 2005 was only 15 percent, and if Romania reaches that level in reality, the number of new jobs created will be only 75 thousand in 13 years, which means only about 5 new posts per year, far less than the theoretical option-hypothetical.

Romania managed to absorb in the period 2001-2005, only a twelfth of the 2250 billion euros worth of funds of the Instrument for Structural Policies for Pre-Accession (ISPA) grants. The amount of absorption of European funds has remained unsatisfactory in Romania, said in early April 2007, the reporter for Romania's European Affairs Committee of Bundestag, Gunther Krichbaum. German official claimed that Romania has much to do in terms of field absorption of European funds.

Six years after the signing of the first memoranda of funding, Romania failed to create a functional and effective framework for implementation, showed the audit of the 2005 Court of Auditors on the allocation of European funds for infrastructure development and environment in our country. According to the Report of the Court of Public Accounts, from over 2.25 billion euros, Transport and Environment ministries have been able to absorb only 11.6 percent, meaning only 262 million. Some of the projects on Environment and Transport were started, after years of delay, but have not been finalized.

Romania will receive, in the period 2007-2013 from the EU structural funds and cohesion funding worth 19.7 billion euros. The money will be allocated to projects in the field of basic infrastructure, economic competitiveness, human capital and administrative capacity, as follows:

Preliminary financial allocation 2007-2013-Million of Euros, current prices-Table no. 2

Operational program	EU	%
POS Growth of Economic Competitiveness	**2.554,2**	**13,3**
POS Transport	**4.566,0**	**23,8**
POS Environment	**4.512,5**	**23,5**
POS Development of Human Resources	**3.476,1**	**18,1**
PO Regional	**3.726,0**	**19,4**
PO Development of Administrative Capacities	**208,0**	**1,1**
PO Technical Assistance	**170,2**	**0,9**
TOTAL	**19.213,0**	**100**

Allocation on operational programs is presented in Fig. no. 1:

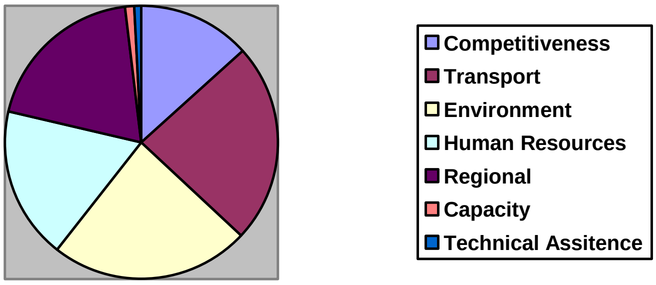

Fig. no. 1 Allocation of funds on operational programs

Romania will have to use these funds to "develop the European standards" in key areas such as transport, vocational training, environment, energy, research, information society and tourism, through the tourism industry as the engine of economic development.

After the data provided by the Ministry of Economy and Finance, the total amount that was paid by Romania to the European budget in 2007 was 3.97 billion lei (1.2 billion euros). According to the draft budget for 2008, the contribution of our country to the Community budget is 4.23 billion.

5. Conclusions

The main obstacles facing the new EU Member States, including Romania, are reflected in reduced ability to effectively use international funds, lack of experience in the development of large projects to European standards, the deficit of transparency in tendering, as well as the low degree of understanding of the methods by which it can access European funding. Also, these states are affected by corruption, a phenomenon that make government officials refrain from taking decisions and local authorities ignore the EU procedures. In addition, the absorption capacity of European funds is influenced by political conflicts in member countries. The states that have entered the EU in May 2004 absorbed by the end of 2006 less than 10 percent of the structural funds allocated to boost competitiveness, this percentage refers to payments made for projects during 2004-2006, while with the contracted value the degree of absorption is higher, but is still below 40 percent. The general objective pursued is to reduce rapid economic and social disparity between Romania and Member States at 31.1% of the average EU GDP per capita in 2004 to 41% of the average in 2013 and the specific objectives are: increasing long-term competitiveness of the Romanian economy, infrastructure development to European standards, development of human capital, strengthening the administrative capacity, promoting balanced regional development.

References:

1. Bandarra, N. J., 2006, *The cohesion policy in the European union and the enlargement - New guidelines for the 2007-2013 period | [La politique de cohésion dans l'union européenne et l'élargissement - Nouvelles orientations pour la période 2007-2013]*. In: Revue du Marche Commun et de l'Union Europeenne, (496), pp. 177-188.
2. Bourrinet, J., 2007, *Problem of economic and social cohesion policy in a European Union of 27 members | [Problématique de la politique de cohésion économique et sociale dans une union Européenne à 27 membres]*. In : Revue du Marche Commun et de l'Union Europeenne, (507), pp. 223-232.
3. Bradley, J. Petrakos, G. Traistaru, I., 2005, *Integration, Growth and Cohesion in an Enlarged European Union*, ZEI Studies in European Economics and La, v. 7. New York: Kuwer Academic Publishers.
4. Larysse, B. Muldur, U., 2001, *Regional cohesion in Europe? An analysis of how EU public RTD support influences the techno-economic regional landscape*, In: Research Policy, Volume 30, Issue 2, pp. 275-296.
5. Onica, D., 2007, *Implementarea fondurilor structurale şi de coeziune în România*, Revista Finanțe Publice şi Contabilitate, v. 18, nr. 6, p. 20-30.
6. Pociovălişteanu, Diana, Thalassinos, E., 2008, *Regional Development of Romania as a New Member of the European Union*, Paper presented at the Eastern Economic Association Annual Conference, Boston, USA.
7. Polverari, L., Bachtler, J., 2005, *The contribution of European Structural Funds to territorial cohesion*, In: Town Planning Review, 76 (1), pp. 22-42.
8. Socol, C. Socol, A., 2006, *Modelul european: creştere economică, convergență şi coeziune*, În: Economie teoretică şi aplicată, v. 13, nr. 8, pp. 61-66.
9. http://europa.eu/pol/reg/index_en.htm.
10. http://ec.europa.eu/regional_policy/index_en.htm.
11. http://ec.europa.eu/regional_policy/sources.htm.
12. http://ec.europa.eu/regional_policy/atlas2007/romania/index_en.htm.
13. http://anaf.mfinante.ro/wps/PA_1_1_15H/static/amcsc/fond_structural/fonduri_structu
rale/fonduri_Romania/csnr.htm.
13. http://www.infoeuropa.ro;
14. http://www.infoeuropa.ro/ieweb/imgupload/Politica_de_coeziune__00001.ppt.
15. http://www.infoeuropa.ro/ieweb/imgupload/Economic_and_Social_Cohesion_00001.pdf.