

# FINANCING OPPORTUNITIES FOR ROMANIAN ECONOMY BY STRUCTURAL FUNDS

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## **Abstract:**

*The stimulation of economic growth of member states of European Union, but also the reduction of dissimilarities and discrepancies between the various regions are highly the result of structural instrument impact. These instruments do not act alone, necessitating a contribution from the involved member states, which means co-financing from public resources, especially from the member states, but also from private contributions, these being encouraged in most situations. As a new member state, Romania assumes the European Agenda and aims to push for provision of the right competitiveness settings. The work paper aims to underline the importance of structural funds, generally, and especially, of Priority Axis 2 by the Sectoral Operational Program “Increase of Economic Competitiveness” for the increase of research capacity by investing in the development of R&D infrastructure, for the economic development of Romania by the stimulation of innovation demand of enterprises, the creation and reinforcement of high-tech firms, etc.*

**Key words:** structural funds, financing , Sectoral Operational Program, economic and politic cohesion

**JEL classification:** F15, F36, O10

## **1. The importance of National Strategic Reference Plan for economic development**

In the period 2007-2009, Romania will benefit of not reimbursable funds, of approximate 4 times bigger than pre-adhering period ones, amounting to 5973 millions EUR. Having into consideration this thing, it is necessarily that the cumulated experience until this moment, concerning the utilization of pre-adhering programs to be used as a start point for the development of the future structural instruments management. In the same time, we have to guide from the east-European countries experiences which had already adhered to European Union and confronted with problems in the management and the implementation of financed programs through structural funds.

Romania needs the structural programs, in order to recover the difference existing to the other member states of European Union, but also for a durable development.

The Cohesion Policy of European Union foresees as each member state to elaborate a National Strategic Reference Plan (NSRP) as document of mark for the associative programming Structural and Cohesion Contents. In Romania, the base for the elaboration of this strategic document of mid-term planning of structural funds constituted the National Development Plan (NDP) 2007-2013, approved by the government from 2005.

This National Strategic Reference Plan involves a series of detailed elements which will be presented in synthesis. Because there are a lot of problems to be solved, in what concerns the impulsioning of Romanian economic development, it was made a socio-economic analysis oriented on the emphasize of the necessity of some interventions in more maximum importance national domains

National Strategic Plan of Reference represents the global strategy of utilization of Structural and Cohesion Contents, and the instruments wherewith are realised the diversity of foresights of NSPR take the form of Operational Programs. In order to reduce the differences of economic and social development between the regions from our country and European Union, Romania had elaborated for the period 2007-2013, seven operational programs, programs wich represent seven strategies in different sectors: human resources, economic competitiveness, environment infrastructure, transport infrastructure, the development of administrative capacity, technique assistance and regional development. The allocation of structural funds to these regions will take into account the specific of the certain area, the competitive advantage of existent industries, and will encourage the development of competitiveness pols. The not reimbursable complementary financial assistance in Comune Agricol Politic of European Union totalize 8,022 billions EUR, according to Romania through the European Content of Rural Development. The priorities were established through the Strategic National Plan for Rural Development 2007-2013.

From a total of aproximately 350 billions EUR destined to the 27 states for the next 7 years, Poland is the country that receives the most considerent sum, totalizing 67 billions EUR, followed by Spain with aproximately 35 billions, Italy with 28 billions, Czech Republic and Germany, each of them with 26 billions, Hungary – 25 billions, Greece and Portugal with 20 billions each. Romania is the ninth on the list, following to receive in all these years aproximately 19,667 billions through structural and cohesion funds. The national co-financing to the structural funds allocated from European Union for the same financiary period totalizes 5 billions EUR. The Structural and Cohesion Contents come from European Union budget, and are allocated depending on Intern Brut Product on each inhabitant of romanian regions, raported to the comunitary average.

## **2. The objectives of Sectoral Operational Program “Increase of economic competitiveness“ (SOP-IEC)**

The *general objective* of Sectoral Operational Program is the increase of Romanian companies’ productivity, in compliance with the principles of sustainable development, and reducing the disparities compared to the average productivity of EU.

The *specific objectives* are:

- *Consolidation and environment-friendly development of the Romanian productive sectors*

The key point is the support to the upgrading and innovation of existing enterprises leading to cost reduction, and the creation of new ones, especially SMEs in manufacturing and business services sectors.

- *Establishment of a favorable environment for sustainable enterprises’ development*

The scope is to provide a favourable framework by reducing the existing constraints in the areas of market failure for the creation of new enterprises and for the development of the existing ones.

The target proposed by these two objectives is the increasing of SME’s share within GDP by 10% in 2015.

- *Increase of the R&D capacity, simulation of the cooperation between research, development and innovation RDI institutions and enterprises , and increase of enterprises’ access to RDI*

The key points of this objective are the funding of RD projects that will generate results directly applicable in the economy, the upgrading and development of RDI capacity and infrastructure, the improvement of the quality and range of the supply of innovative services, the stimulation of the potential demand of innovation coming from

enterprises. The achievement of this objective will contribute to Romania's aim to increase the gross domestic R&D expenditures to 3% of GDP by 2015.

- Valorisation of the ICT potential and its application in the public and private sector  
In this case, the target is the increasing of broadband penetration rate in Romania (number of broadband connections/100 inhabitants) from 3,5% in 2005 up to 40% in 2015, ensuring the access of ICT in the productive system, in the administrative processes and development of a new and better generation of products and services, able to compete on the global market.
- Increased energy efficiency and sustainable development of the energy system  
The target regarding this objective are the reducing of the primary energy intensity by 40% compared to 2001, the 33% share of electricity produced from renewable energy resources in the gross national electricity consumption by 2010 and the reduction of emissions in the energy sector.
- Promotion of Romanian sustainable tourism potential  
The key point of this specific objective is the promotion of the image of the country and the valorization of its natural and cultural assets in order to promote Romania abroad and to increase its attractiveness as a place for work and tourism and the creation of an integrated system of Romanian tourism offer.  
The target is to increase tourism flows in Romania by 20% by 2015, thus contributing to the overall competitiveness objective through the recognized spill-over effect of tourism activities on production and service sectors.

### **3. Priority Axis 2: Research, technological development and innovation for competitiveness**

Taking into account both the identified possibilities for improvement of the competitive position of Romanian enterprises to cope with the challenges and to be able to use the opportunities arising from operating on the European Market and the areas eligible for structural funds support, the following Priority Axes have been identified in the Sectoral Operational Program "Increase of Economic Competitiveness":

- *Priority Axis 1: An innovative and eco-efficient productive system*
- *Priority Axis 2: Research, Technological Development and Innovation for competitiveness*
- *Priority Axis 3: ICT for private and public sectors*
- *Priority Axis 4: Increased energy efficiency and sustainable tourism and business*
- *Priority Axis 5: Romania, an attractive destination for sustainable tourism and business*
- *Priority Axis 6: Technical Assistance*

These axes of Romania's competitiveness strategy are in full concordance with the lines of action of the Commission's proposal regarding the framework for Competitiveness and Innovation 2007-2013, and take into account the guidelines put forward by the European Commission for the cohesion policy for 2007-2013.

The financing plan for the whole program period, the amount of the total financial allocation of each fund in the operational program, the national counterpart and the rate of reimbursement by priority axis is presented in the table no.1.

The co-financing rate for all Priority Axes is calculated on a total cost basis (public and private).

**Table no.1: Priority axes by source of funding (EUR)**

Axis	Community Funding	National counterpart	Indicative breakdown of the national counterpart		Total funding	Cofinancing rate
			National public /private funding			
Priority Axis 1	791.898.632	407.634.250	35.012.113	372.622.137	1.199.532.882	66.02%
Priority Axis 2	536.395.116	195.037.510	28.231.321	166.806.189	731.432.626	73.33%
Priority Axis 3	383.170.103	136.536.859	34.020.435	102.516.424	519.706.962	73.73%
Priority Axis 4	638.475.370	458.309.674	8.316.667	449.993.007	1.096.785.044	58.27%
Priority Axis 5	127.748.627	22.543.875	22.543.875	-	150.292.502	85.00%
Priority Axis 6	76.534.261	13.506.046	13.506.046	-	90.040.307	85.00%
<b>Total</b>	<b>2.554.222.109</b>	<b>1.233.568.214</b>	<b>141.630.457</b>	<b>1.091.937.757</b>	<b>3.787.790.323</b>	<b>67.43%</b>

The distribution of funds by Sectoral Operational Program “Increase of Economic Competitiveness” priority axes resulted from the strategy and identified priority axes are:

- Priority Axis 1 31%
- Priority Axis 2 21%
- Priority Axis 3 15%
- Priority Axis 4 25%
- Priority Axis 5 5%
- Priority Axis 6 3%

The low level of funding (both public, and private) for research, technological development, and innovation (RDI) had as direct results the obsolete RDI infrastructure, the decreasing number and increasing average age of researchers, and the low performance of RDI activities. The lack of funding also hindered enterprises’ access to RDI activities and technology transfer. These weak points together with the low participation of the private sector in funding RDI activities resulted in a large technology deficit of Romanian companies and in a low innovation score in enterprises.

#### 4. Conclusions

Romania international rankings in terms of competitiveness suggest several weaknesses, especially related to market efficiency, business sophistication, *education, technology readiness and innovation*.

Revealed Comparative Advantage and intra-industry trade analysis point out that the Romanian economy is still labour intensive, thus needing capital infusion in order to increase its competitiveness inside the EU. The Romanian economy need more fixed investments and a better infrastructure for sustaining growth rates of above 6% yearly, on an average, over the long term. Public support for productive investment may consolidate the current convergence process and ensure increased competitiveness. Structural constraints on the domestic production side of goods and services continue to exist. As a consequence, the persistence of excess demand has fuelled imports grows widening further the current account deficit.

The strategy adopted for increasing the competitiveness will have to:

- address the weaknesses of existing industrial sectors and their out dated and often poorly eco-friendly and excessively energy-intensive technologies
- further diversify the productive basis of the country to avoid overdependence on low value added products

- bridge the gap between R&D activities and their industrial application and promote research innovative sectors
- foster the pervasive use of ICT technologies
- increase the efficiency and sustainable development of the energy system as a factor of overall competitiveness, while addressing at the same time energy efficiency issues at the end users
- improve Romania's image and increase her attractiveness by promoting the tourism opportunities.

This will require a set of actions in capital investments, research and innovation and services differently addressing both traditional and higher value added sectors.

The priority axis focuses on several issues meant to contribute to the following aims:

- the increase of research capacity by investing in the development of R&D infrastructure and attracting young researchers and high-level specialists both in R&D institutions (universities and research institutes) and in companies with research departments;
- the strengthening of knowledge supply from universities and research institutes;
- the stimulation of the technology transfer based on the cooperation between R&D institutions, and enterprises;
- the stimulation of innovation demand of enterprises;
- the creation and reinforcement of high-tech firms
- the development of poles of excellence.

European funds can be used at creating of competitiveness poles, through the sustaining of business incubators for the development of IMM's and the attractiveness of the investors. Taking into account that the regional diversity concerning the distribution of industries is big, the absorbing of these poles of competitiveness must be done distinctly from a region to another.

For a good absorption of the funds given to Romania it is needed for a lot of projects, eligible and with impact, openly and transparently administered. The funds capacity of absorption is that bigger that exists more beneficiaries well prepared for its administration. For this, member states of European Union include non-governmental organisations for beneficiaries of European funds (project applicants) and concerns their preparing. In order that the financed programmes from European funds to answer at the real needs, it is necessary that their planning and implementation to be done with the participation of all social partners. The partnership principle, foresaw in programming principles set of Structural and Cohesion Funds needs the realising of government partnership with social partners in the preparing, implementation, monitoring, evaluation of financed programmes from structural funds.

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