THE EFFICIENCY OF MANAGEMENT OF STRUCTURAL AND COHESION FUNDS IN THE EU COUNTRIES

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Abstract:
The aim of this paper is to analyze the impact of cohesion policy in the EU member states and the efficiency in the use of structural and cohesion funds in the EU countries, through the results registrated by some of them. Among them, we noticed the case of Spain, who reduced the gap with the other EU member states, regarding the level of GDP per capita, increasing by 92% to 106.8% of the EU average in the period 1995 - 2007. This would not have been possible without the involvement of EU cohesion policy and without efficient management of the funds. If Romania will know how to effectively manage available financial resources, as did several others member states, will be able to reduce the existing gap to the other member states and the main beneficiary will be the Romanian economy and its citizens.

Key words: *structural funds, cohesion policy, European integration, efficiency*

JEL classification: *F15, F36*

1. Premises of European structural funds integration in the economic and social cohesion policy

Economic and social cohesion policy has become a reality in European integration only in the 80s. However, since 1957, the six signatory countries to the Treaty of Rome (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) agreed on the need to reduce disparities between different regions and to assist the least advantaged, in order to pursuit the objective of a strong and uniform EU economy. Although the Treaty of Rome stated that the primary purpose of the European Community was to "promote throughout the Community a harmonious, balanced and sustainable economic activities, a high employment and social welfare (...), the increase of life level, solidarity and economic and social cohesion among Member States", it did not contained details and did not refer explicitly to the concrete mechanisms of redistribution through which achieve cohesion policy. However, at that time, the Treaty created the European Social Fund (ESF) and European Investment Bank (EIB), without mentioning, however, as principal aim, the promotion of economic and social cohesion.

Thus, there have been since the beginning of European integration instruments and initiatives for rectify economic and social imbalances at communitary level. In 1986, the legal basis has been set by the Single European Act, which paved the way for an integrated cohesion policy. During 1957-1988, the European Social Fund (since 1958), the European Agricultural Guidance and Guarantee Fund (since 1962), and the European Regional Development Fund (since 1975) co-financed projects which have been selected in advance by Member States.

In this context, in order to achieve the above objectives, were established the next instruments:

- **European Social Fund** is the oldest European fund and was created to finance professional retraining and social reintegration measures and to support the creation of new jobs in EU countries. ESF is designed as the main instrument of communitary social policy, focused on improving the functioning of labor markets in different countries and the reintegration of unemployed into the labor market.

- **Common Agricultural Policy (CAP)** was established in 1962 and two years later benefit by financial instrument **EAGGF** (European Agricultural Guidance and Guarantee) to finance common agricultural policy and to support rural development and improvement of agricultural structures. This fund is composed of two sections: one for the "guarantee", which is the financial instrument of the CAP and another for "guidance" which is a Structural Fund.
- The first enlargement of EU (Ireland, Denmark, United Kingdom - 1973) and the objective of creating Economic and Monetary Union, led the Heads of State and Government to decide in October 1972 the creation of a **Regional Development Fund (ERDF)**. In December 1974, on the basis of art. 235 of the Treaty (now art. 308), the Council agreed unanimously on the first legislation of ERDF. Thus, 1975 bring the creation of ERDF, as a tool for regional policy, in order to redistribute a part of the budgetary contributions of Member States to the poorest regions of the community and to support their economic development. The ERDF redistribute a significant part of the Community budget to productive investments (to create and maintain sustainable employment) and infrastructure investments. Conceptually, this fund was considered as a tool to promote the economic aspect of cohesion, while the European Social Fund aimed the social aspect of it.

It took 18 years for economic and social cohesion policy to advance on the political agenda of the EC, as a result of the first enlargement which included Member States as United Kingdom and Ireland, with considerable problems of economic and social development, combined with a slowdown economic development due to oil crisis of '70.

In 1986, the Single European Act (signed in Luxembourg and The Hague on February17, respectively 28, 1986 and came into force on July 1, 1987) which provided the single market (according to art. 8A of the EEC – "an area without internal frontiers in which was guaranteed free movement of goods, persons, services and capital"), creates the basis for a genuine cohesion policy designed to set off the constraints of the single market that southern countries and other less favored regions felt. Thus, the Single Act introduced a new chapter entitled "Economic and social cohesion", in order to highlight the growing importance given to cohesion policy. The aim of the cohesion policy was to coordinate the structural funds (EAGGF, ERDF and ESF) with the European Investment Bank, mentioning that ERDF represent the main Community instrument used to reduce disparities between development levels of different regions.

In February 1988, the European Council of Brussels extend the action of solidarity funds, represented by the above funds and now called structural funds, substantially increasing their allocations from the Community budget. Thus, it is recognized and officially declared the importance of these instruments to reduce disparities in the Community.

2. The instruments of cohesion policy

Cohesion Fund (CF) was created in 1993, following the decision of the European Council of Maastricht. The purpose of this fund was to reduce economic disparities between EU countries. The financial effort made to stimulate economic and social cohesion has been done in perspective, to facilitate for these countries the accomplishment of the convergence criteria implied by the third stage of Economic and Monetary Union (especially, regarding the ratio of budget deficit to GDP, which must be below 3% and the ratio of debt to GDP below 60%).

Cohesion Fund is a special instrument of solidarity policy and the circumstances in which it was created, sent directly to the principles of this policy and to the one of the main aims of the European Union: to promote economic and social progress and to eliminate differences in living standards between different regions and Member States.

Cohesion Fund, governed by Regulation no. 1084/2006 of the European Union, finance major projects in the following areas:

- Trans-European transport networks, especially the priority projects of common interest listed in the Decision no. 1692/96/EC;
- In areas related to sustainable development which have clear benefits for the environment, energy efficiency and renewables, and transport which is not related to trans-European networks, rail, inland waterways, maritime transport, intermodal transport systems and their interoperability, the management of road traffic, sea and air traffic, specific urban transport and public transport.

There are eligible for the Cohesion Fund amounts the states who recorded a GNP below 90% of average. Thus, the beneficiary countries for 2007-2013 are Bulgaria, Czech Republic, Estonia, Greece, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia and Slovakia. Financial support is structured on the projects selected and implemented by Member States, which are responsible for their management and financial monitoring.

European Regional Development Fund (ERDF) was created in 1975 with the aim of reducing disparities between EU regions by financing disadvantaged areas. The fund was created shortly after the first enlargement of the EU (1973) as a response to the problems of new members with a lower level of development.

Financing is done through a partnership between the European Commission, Member States and local authorities, with the assumption in all cases of a national financial contribution. However, the amounts destinated for correcting regional imbalances were substantial (during 1975-1984, the amounts to eligible projects that were funded increased eight times, amounting to more than 8% of the overall EU budget and during the period 1994-1999, ERDF represented over 50% of the total Structural Funds).

Currently, the fund is governed by Regulation no. 1080/2006 and contributes to economic and social cohesion, to reduce regional disparities in the EU, while assisting the development and structural conversion of regions. ERDF supports programs aimed at regional development, competitiveness and territorial cooperation. Investments are focused on innovation, research and development, entrepreneurship, job creation, investment, tourism, environment and prevent environmental accidents, infrastructure, education, technical assistance, business support services and the creation of guarantee funds.

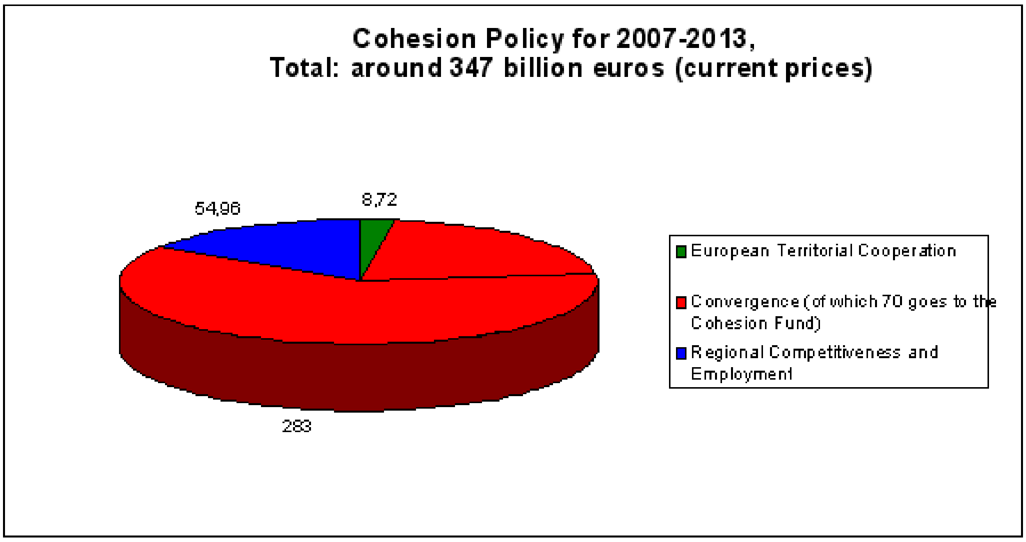
European Social Fund (ESF) is the oldest European fund, found in the Treaty of Rome and it was actually founded in 1960, in order to finance professional retraining measures, social reintegration and to support the creation of new jobs in EU countries (50% is financed by the Fund and 50% by the beneficiary countries).

Currently, the fund is governed by Regulation no. 1081/2006. Through this fund are supported programs or projects that are consistent with the European Employment Strategy and focuses on the following investment areas: increasing adaptability of workers and enterprises, increase employment and the participation on labor market, supporting social inclusion by combating discrimination and facilitating the access to employment of disadvantaged people, promoting partnerships for reform of employment and social inclusion.

Regarded as the main instrument of EU social policy, European Social Fund finance the following areas: the promotion of social inclusion and equal opportunities for all, the development of education and lifelong learning, the promotion of a skilled and adaptable workforce, supporting innovation in work organization, supporting entrepreneurs and job creation, supporting the human potential in research, science and technology, improving women's participation in the labor market.

In financial terms, these structural instruments sum (for the period of 2007-2013) 347.410 billion euros (current prices), representing 35.7% of total EU budget, distributed as follows: financial resources allocated to the Convergence objective shall to 81,54% of the total amount allocated to cohesion policy; for the objective of competitiveness and employment was allocated 15.95% of the economic and social cohesion policy and for the European territorial cooperation objective has been allocated 2.52%.

Figure no. 1



Source: *http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm*

3. The impact of EU cohesion policy

Thus, during the 2007-2013 programming period, the cohesion policy has a budget of 347 billion euros, which will be allocated for investments in economic growth and jobs at European level, so that all regions can compete effectively on the Single Market. The impact of EU cohesion policy is reflected by results[1] such as:

- *The growth of GDP per capita in Greece, Spain, Ireland and Portugal* - for example, in Greece, during 1995-2005, GDP per capita increased from 74% of the EU average to 88%.
- *Reducing existing disparities in income levels* between rich and poor regions with about 1/6 (between 2000 and 2005) due to sustained economic growth through European funds.
- Construction or rehabilitation, during the period of 2000-2006, of *100 000 km of road* and about *4 000 km of railways.*
- Co-financing the construction of over *1200 km of roads in Spain* which, according to the calculations, will allow each year, reducing by 1.2 million hours the travel time.
- *Supporting over 250 000 small businesses in the UK*, of which 16 000 have received direct financial support.
- Funding of over *25000 projects of cooperation* in research and technological development during 2000-2006 period.

All these results would not have been possible without the involvement of EU cohesion policy and without efficient management of structural and cohesion funds. According to "The fourth report on economic and social cohesion" [2] during the 1994-2006 periods, the greatest beneficiaries of EU funds were Greece, Spain, Ireland and

[1] *http://ec.europa.eu/regional_policy/policy/impact/index_ro.htm*
[2] *http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion4/index_ro.htm*

Portugal, which recorded an impressive growth as a group. In this context, we give the example of Greece who during 1995 - 2005 reduced the gap with the rest of the EU-27, from 74% in 1995 to 88% of the EU-27 average in 2005. In that period, Spain and Ireland have increased from 91% and 102% to 102% and 145% of the EU average. On the other hand, in Portugal in 2005, the GDP per capita was 74% of the EU average.

Member States that joined in 2004 and 2007, particularly those with a very low GDP per capita, are experiencing faster growth and a faster reduction of the gaps. The GDP of the three Baltic States almost doubled during 1995 - 2005, while growth rates in Poland, Hungary and Slovakia are more than double the EU average. Given the fact that they started from very low GDP per capita and taking into account the current growth rates, is probably that to pass more than 15 years before Poland and, in particular Bulgaria and Romania will reach a GDP per capita of 75% of the EU-27 average, which is the limit to receive structural funds.

Regarding regional convergence, between 1995 and 2004, the number of regions with a GDP per capita below 75% of the EU average decreased from 78 to 70, and the number of regions with GDP per capita below 50% of EU average decreased from 39 to 32. In 1995, 50 regions with a total of 71 million inhabitants had a GDP per capita below 75% of the EU-15 average. In 2004, nearly one of four of these regions has seen recorded an increase in GDP per capita above the 75%.

In 2004, the regions of Portugal, Greece, Ireland and Spain, the main beneficiary of EU funds under the cohesion policy still had significantly higher productivity levels than the new Member States. Ireland recorded the biggest increase of employment in the EU, with significant increases of productivity. Moreover, regional economic development in Spain was based almost exclusively on increasing employment, suggesting that such growth might be difficult to sustain over the long term. In Portugal, employment rose substantially until 2001, but till than has remained constant, while in Greece employment was limited until 2001, but after that has increased significantly. Nine of ten of the more developed regions have increased their employment and their productivity.

Between 2000 and 2005, regional rates of employment in the EU had been converged. However, in 2005, employment rates in the regions with a lower development were still 11 points lower than the rest of the EU. During this period, some countries experienced a consistent and widespread growth of employment, while others - such as Romania and Poland - have declined in most regions, in some cases by more than two percentage points.

Between 2000 and 2005, unemployment felt from 13.4% to 12.4% in the lagging regions development, although 17 of them presented an unemployment rate which increased by over 2 percentage points. In more developed regions, unemployment remained stable between 2000 and 2005, with a rate just below 8%, although regions of Spain, Italy, France and Britain have generally recorded a reduction of the rate and regions of Germany, Austria, Netherlands and Belgium, a slight increase.

All these data indicate that economic prosperity in the EU is becoming less geographically concentrated: the traditional economic “nucleus” of Europe's (the area between London, Paris, Milan, Munich and Hamburg) in 2004 had a substantially smaller share of GDP EU-27 than in 1995, although the proportion of the population remained stable. This trend is due to the emergence of new growth centers such as Dublin, Madrid, Helsinki and Stockholm, but also Warsaw, Prague, Bratislava and Budapest. However, economic activity has become more concentrated in capitals, excepting Berlin and Dublin. Between 1995 and 2004, the share of capitals in national GDP rose by 9%, while population grew by 2%. This trend was particularly strong between 1995 and 2000, particularly in Warsaw and Bucharest.

Despite these positive results of cohesion policy, we found that disparities in economic, social and territorial between Member States and their regions are maintained and because of that further efforts are needed to mitigate them.

Taking into account the results achieved by other EU members, the effective management of EU funds in **Romania** under cohesion policy will be reflected by the results that are intended to be achieved in 2007-2013.

Preliminary analysis suggests that programs of cohesion policy in Romania can contribute significantly to an overall increase of GDP up to 15% for the 2007-2013 periods, can create and retain approximately 200,000 jobs.

In the programming period 2007-2013, Romania will run seven programs under the Convergence objective for which they have been allocated almost EUR 20 billion euros (the "regional", the "economic competitiveness" and "technical assistance" programs are financed by the ERDF; the two programs focused on human resources development and improving administrative capacity may obtain financing through the ESF; and the "environment" and "transport" programs are funded by the ERDF and Cohesion Fund) and eight programs under "European territorial cooperation" objective which have been allocated 455 billion euros.

Thus, it is considered that the spending of almost 5.3 billion euros[3] (equivalent to 28% of total allocation) will reduce the large deficit of infrastructure that the country has, by the construction of approximately 1400 kilometers of new roads financed from European funds.

Also, the funds will contribute 2.6 billion euros in research and innovation to ensure sustainable economic competitiveness. To achieve this objective will be invested almost 570 billion euros in support firms, especially small and medium-sized (approximately 5,000 SMEs).

Modern broadband networks and online public services for businesses and citizens will benefit approximately 445 billion of funds for development.

The amounts allocated from the ESF (940 billion euros) will aim to increase employment by supporting the 15,000 trainees and other 280,000 persons interested in develop skills. About 1.2 billion euros will be allocated to support the 15,000 national doctoral candidates and 75,000 teachers who through their skills will help sustain a knowledge-based society. Other nearly 1.2 billion euros are alocated for social inclusion of disadvantaged groups, targeting the participation of 150,000 (of which 65,000 are Gipsy) in training programs and also some 10,000 professionals participate in these training programs regarding social inclusion.

Another important area covered by the cohesion policy, the environment (including water treatment) may make investments worth 8.6 billion euros (nearly 45% of the total amount), representing the highest proportion in relative terms compared with other Member States.

Around 2.8 billion euros (14.6% of the total Community contribution) will be invested in areas that directly contribute to mitigating climate change through a package of energy efficiency and energy sources.

The efficiency of management of structural and cohesion fund are reflected in the absorption capacity. The **absorption capacity**[4] represents the degree to which a country is able to spend effectively and efficiently the financial resources allocated from structural and cohesion fund.

If we refer to data recorded at the end of 2009, the rate of absorption of EU funds stands at just over 10% of the total amounts available for the period 2007-2009.

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[3] *Politica europeană de coeziune în România*. Acces from: *http://ec.europa.eu/regional_policy/sources/docgener/informat/country2009/ro_ro.pdf*

[4] Oprescu, Gheorghe (coord.), *Studiul nr. 1 - Analiza capacităţii de absorbţie a fondurilor comunitare în România*, in "Studii de impact din România III", European Institute of Romania, 2005.

The official data provided by the Authority for coordination of structural instruments, at 30 November[5], showed an absorption rate of 9.58%.

Spain is one of successful examples for the use of European funds. Thus, Spain reduced the gap with the other 27 EU member states, regarding the level of GDP per capita, increasing by 92% to 106.8% of the EU average in the period 1995 - 2007. This result was supported by an annual average growth of GDP per capita, higher with 0.5% than the EU average in that period. Although, during 2000-2005, more than 377,000 people have received aid to perform an activity on their own and nearly 2.5 million people have been supported for training. During 1995-2004, the cohesion policy co-financed more than 1200 kilometers of roads and highways, allowed extension of high speed trains, supported the renovation of the 2.0000 km of water pipeline and the construction of 600 km of new pipelines, which brought the creation of 2.6 million jobs.

During 2000-2006, the expenditures of structural funds in the field of research and development, innovation and informational society have increased at 4,000 million euros, through which were supported:

- more than 21,000 projects in research and development;
- nearly 10,000 researchers in many projects;
- more than 500 technology centers and research;
- financing of 64 technology parks;
- technological activities in about 100,000 SMEs;
- investments of 1,000 million in infrastructure for information and communications technology (ICT).

Conclusions

If Romania will know how to effectively manage available financial resources, as did several others Member States, will be able to reduce the existing gap to the other Member States and the main beneficiary will be just Romania, the Romanian economy and its citizens. The impact of Structural and Cohesion Fund should be considered in the context of overall economic development because no matter how well these funds will be managed if the overall economic development strategy will not integrate this perspective of the use of funds, it will not be a success.

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[5] *http://www.fonduri-ue.ro/stadiul-absorbtiei-231*