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Territorial efficiency of the cohesion policy in Romania

Daniela Livia TRAŞCĂ
The Bucharest University of Economic Studies
daniela.trasca@gmail.com
Mirela Ionela ACELEANU
The Bucharest University of Economic Studies
mirelaaceleanu@economie.ase.ro
Daniela SAHLIAN
The Bucharest University of Economic Studies
daniela.sahlian@gmail.com

Abstract. *Cohesion policy is one of the solutions to overcome the current crisis because the efficient use of its financial instruments determines the strengthening of the competitiveness of the European economy, the acceleration of economic growth and employment growth. The transposition of the economic and social cohesion in the territorial level is not new, but the economic development of the regions highlights that the gaps within states have widened over time. In this paper, we propose to evaluate the efficiency with which the European funds in Romania have been used so far by using a matrix for assessing regional competitiveness.*

Keywords: regional competitiveness; regional disparities; cohesion policy; territorial cohesion; European funds.

JEL Codes: O1, O33, H23, O21, E6.
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Cohesion policy is one of the solutions to overcome the current crisis because the efficient use of its financial instruments determines the strengthening of the competitiveness of the European economy; it also accelerates growth and increases employment. Economic, social and territorial cohesion is not new, but the economic development of the regions highlights the fact that the gap within states has increased over time.

The crisis faced by the European Union since 2007 has highlighted a continuing need to have a policy that invests in competitiveness. Such a policy is the cohesion policy, and now, the European Union needs a cohesion policy to support Member States and to help them overcome the current crisis, reduce the disparities and contribute to achieving the objectives of the Europe 2020 Strategy.

1. The conceptual framework of territorial cohesion

At the European level, the concept of "territorial cohesion" was first mentioned in a report released by the Association of European Regions, entitled "Regions and Territories in Europe". This report emphasized the need for *planning the coordination at European level*, arguing the complementarity between territorial cohesion and economic and social cohesion as the central objective of the European Union. The Treaty of Amsterdam (1997) introduced the concept afterwards, but without actually defining it.

Up to now, there have been important steps in the evolution of territorial cohesion summarized in the following table:

Table 1

The evolution of territorial cohesion at European level

May 1999	European Spatial Development Perspective	▪ it emphasizes the spatial imbalances and the territorial impact of Community policies; ▪ it defines three main objectives of the spatial policy: polycentric development, access to infrastructure and knowledge; effective management of cultural and natural patrimony;
January 2001	The Second Cohesion Report	▪ it emphasizes significant spatial imbalances across Europe, including geographical challenges; ▪ it relates territorial cohesion to the economic and social one;
February 2004	Budgetary proposals	▪ the Structural Funds propose three objectives: convergence, competitiveness and employment, territorial cooperation;
February 2004	The Third Cohesion Report	▪ it connects cohesion to the objectives of the Lisbon Strategy;
April 2004	Interim Territorial Cohesion Report	▪ it defines territorial cohesion as "the balanced distribution of human activities across the Union"; ▪ it describes territorial imbalances and points out the fact that the expansion will worsen these imbalances;

November 2004	Ministerial Meeting in Rotterdam	▪ it supports a bottom-up approach to territorial cohesion, highlighting the importance of territorial capital; ▪ it rejects the idea of the growing institutionalization or of a top-down control and suggests defining territorial cohesion in political terms;
October 2006	Adopting the strategic guidelines for cohesion	▪ it suggests the fact that each Member State should be given a certain sense of territorial cohesion;
May 2007	Territorial agenda	▪ it specifies six territorial priorities for the EU; ▪ it proposes the adoption of an action plan to achieve those objectives;
September/ October 2008	Green Paper on territorial cohesion	▪ it is based on Member States' replies to the questionnaire prepared by the European Commission; ▪ it lists a number of components of territorial cohesion;
November 2010	The Fifth Report on Economic, Social and Territorial Cohesion	▪ it concludes that the inequalities between EU regions are reduced; ▪ it emphasizes strengthening the coordination between regional development policy and other EU and national policies; ▪ it relates the cohesion to the objectives the Europe 2020 strategy, emphasizing that the role of regions and regional development policy is essential; a balanced approach to investment is required, the diversity of EU regions should be taken into account and special attention should be paid to regions.

Source: www.eprc.strath.ac.uk**,** www.ec.europa.eu.

Territorial cohesion may be defined in many ways, because until now *there is no universally accepted definition* at the EU level. Territorial cohesion can be understood as endogenous and polycentric development of the entire EU territory. In this respect, its goal is to develop numerous clusters of competitiveness and innovation outside the so-called "pentagon". Another meaning of territorial cohesion is *balanced development*. Unlike polycentric development, which is related to competitiveness and investment to increase regions' performance, balanced development originates in justice and spatial solidarity. It aims to reduce socio-economic disparities and to eliminate imbalances. Territorial cohesion implies *accessibility and networking*.

On the other hand, territorial cohesion implies focusing of public action on three core principles – *concentration,* i.e. overcoming differences in density, *connecting territories*, i.e. overcoming distance and *cooperation*, i.e. overcoming division factor.

Social cohesion considers similarities between nations and regions in terms of welfare, of living and working conditions. The concern for social cohesion emerged as a result of increased social phenomena, such as the new forms of poverty, increase in income inequality, increased job insecurity, migration and aging population. Social cohesion requires combating poverty and social exclusion, particularly in areas such as: household, health, education and training, employment and income distribution, education and social services and it also represents the major coordinate underlying the recommendations for social policies. Social policies should be centred on the principles of social economy, namely: solidarity, responsibility, freedom, equal opportunities for all members of society, autonomous and independent management, joining the interests of members with the general interest and the democratic participation of all in decision making (Vîrjan, 2012).

Social cohesion is an attribute of society, but it is recognized and identified in the behaviours and attitudes of its members. Social cohesion is based on social capital that is actually created within social relations and is established, maintained and experienced by individuals. However, related to the social cohesion of a society, it involves aspects that are part of a life situation and, in this sense, components of quality of life of the individual (Manole, 2012).

The current socio-economic context, influenced by the crisis, globalization and structural change, implies the need for reform to alleviate, on the one hand, the institutional and legislative rigidity dominating working relations, and, on the other hand, the problems facing social security systems.

The last Report on economic, social and territorial cohesion stresses that cohesion policy, although it has improved the economic, social and environmental conditions in the European Union, the current conditions require its focus on a few key areas, especially in the more developed regions. As a result, Cohesion Policy should become more *selective*. However, the ambitious objective of the Europe 2020 Strategy can be achieved only in terms of *strong pragmatic regional and national participation and coordination*. Each country establishes these key areas according to the scale of the existing regional disparities, social preferences, the division of power in that country, the nature of certain regional challenges, as well as the available financial resources.

This report aims territorial cohesion policy and, to achieve this objective, the report examines the territorial dimension of access to services; increased attention is paid to climate and environmental changes and, finally yet importantly, it analyses the way in which the territorial impact of policies can be measured.

According to the Treaty of Rome, the territorial dimension of cohesion was present since the beginning of the European construction. Through the Treaty of Lisbon, territorial cohesion was added to the economic and social cohesion objectives. In other words, within the new programmes, the emphasis is placed on the role of cities, on the functional geographical boundaries, on the macro-regional strategies and on the areas facing specific geographical or demographic problems.

According to this new vision of cohesion policy, urban areas are considered to be drivers of growth and centres of creativity and innovation. By establishing a critical mass of actors such as businesses, universities and researchers, the levels of economic growth of a country can be significantly improved, and new jobs can also be created.

2. Romania's performance in attracting European funds

Cohesion policy could not materialize without the existence of EU funds. For 2007-2013, 10 countries of Central and Eastern Europe, European Union member states (Bulgaria, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) benefit from European funds amounting to 172.6 billion euros, i.e. 1,690 euros on average per capita.

Poland is the biggest beneficiary (38% of the funds allocated) however, if we consider the benefit per capita, the Czech Republic and Estonia are the biggest beneficiaries. Together, Poland and the Czech Republic have over 50% of the amount allocated to the 10 countries in 2007-2013. In terms of budget, Romania is the fourth country in the EU after Poland, the Czech Republic and Hungary.

Depending on the subject area that they finance, the financial instruments of the European Union are classified as follows: *agriculture and fishery* (European Agricultural Fund for Rural Development, the European Fisheries Fund), *regional policy* (Structural Funds, Cohesion Fund), *social aspects* (European Globalisation Adjustment Fund), *environment* (LIFE$^+$ Financial Instrument for the Environment, Civil Protection Financial Instrument), *European integration* (EU Solidarity Fund, European Agricultural Fund for Rural Development, The Instrument for Pre-Accession Assistance) and *cooperative relations between the EU and third countries* (Financing Instrument for Development Cooperation, The European Neighbourhood and Partnership Instrument)

In 2011, the most advanced countries in attracting European funds were Latvia and Estonia and the less efficient were Romania, Poland, Slovakia, Hungary and Slovenia, while other states were above average.

After Poland, Romania is the country with the largest population in CEE. In terms of level of development, unfortunately, Romania (5,555 € per capita in 2011) is on the penultimate place, ahead of Bulgaria.

In 2007-2013, Romania can benefit from a budget of 27.5 billion euros of which 19.2 billion euros is for structural and cohesion funds and 8.3 billion for Common Agricultural Policy.

Allocating these funds aims at achieving the objectives set in the National Strategic Reference Framework 2007-2013, namely reducing social and economic development disparities between Romania and the European Union Member States and reducing disparities with the EU through sustainable economic growth.

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 (European Union, Cohesion Policy 2007-2013).

The performances recorded by our country in 2007-2011 are shown in the following table:

Table 2

Progress made by December 31, 2011 in the absorption of EU funds

Total available budget 2007-2013	23.3 billion euros
Contracted grants	14.6 billion euros
Contracted ratio	62.7%
Payment value	3.2 billion euros
Payment ratio	13.73%

Source: www.kpmg.com.

At the level of CEE states, the average payment ratio was of 29% in 2011, while the average contracted ratio was of 67%.

The following table captures the performance in absorbing EU funds in Romania on areas of intervention:

Table 3

Analysis on areas of intervention in 2007-2011 in Romania

Operational programmes	Contracted ratio (%)	Payment Ratio (%)
Environment	79	10
Transport	39	3
Regional development	76	23
Human resource development	77	22
Increase of Economic Competitiveness	42	15
Administrative capacity Development	45	11
Technical assistance	29	10
Total	63	14

Source: www.kpmg.com.

As shown in the table above, in 2011, Romania's absorption rate of EU funds was of only 14% and the worst performing areas were transport, environment and technical assistance.

One of the priorities of cohesion policy refers to avoiding excessive disparities between regions for Romania and other countries. If we refer to the average GDP/capita at purchasing power parity, the only region in Romania that exceeds the EU-27 average is Bucharest-Ilfov region, and within the country, between the most developed region and the poorest, i.e. North-East, as shown in the table below, there is a ratio of 1: 3.78.

Table 4

Regional GDP/capita at PPP in 2009

Regions	*GDP* / capita (ppp, euro/ capita)	*GDP* / capita (ppc, UE27=100)
North-West	10100	42.9
Centre	10700	45.5
North-East	6900	29.5
South-East	8900	37.8
South-Muntenia	9500	40.2
Bucharest-Ilfov	26100	111
South West Oltenia	8400	35.8
West	12100	51.6

Source: Eurostat.

Following the analysis conducted so far, we can say that the effectiveness of cohesion policy in Romania has been very low.

Romania`s very low performances in attracting European funds have multiple causes: the rather general nature of the national accounting rules with respect to the specificities of certain areas including European funded projects, business environment uncertainties, financial environment uncertainties, legislative dynamics, the lack of a consistent project development process, bureaucracy, corruption, etc.

What should Romania do in order to improve the EU funds absorption process? Firstly, it should use technical assistance funds as soon as possible, in order to support the beneficiaries of EU funds by ensuring proper management of ongoing projects, but also for proper development of applications for reimbursement. It can be seen in the table above that, although contracted ratio exceeds 50% of the budget for 2007-2013, payment ratio is very low. Bad management of European projects can have serious consequences, even facing payment incapacity and the loss of already invested funds from own resources by beneficiaries.

3. Regional competitiveness evaluation in Romania

Regional competitiveness evaluation in Romania can be achieved by using the „hard" matrix. The "hard" matrix, as it is described in the study conducted by the Group of Applied Economics (2007), requires taking into account the three indicators, namely economic indicator, social indicator and technology indicator. Each of these three indicators in turn comprises a system of 13 economic variables, as follows:

- The economic indicator includes GDP/capita (0.1), GDP growth rate (0.1), labour productivity (0.3), net exports (0.1), Gross fixed capital formation % of GDP (0.2) and per capita income (0.2);
- the social indicator includes dispersion of regional employment rates (0.3), employment (0.4), employment for women (0.1) and average life expectancy index (0.2);
- the technology indicator includes research and development expenditures as % of GDP (0.4), level of internet access (0.3) and tertiary education (0.3).

In addition to this matrix, this is calculated at the regional level, the authors above also mention a „soft" matrix, which is calculated at the sub regional or local level.

In this paper, we focused only on calculating the "hard" matrix. We used statistical data taken from the National Commission of Prognosis, National Institute of Statistics and Eurostat. Since we had no statistical data, we could calculate this matrix only for 2008 and 2009. The statistics used are normalized, by relating them to the national average.

Following calculations, we obtained the following ranking for the regions in Romania.

Table 5

Regional competitiveness index in 2008

Regions	Economic indicator (EI)	Social indicator (SI)	Technology indicator (TI)	Competitivenes s index (CI)	CI Ranking
North-East	0.4516	0.947	0.327	**0.56284**	**8**
South-East	0.5515	0.889	0.261	0.5656	7
South-Muntenia	0.5582	0.941	0.272	0.58718	5
South -West Oltenia	0.5147	0.937	0.277	0.57008	6
West	0.6736	0.926	0.411	0.67054	2
North-West	0.5511	0.939	0.431	0.63144	3
Centre	0.5981	0.938	0.299	0.61034	4
Bucharest-Ilfov	1.3632	1.001	1.456	**1.28238**	**1**

Source: authors' calculations.

The most competitive region in 2008 was the Bucharest-Ilfov region, while the least competitive region was the North-East region; there is a ratio of 1: 2.28 between the competitiveness indices of these two regions.

The most competitive indicator is the technology indicator for the Bucharest-Ilfov region, and in the North - East region, the social one. The social indicator usually records the highest values, which shows its higher contribution to the formation of competitiveness index.

In 2009, unlike the previous year, the competitiveness index ranking changed as follows: while the most competitive region is still Bucharest-Ilfov, the last place is occupied by the South-East region. However, there is a small difference in comparison to the North-East region.

Table 6

Regional competitiveness index value in 2009

Regions	Economic indicator (EI)	Social indicator (SI)	Technology indicator (TI)	Competiti-veness index (CI)	CI Ranking
North-East	0,4769	0,947	0,302	0,56546	7
South-East	0,5299	0,894	0,272	0,56176	8
South-Muntenia	0,5452	0,937	0,28	0,58318	5
South -West Oltenia	0,497	0,937	0,277	0,563	6
West	0,6585	0,926	0,381	0,6555	2
North- West	0,5427	0,929	0,406	0,61758	4
Centre	0,6006	0,929	0,405	0,64044	3
Bucharest-Ilfov	1,2479	1,016	1,36	1,21196	1

Source: authors' calculations.

One can see that, unlike the differences between regions registered by the economic and social indicators, between which there is not a huge gap, the differences between regions are significant according to the technology indicator. Moreover, it can be seen that the Bucharest-Ilfov region is the only region with over-unit value of the competitiveness index.

Nevertheless, regional disparities do remain, and this is a consequence of the low Romanian performance in attracting European funds.

4. Conclusions

The performance of territorial cohesion policy in Romania is low. The obstacles in attracting European funds are numerous: from the inadequate management of the projects submitted to the inability to develop eligible projects. At the regional level, there is not enough information on the submission of projects to attract European funds or bureaucracy is too high and it discourages potential beneficiaries.

Regional competitiveness in Romania is low, below the EU-27 average, except for the Bucharest-Ilfov region. Among the calculated indicators, technology indicator is what makes the difference, while the social indicator is relatively balanced for all regions. The most affected regions in terms of recording a low competitiveness index are the North-East and South-East regions.

Attracting European funds remains a priority for Romania in order to reduce the development disparities. In order to improve attracting European funds measures should be taken to simplify procedures for fund management, to make them transparent; the specialized agencies should use technical assistance. Attracting European funds represents Romania's chance to overcome the effects of the crisis by boosting investment and creating jobs to support economic growth.

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