PUBLIC ADMINISTRATION & REGIONAL STUDIES
3 rd Year, No. 2 (6) – 2010
Galati University Press, ISSN 2065 -1759

STRUCTURAL INSTRUMENTS WITHIN 2007-2013 FINANCIAL PERSPECTIVE

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Abstract:

The present paper illustrates the essential objective of the European Union, the economic and social cohesion that can be achieved through the Structural Funds. Nowadays, Structural and Cohesion Funds are financial instruments used by the EU to eliminate economic and social disparities between regions in order to achieve economic and social cohesion. Cohesion Fund helps the Member States with a gross national product (GNP) per capita of less than 90% of EU average to reduce differences of economic and social development levels and to stabilize their economies.

For the programming period of 2007-2013, the European Social Fund interventions aim is to support the Member States to anticipate and effectively manage economic and social changes. The European Regional Development Fund is reflected in financing productive investments and infrastructure in order to ensure sustainable development.

Keywords: *economic and social cohesion, structural instruments, disparities elimination, GNP per capita, economic growth potential.*

JEL Classification: R11

General Trends

The essential aim of the European Union, the economic and social cohesion, can be achieved through the Structural Funds. Structural Funds are under the impact of constant changes due to the challenges of enlargement process of the Union.

The oldest structural instrument of EU regional policy is the European Social Fund (ESF), which was implemented in 1958 for the purpose of improving the functioning of labor markets in different countries and the reintegration of unemployed into the labor market.

At the conference in Stresa (Italy), there was placed the foundations

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of the single market for agricultural products and thus of the P.A.C. This policy was to be financed by the European Agricultural Guidance and Guarantee Fund (EAGGF), the Guidance Section (1962). Moreover, EAGGF was to support the rural development and to improve the agricultural structures. In the near future, EAGGF (through its two sections: Agricultural Guarantee and Guidance) held the largest share of the Community budget. However, the impact of EAGGF, and ESF as otherwise, on regional development and eliminating disparities was initially small.

A novelty in the evolution of EU funds was the impact of energy crisis in 1973, when EU faced a new problem: its dependence on oil imports. This crisis, combined with the prospect of EU enlargement, has contributed to the creation of the European Regional Development Fund (ERDF) and a Regional Policy Committee. The original objectives of the ERDF were focused on developing infrastructure and promoting innovation, in order to mitigate the regional disparities by redistributing the national contributions to EU budget to less developed EU regions

These three funds have been named European Structural Funds by the European Council in Brussels (1988). The new name has attracted the modification of the mechanisms of funding, these mechanisms aiming primarily at programs structured on priority areas and objectives of the regional policy. The objectives of the funds were: Objective 1: Development and structural assisting of the poor regions, Objective 2: Assisting of the areas with industrial decline and Objective 5b: Support of the development and structural adjustment of rural areas.

Achieving these goals has been initially established for the period 1989-1993, based on the implementation of the programming official documents (Operational Programs and Community Support Framework).

Aiming to create the Single European Market and transit to the next stage of integration – the Monetary Union - the Treaty on the European Union has provided a commitment to achieve economic and social cohesion (Article 130a: "The Community shall aim at reducing disparities between levels of development of different regions and the lack of progress of disadvantaged regions, including regional areas) and by Article 130d, it has established the base to create a new fund to provide financial assistance in economic development through projects to improve transport and the environment – the Cohesion Fund. This fund has operated since 1993, together with the entrance of the Treaty on European Union.

In 1994, it was created the Financial Instrument for Fisheries Guidance. This new facility was structurally related to Objective 6: Assisting and promoting the structural development of sparsely populated regions.

During 1994-1999, the regulations related to the operating mechanisms of Structural Funds were amended and / or improved to suit the new structure of EU eligible regions.

The evolution and the perspective of these objectives is presented chronologically as follows:

1994-1999

- O_1 - economic adjustment of the regions lagging behind in terms of development (defined as a certain relation to the average EU GDP);
- O_2 - economic conversion of the declining industrial areas, i.e. the regions where unemployment and labor force employed in industry were higher than the EU average, combined with a significant decline for this category of labor;
- O_3 – fighting against long-term unemployment and facilitating the employment of young people and those at risk of exclusion from the labor market, while promoting equal opportunities in terms of employment for women and men;
- O_4 - facilitate labor adjustment to changes in industry and manufacturing process in general;
- O_5 - promoting rural development through two sub-objectives:
  a) expedite the adjustment of the agricultural structures in the CAP reform and promote the modernization and the structural adjustment of the fisheries sector;
  b) facilitate the development and structural adjustment of the rural areas (including those characterized by low socio-economic indicator measured by GDP per capita and a large proportion of the workforce engaged in agriculture, low population density and a significant trend of depopulation)
- O_6 - promoting the development and structural adjustment of the regions with extremely low population density (particularly sparsely populated regions of northern European countries).

2000-2006

- O_1 - promoting development and structural adjustment of regions whose development is lagging behind, namely: GDP per capita is less than 75% of EU average
- O_2 - promoting economic and social conversion of areas with structural difficulties (they are eligible under this objective the areas of economic shifts, declining rural areas, areas dependent on fisheries, urban neighborhoods in difficulty);
- O_3 - promoting all measures for the modernization of training and employment promotion.

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- O_1 - promoting convergence and economic development and job creation in the least developed Member States;
- O_2 - promoting regional competitiveness and employment by preparing work force to attend and meet the labor market changes;
- O_3 - promoting regional cooperation at European level.

Redefining these objectives is represented in Figure 1:

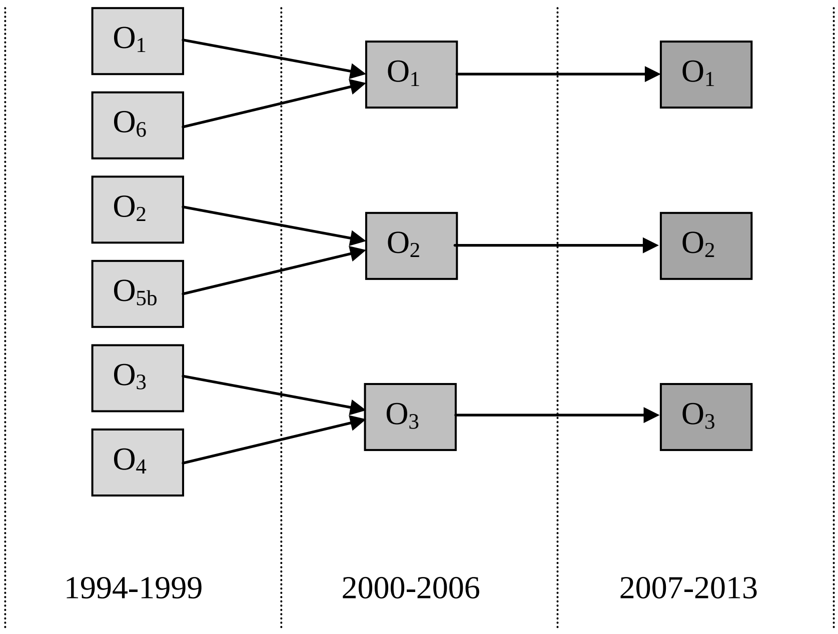

Figure 1: The Structural Funds Objectives

In actual sense, Structural and Cohesion Funds (SCF), or Structural instruments, are the financial instruments that the EU acts to remove the economic and social disparities between regions in order to achieve the economic and social cohesion.

The regulation 1083/2006 lays down the rules on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

The European Regional Development Fund supports: investments to create jobs (as a priority sector for the SMEs), infrastructure (transport, environment, communications, education, health, social, cultural frame and energy), development potential local (providing support and services to businesses, networking, cooperation and exchange of experience) and technical support.

The ERDF eligible activities are: VAT, interest on loans, purchase of land in an amount less than 10% of the total eligible expenditure for housing and construction activity.

On the other hand, ERDF focuses on the Lisbon strategy, the infrastructure investment, research - development and SMEs.

European Social Fund supports the actions of States in the following areas:

- adaptation of workers and enterprises, systems of lifelong learning, design and dissemination of innovative forms of work organization;
- improving access to employment for persons seeking employment, for inactive people, women and immigrants;
- social integration of disadvantaged people and combating all forms of discrimination in the labor market;
- strengthening human capital through the implementation of reforms of the education systems and networking of the activities of schools.

ESF also focus on the Lisbon Strategy, focusing on training, employment, institutional capacity and administrative efficiency.

The Cohesion Fund promotes sustainable development through trans-European transport networks, environmental protection (energy efficiency, transport, non-road transport, public transport, environmental etc.). The priorities of this fund aims to environmental infrastructure, transport and energy.

The current programming period (2007-2013) was raised for the first time, by the Commission Communication COM (2004) 101, in which, among others, there have been redefined the EU financial instruments so that they are closer for the desire of economic and social cohesion.

The present structure of the financial instruments for the regional development policy includes the Structural Funds (European Regional Development Fund and European Social Fund) and the Cohesion Fund.

The new regional development policy objectives integrate both those of the period 2000 - 2006, and the old Community Initiatives: INTERREG, EQUAL and URBAN.

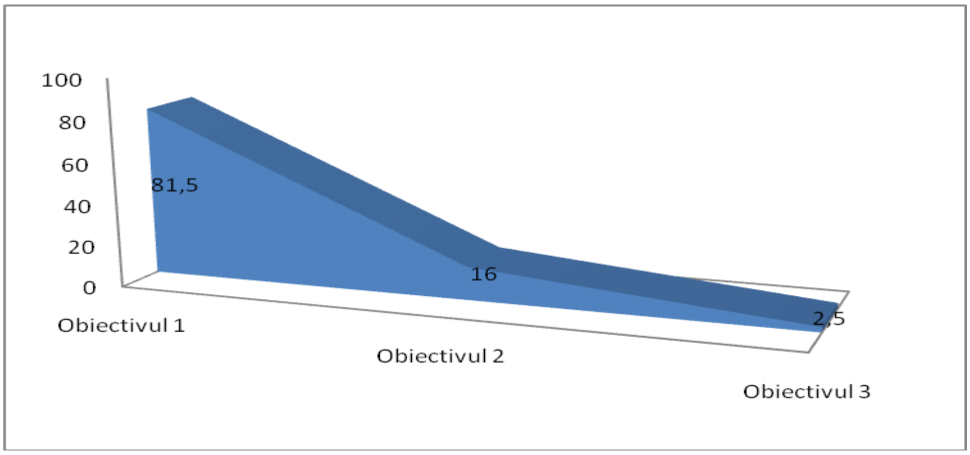

Figure 2: Distribution of European funds per objectives, 2007-2013

Mechanisms for defining and establishing the structural instruments

The last two enlargements of the European Union represents a great challenge for the regional policy objectives and thus for proving the effectiveness of the structural instruments.

Without forgetting the challenges of competitiveness, economic restructuring and social sustainability and less developed regions, the process of convergence continues in the regions, once affected by the enlargement process, they have become ineligible under Objective 1 as a result of the statistical effect of average GDP per capita; achieving economic and social cohesion throughout the EU or global crisis.

In 2000-2006, 10 regulations have worked simultaneously on the

Cohesion Fund and the Structural Funds. They have been replaced by a single Commission Regulation implementing the cohesion policy, which has facilitated the efficient management of the funds.

The implementation of the EU regional policy is based on the Structural Funds, which are considered the most important financial instruments. The basic idea in setting up the Community budget that is financing these funds is the contribution of Member States, depending on their economic strength. Countries such as Sweden, Austria, Germany, Netherlands and the UK have some adjustments to calculate their contributions.

On the other hand, the allocation of these funds is higher for the less developed Member States, especially in the last two enlargements. There are Member States from the EU 15 that receive significant amounts of these funds, such as Greece, Spain or Portugal.

In 2009, Romania was ranked in the tenth place last year in the European Union, after the allocations received from the Community budget of EUR 2.666 billion (2.5% of budget), while the Romanian state's total contribution amounted to 1.217 billion Euros, according to the report submitted by the European Commission.

Romania is the seventh country in U.E. by population size, but last year it was ranked 17th by the size of the economy, value calculated according to the gross domestic product (GDP) value, said NewsIn.

Romania was the net beneficiary of EU funds, and most of the funds received last year (1.06 billion) were for agriculture. In this chapter, the biggest beneficiaries were French farmers who received more than 10 billion Euros, followed by Spanish (7.1 billion), Germany (6.6 billion) and Italy (5.4 billion).

Direct aid and subsidies to agriculture amounted to 43.3 billion Euros and 37% of the EU budget, equivalent to an amount of 116.5 billion Euros.

If added the expenditure for rural development, fisheries and environment, of 11.5 billion euro, the funding will raise to an amount of 53% of the Community expenditure.

Romania has received the most amount of money among the EU countries from pre-accession funds, i.e. EUR 744.8 million, while Bulgaria has received only 201.4 million Euros. The third place was occupied by the cohesion fund allocations, amounting a total of 648.5 million Euros.

The Romanian state has also benefited of 142.7 million Euros from the compensation fund, 36.4 million for competitiveness (one of the smallest amount), 17.8 million for administration, 14.3 million for citizenship and 1.7 million for freedom, security and justice.

The European Commission's financial report shows that France was the main beneficiary of the last year's EU budget, receiving funds of 13.7 billion Euros. However, since the Hexagon contribution to the EU budget was 18 billion Euros, in 2009 France was a net contributor.

Moreover, Brussels shows that France, Spain, Germany and Italy are the biggest beneficiaries of the EU funds, receiving 47.3 billion Euros from the total expenditure of the EU of 116.5 billion Euros, but the percentage allocated to the four countries decreased to 45% in 2008 from 48% in 2007.

The allocations for the employment and competitiveness measures are ranked second among the EU spending, with 45.6 billion Euros that represents 40% of the budget. Greece is the main beneficiary of the Cohesion Funds, with 4.7 billion Euros, followed by Poland (4.6 billion), Spain (4.3 billion) and Italy (3.7 billion).

Ten EU countries were net contributors last year to the EU budget, namely Denmark, Germany, France, Italy, Cyprus, Netherlands, Austria, Finland, Sweden and the UK.

The Structural and Cohesion Funds allocation for 2007-2013 is shown in Figure 3:

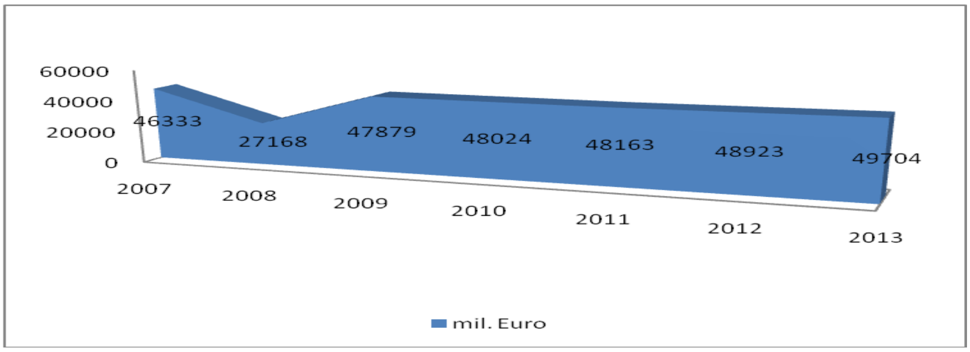

Figure 3: Distribution of EU funds for 2007-2013

The three objectives are funded differently according to priorities in the Structural and Cohesion Funds for the current programming period:

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- Objective 1 is financed by the ERDF, ESF and CF;
- Objective 2 is funded by the ERDF and ESF;
- Objective 3 is funded by ERDF.

The European Commission outlines the basic guidelines aimed at the regional policy objectives for each stage of programming. Based on these guidelines, the Regions and Member States draw up multiannual regional development programs able to obtain financial assistance through the structural instruments. The budget for structural funds aims to develop specific predetermined objectives.

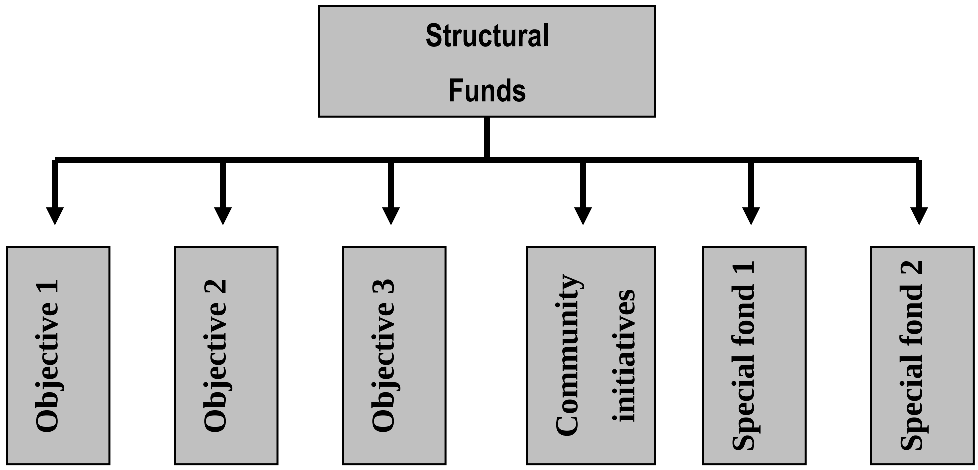

Figure 4: The Structural Funds Destinations 2007-2013

Under the Objective 1 there are regions that concentrate 22% of the EU27 population. As a result, this objective has allocated 70% of the Structural Funds.

Objective 2, although it covers 12.3% of the EU27 population, it has allocated only 11.5% from the total of the Structural Funds. These financial allocations aim at supporting economic and social conversion of areas facing structural difficulties.

A particular attention is paid to the labor factor, its qualification, ongoing training and access to employment (Objective 3). In this respect, there were allocated 12.3% of the Structural Funds.

Other objectives and activities with impact upon the regional development have allocated 5.19% of the budget. These objectives concern: cross-border, transnational and inter-regional cooperation (INTERREG IV), sustainable development of cities and declining urban areas (Urban II), rural development through local initiatives (Leader +) and combating inequality and discrimination in labor market access (Equal) and they are known as Community Initiatives

There must be taken into account two other special allocations of the funds for adjustment in fishery structures outside the regions covered by Objective 1, with a budget of 0.5% of the total from the Structural Funds, and the support for innovative actions and technical assistance in order to promote and experiment with some new ideas for development, with a rate of 0.51% of the total resources.

The development initiatives financed by the Structural Funds must meet specific requirements identified at regional or Member States level.

In addressing the regional development policy in the EU, the focus is set on the environmental protection and the promotion of equal opportunities. Implementation is decentralized, which means that the responsibility lies entirely on the national and regional authorities.

Areas of intervention of the Structural and Cohesion Funds have been established in accordance with the Annex II of the Implementation of Structural and Cohesion Funds of the European Commission.

Thus, the data were grouped according to the specific dimensions such as: the priority theme, the financing form, economic activity and location. Consequently, for the programming period 2007 - 2013, areas of intervention of the Structural and Cohesion Funds aim at:

- research, technological development, innovation and entrepreneurship;
- transport;
- energy;
- environmental protection and risk prevention;
- tourism;
- culture;
- urban and rural regeneration;
- increasing adaptability of workers and companies, enterprises and entrepreneurs;
- increase access to employment and sustainable labor market;

- increasing social inclusion of disadvantaged people;
- improving human capital;
- investment in social infrastructure;
- mobilization for reforms in employment and inclusion;
- strengthening institutional capacity at national, regional and local levels;
- additional cost savings that hinder the development of the outermost regions;
- technical assistance.

This classification represents a solid foundation for periodic evaluations (ex-ante and ex-post) of the European Commission by each Member State.

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ISSN 2065 -1759