

## STRUCTURAL FUNDS IN THE NORTH-EAST REGION OF ROMANIA: FINANCIAL ALLOCATION 2007-2013

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### **Abstract:**

*In this article we want to analyze the impact of the structural and cohesion funds in the North-East Region of Romania. At the theoretical level, several authors have pointed out that the more economically developed regions tend to attract more funds than the poorer ones, as they can provide more financial resources needed to co-finance the projects. In this article we want to see if this statement is maintained at county level, practically at the North-East Region level, the differences between counties are noticeable, which raises problems in the application of many development policies and strategies.*

*Following the analysis of the statistical data related to the financial allocation 2007-2013 we find that the economically developed counties tend to attract more projects and implicitly absorb more funds than the poorest ones.*

**Key words:** Structural Funds, territorial distribution, comparative analysis, North-East Region of Romania.

**JEL classification:** D200, F150, F360, F430, R110

### **1. INTRODUCTION**

The North-East Region is the poorest region of Romania, registering the lowest GDP per capita in the country, after the EU enlargement, this region was confronted with a whole new set of issues. In order to enhance economic growth and to reduce economic disparities this region benefits of an allocation from the Structural and Cohesion Funds, under the EU Regional Development Policy. The result until now have been mixed, the region has absorbed these financial aids, but the long-term effect is debatable.

Due to the fact that the European Commission allocates more and more resources to the Regional Development Policy, more and more researchers are drawn to the subject of Structural and Cohesion Funds effectiveness, and there are a lot of new ideas on the subject of measuring the short and long term effects of these financial aids.

### **2. LITERARY REVIEW**

In his paper „The Impact of the EU’s Structural and Cohesion Funds on Real Convergence in the EU” Martin Reiner admits that the researches in the field of Structural and Cohesion Funds do not reach a unanimous conclusion, but in his opinion, EU funds allocated under the Regional Development Policy tend to have positive impact on economic growth in the long term. However, this positive impact is conditioned by a stable macroeconomic environment and a series of institutions that promote economic growth. Among these the most important ones are a low inflation rate, responsible public spending, a company friendly taxation system, preoccupation for the development of effective transport and communication system and well-trained human capital. All these things, explains Martin Reiner, will contribute the development of the local business environment and attract foreign direct investments, and thus obtaining economic growth in the long term. (Reiner 2003)

Another very interesting fact pointed out by Martin Reiner in his research is the need to include in the Regional Development Policy an element of special concentration, the need to simplify the awarding procedures and a more integrated coordination between national, regional and EU policies, all these improvement, in the authors opinion would enhance the impact of the EU funds. (Reiner 2003)

Similarly, to Martin Reiner, Frank Barry, John Bradley, Aoife Hannan conclude that the EU Structural Funds have a positive long-term impact, but this effect is not generated by the funds allocated towards companies but by the funds allocated for infrastructure and human capital development. The EU Funds in the view of these authors, enhance productivity and profitability for the business environment. (Barry, Bradley and Hannan 2001)

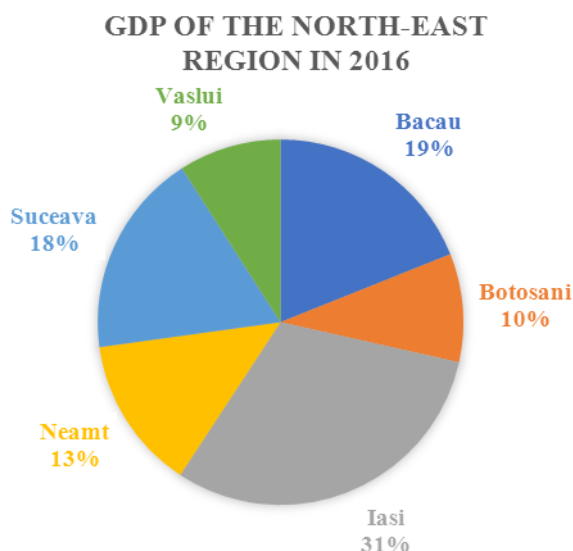
Sjef Ederveen, Henri L.F.Groot and Richard Nahuis, in their paper published in 2002 show that Structural Funds cannot explain all the differences in the growth rhythms among the beneficiary countries. The authors admit that the institutional system is an essential premise for the efficiency of this development instrument, but they also point out that there are a lot of other factors that need to be considered, for example almost all the projects need to be co-financed and all of them need to fit in one of the major priorities, so it is very hard to conduct an unbiased analysis. (Ederveen, Groot and Nahuis 2002)

The theoretical framework on with the Structural Funds are based is the neoclassical economic growth model, that stipulates that economic growth is achieved thru accumulation of capital. But there are some aspects that need to be considered, for example all the projects need to follow a certain priority or a set general objective and so there are priorities that promote cultural themes, so the funds allocated for these projects have a minimum impact on the accumulation of capital, further more for the implementation of these projects a certain amount of human resources has to be engaged in the detriment of the direct productive sectors. (Ederveen, Groot and Nahuis 2002)

Another aspect is the fact that EU projects need to be co-financed both by the state budget and the private sources so the other investment budgets suffer, and furthermore the poorer countries/regions that do not have the necessary resources to co-finance these project will probably tent to absorb less funds or prefer project with a smaller budget.

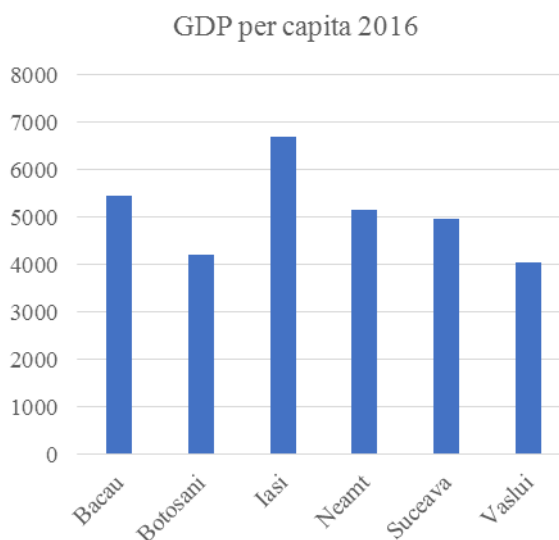
### **3. CASE STUDY ON THE NORTH-EST REGION OF ROMANIA**

In the present article we intend to analyze the distribution of the structural funds addressed to the business environment, absorbed in the multiannual exercise 2007-2013 at the North-East Region of Romania. Considering the existing literature, the hypotheses of this researche are as follows: H1 the economically developed counties will tend to absorb a larger volume of funds and H2 In the economically developed counties the average value of the projects will tend to be greater than in the other cases. The two hypotheses start from the idea that in the more economically developed counties there are more enterprises and more resources to be used for co-financing investments from community funds.



**Figure 1. GDP structure of the North-East Region of Romania**

Source: Data processed by the author ([ec.europa.eu/eurostat](http://ec.europa.eu/eurostat))



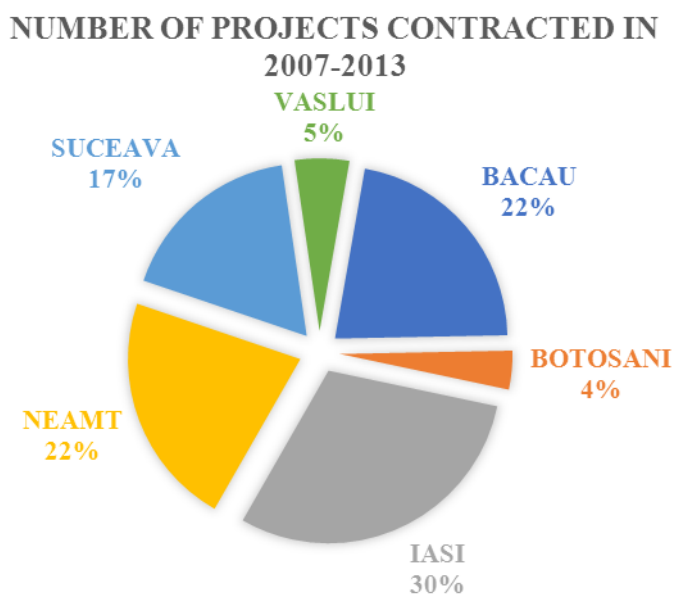
**Figure 2. GDP per capita in 2016**

If we try to classify the counties of the North East Region by their contribution to the regional GDP, we would have three main categories:

1. under 10%: Vaslui and Botoșani
2. Between 11% and 20%: Bacău, Suceava, Neamț
3. Over 21%: Iași.

Regarding the GDP per capita (Figure 2), we can see that the distribution is similar with the one of the GDP (Figure 1).

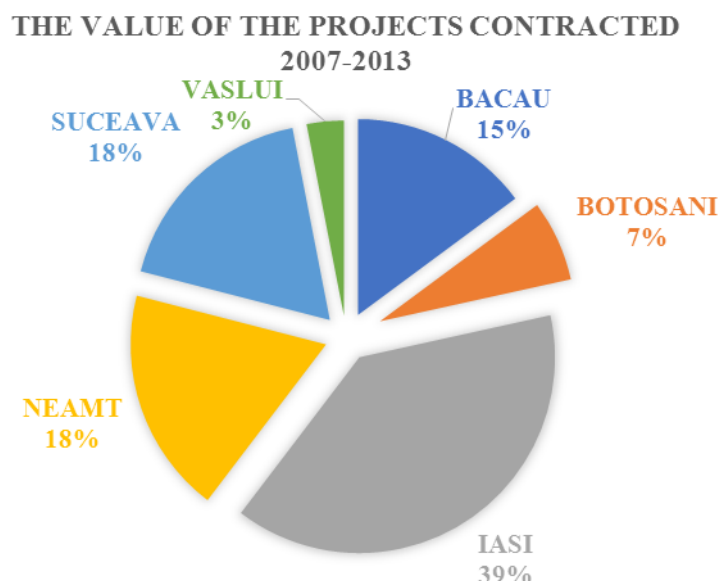
Starting from this grouping of the counties from the North-East Region of Romania, we will try to identify whether there is a similar distribution in the structural funds, destined for the business environment.



**Figure 3. The volume of projects attracted (no. of projects) at the North-East Region of Romania**

Source: Data processed by the author ([www.fonduri-ue.ro](http://www.fonduri-ue.ro))

Regarding the number of projects attracted (Figure 3) we find that there is a distribution similar to that of GDP, Iași county holds the highest share, about 30%, Bacău, Neamț and Suceava counties have weights close to the value of 20%, and the counties of Botoșani and Vaslui a share of about 5%

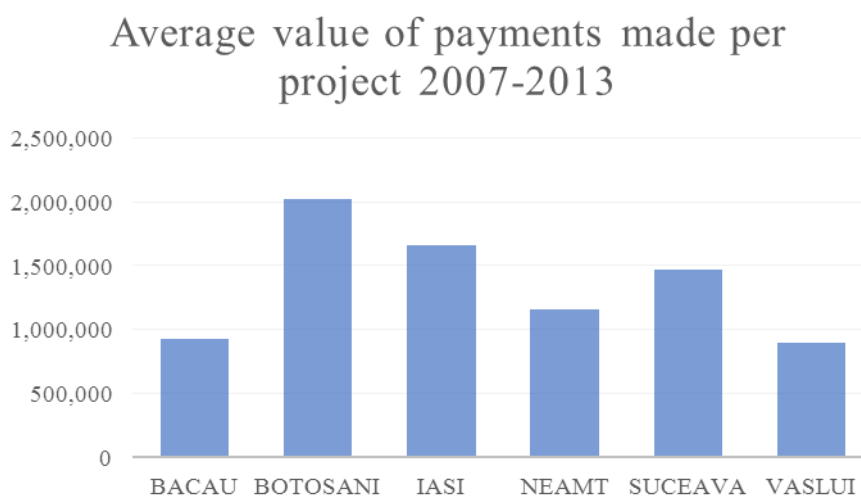


**Figure 4. The volume of projects attracted (LEI) at the North-East Region of Romania**

Source: Data processed by the author ([www.fonduri-ue.ro](http://www.fonduri-ue.ro))

Regarding the value of the projects attracted to the North-East Region of Romania (Figure 4), the inter-county differences are more pronounced. And in this case the distribution identified in the case of GDP is also observable, the Iași county holds a weight of about 40%, while the counties of Bacău, Neamț and Suceava have weights between 15% and 18%. It should be noted that Vaslui County, which has the lowest GDP (Figure 1) and the lowest GDP per capita (Figure 2), attracted a much smaller volume of structural funds than the other counties, the regional level being only 3%.

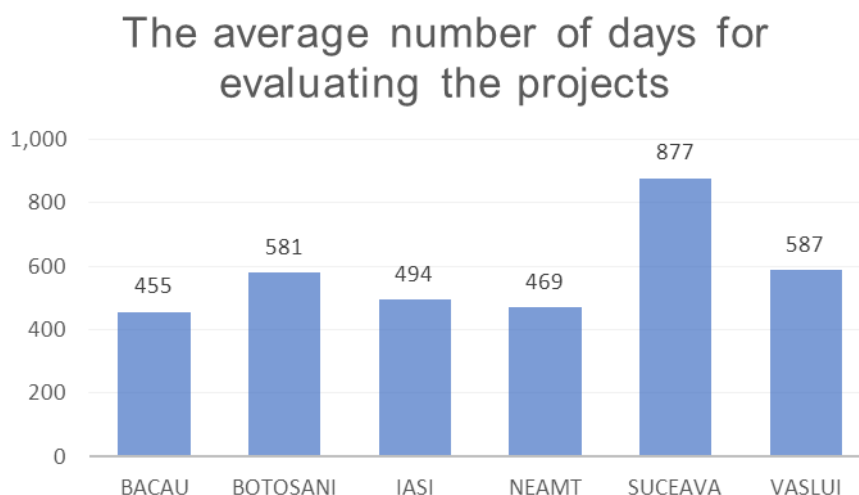
Thus, we find that hypothesis H1 is confirmed, the more economically developing counties tend to attract a larger volume of funds.



**Figure 5. The average value of payments per project (LEI / project) in the North-East Region of Romania**

Source: Data processed by the author ([www.fonduri-ue.ro](http://www.fonduri-ue.ro))

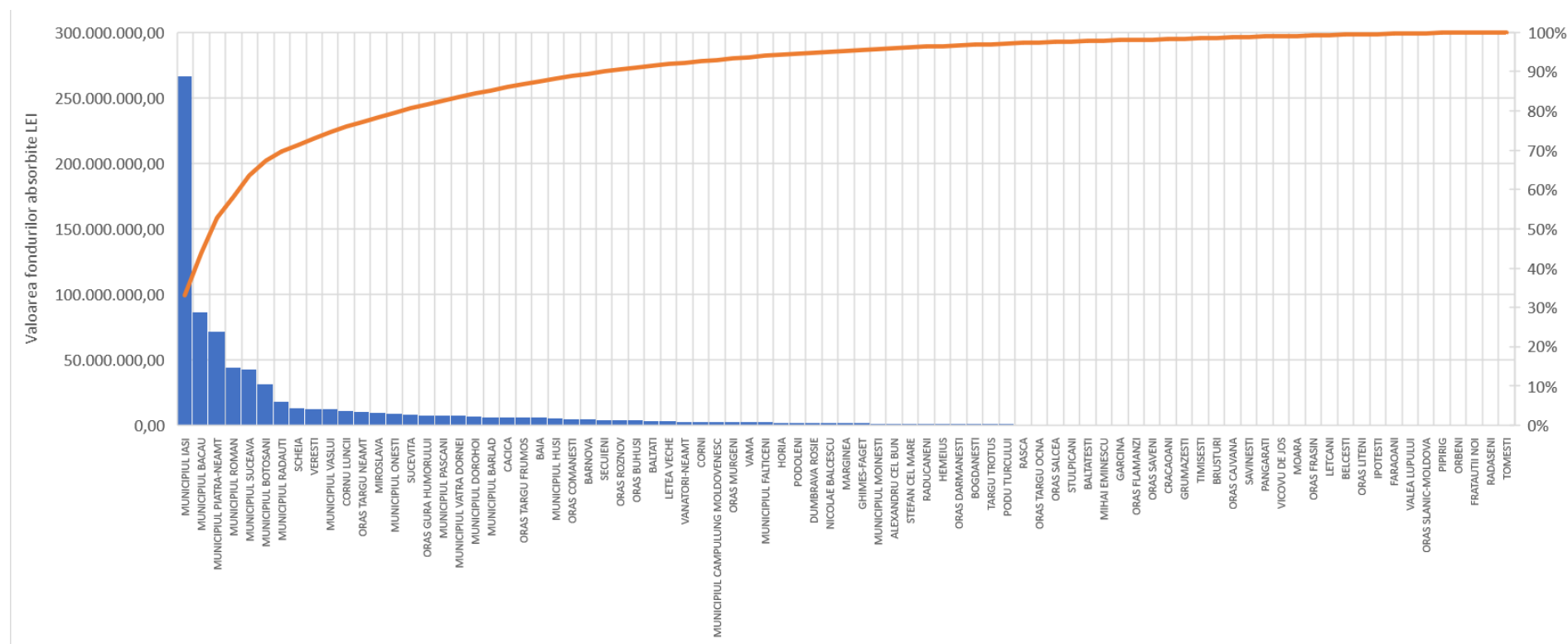
Starting from the number of projects attracted and their value, we determined the average value of the projects attracted by each county (Figure 5). According to Hypothesis H2 we expect the more economically developed counties to register a higher average value, but we find that this is not true, the highest average value of the projects is recorded in Botoșani county, the penultimate in terms of GDP. As for the other five counties, like the weight they occupy in the region's GDP, more precisely Iasi County holds the second position, followed by Suceava, Neamț, Bacău and Vaslui counties. It should be mentioned that the differences between Suceava, Neamț and Bacău counties are relatively large, so Hypothesis H2 cannot be confirmed, further tests are needed to explain both the very high average value recorded for Botoșani county and the relatively large differences between Suceava, Neamț counties. and Bacău.



**Figure 6. The average number of days required for the evaluation of the projects in the North-East Region of Romania**

Source: Data processed by the author ([www.fonduri-ue.ro](http://www.fonduri-ue.ro))

Another interesting aspect is the time elapsed from the date of submission of the financing request until the actual contracting of the project, so we can see that there are no major differences between counties, the only exception being Suceava county where the number of days required for evaluation was much higher than in the case of the other counties (Figure 6). There are several causes that could explain this difference, among them atypical projects that took longer to evaluate or projects with more problems (incomplete / incorrect documentation) that took longer to resolve, but to obtain more conclusive results require further analysis.



**Figure 7. Territorial distribution of funds absorbed at the North-East Region of Romania**

Source: Data processed by the author ([www.fonduri-ue.ro](http://www.fonduri-ue.ro))

As for the growth poles from the North-East Region, Iasi has the largest share of the funds attracted, followed by the municipalities of Bacău, Piatra-Neamț, Roman, Suceava, Botoșani and Rădăuți (those aforementioned have attracted 75% of the volume of funds at regional level). Vaslui municipality is only in the 10th position.

The first 25 localities represent approximately 90% of the volume of funds absorbed at the Regional level and the fact that among these certain counties have more growth poles (for example at Suceava County level in the first 25 positions we have: Suceava Municipality, Rădăuți, Scheia, Verești, Cornu Luncii, Sucevița, Gura Humorului, Vatra Dornei and Cacia, while for Vaslui county we have: Vaslui and Bârlad) indicate that in analyzing the phenomenon of absorption and structural funds it is necessary to consider a territorial variable that explains the uneven distribution identified. However, the fact that the first positions are represented by the county residence municipalities makes us conclude that H1 is confirmed.

#### 4. CONCLUSIONS

Following the analyzes we found that the first hypothesis stated H1 is confirmed, practically the more economically developed counties tend to attract a larger volume of structural funds addressed to the business environment. This fact raises new question marks, as one of the objectives of the Regional Development Policy is to reduce the existing disparities at the level of the beneficiary region, but from the data we identified in the present article we find that the intra-regional disparities (between the counties ) need not be reduced, the counties with the lowest GDP attracted the smallest volumes of structural funds.

Regarding the second hypothesis H2 we find that the results are inconclusive, the results obtained only partially support the hypothesis, in order to conclude if the more economically developed counties tend to attract projects with a higher average value than the less economically developed counties, we will have to carry out additional tests in future work.

#### ACKNOWLEDGEMENT:

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