

## **Main Sources of Funding Necessary to Implement the Regional Policy in the EU**

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**Abstract:** The paper deals with the impact of the European Structural Instruments on Member States' economies. For the beginning, we presented the role of these financial instruments and the strategically objectives of the European regional policy which can achieve by using them. We focused on the actual financial perspective, 2007-2013, in order to explain the evolution of the objectives of regional policy. The last part of the paper deals with the Romania's situation connected with these financial instruments.

**Keywords:** sources of funding; European structural instruments; EU; regional policy

The main way used by the European Union in order to promote its regional development policy is represented by the Structural Instruments. These funds consist in import taxes on agricultural goods, custom taxes, taxes on VAT and financial apports of the Member States according with their development levels. The funds are re-distributed according with a regulation framework and a complex procedure to those European regions and states wich are less socio-economic developed.

### **Common Legal Framework for Constituting European Structural Instruments**

a. within the framework of socio-economic cohesion policy: the European Treaty (Tudoroiu, 1997) establishes the community objectives about socio-economic cohesion in Article no. 158 which replaces Article no. 130 A.

As a result, in order to promote harmonious development across the E.U., this develops and has in view the decreasing of development disparities between regions and growing developing level for detriment regions including rural areas.

The main actions in order to achieve these objectives are the following<sup>1</sup>:

- implementation and coordination of economic policies by Member States in order to achieve stipulated objectives;
- community's policies and actions formulation and implementation and realisation of a single market;
- community's actions which are supported by Structural Funds (European Fund for Orientation and Agricultural Certification- section Orientation; European Social Fund, European Regional Development Fund), funds of European Investments Bank and other European financial instruments.

European Regional Development Fund (ERDF) actions in order to correct the main regional disparities by supporting structural development and adjustment of less developed regions and reconversion of industrial regions which are under decline. <sup>2</sup>

Decisions regarding ERDF implementation are adopted by the European Council, after it's consulting with Econoci and Social Committee<sup>3</sup> and Committee of Regions.

The procedures of implementation European Fund for Orientation and Agricultural Certification- section Orientation and European Social Fund are object of article no. 37 (ex-article no.43) and article no. 148 (ex-article 125) from the Treaty.

In 1993, the European Council created the European Cohesion Fund according with article no. 161 (ex-article no. 130 D) al. 2 from the Treaty. This fund supports projects for environment protection, trans-European networks and transport infrastructure.

More, there were adopted internal regulations for community's institutions which have concrete elemnts for structural instruments' applying. Nowadays, there are the following regulations:

- regulation no. 4256/1988 of the European Council about section Orientation from European Fund for Orientation and Agricultural Certification;
- regulation no. 1263/1999 of the European Council about Financial Instrument for Fisheries Guidance (FIFG);
- regulation no. 1783/1999 of the European Parliament and Council about European Regional Development Fund;

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<sup>1</sup> according with art. no.159 from the Treaty (ex art. no.130B).

<sup>2</sup> according with art. no. 160 from the Treaty (ex. art. no. 130C).

<sup>3</sup> Economic and Social Committee is a consultative organism. It is formed by socio-economic actors and represents the apport of civil society to European projects. The Committee of Regions is a consultative organism too.

- regulation no. 1081/2006 of the European Parliament and Council about European Social Fund;
- general regulation no. 1083/2006 of the European Council about European Regional Development Fund, European Social Fund and European Cohesion Fund;
- regulation no. 1084/2006 of the European Council about European Social Fund.

b. within the framework of Common Agricultural Policy (CAP): the legal framework for CAP are articles no. 32-38 (ex-articles 38-43 and 46) from the Treaty.

So, the European Fund for Orientation and Agricultural Certification has two administrative and functional sections with specific objectives: Orientation and Certification. Section Orientation functioned based on Regulation no. 1258/1999 of the European Council.

c. within the framework of European Social Policy: legal framework is represented by articles no. 136-145 from European Treaty (ex-articles 117-122).

In order to implement social community's objectives, the European Treaty regulates organisation of European Social Fund too.<sup>1</sup>

This fund promotes labour facilities and geographical movement of labour across the E.U. More, it facilitates adaptation to industrial changes and production systems' evolution, using labour reconversion.

The European Commission administrates this fund together with a Committee which is led by a member of the Commission and is formed from governments' representants, trade unions' representants and employers' representants too.

The decisions connected with European Social Fund are adopted by the European Council, after its consulting with Economic and Social Committee and Committee of the Regions.

Nowadays, the European Social Fund operates under regulation no. 1081/2006 of the European Parliament and Council.

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<sup>1</sup> according with article no. 146 (ex-article no. 123).

**Structural Instruments- present and the future**

Structural Instruments were created in order to achieve socio-economic cohesion. They co-finance regional or horizontal investments in Member States, according with negotiated programming documents with the European Commission.

European Regional Development Fund support decreasing disparities between European Regions. It benefits by the greatest financial allocations. ERDF uses some specific criteria of financing like the following;

- concentration of funds' allocation on specific objectives which cover specific regions in order to maximize their effects;
- realising of a partnership between European Commission and Member States in order to planify and to implement structural action;
- programming of community's intervention not as a substitute of national intervention.

Expenditures financed by ERDF are divided into programs. These programs cover: infrastructure development, subventions for industry and services and measures of regional development using their own potential.

There are two types of programs (Dorel, 2006, p. 37):

- European Union's programs: they are implemented at the initiative of the European Commission and support solutions for socio-economic problems from one or more specific regions. European programs follow E.U.'s objectives and community policies' implementation. They can affect more Member States. Lorena, for example, is a region which covers parts of France, Belgium, Germany and Luxembourg;
- national programs of community's interest: these programs are proposed by Member States to the European Commission and are focused on national objectives which allow realisation of European policy's objectives. A special program exploits internal regional potential using local resources, including tourism development.

The European Fund for Orientation and Agricultural Certification represented financing instrument of CAP. This fund supported agricultural goods market and promoted European agricultural restructure.

Section Certification had to finance expenditures for markets' management using:

- buying or stocking surpluses and encouraging exports of agricultural foods;

- interventions for agricultural markets' stabilisation;
- measures for rural development;
- measures for giving informations about CAP;
- specific veterinary measures, inspection veterinary measures, measures for animals and plants health.

Section Certification was considered the most important one. It financed community's agriculture using projects of supporting prices of agricultural goods.

Section Orientation represented a structural fund which supported agricultural structural reforms and rural areas' development.

The financing of rural development measures contributes to:

- reorganization of agricultural structures;
- regional development promoting;
- disparities' decreasing between European regions.

European Social Fund represents the main financial instrument of the European social policy. It supports measures of preventing and eliminating unemployment, of developing human resources and social integration. This fund finances actions of training and professional reconversion, and measures for creating new jobs. About 75% from this fund finances measures for young unemployment decreasing.

The priorities of the European Social Fund are the following:

- improving function of labour market;
- social re-insertion of unemployment;
- promoting chances equity;
- labour adapting to industrial changes.

The Financial Instrument for Fisheries Guidance (FIFG) operates in all coast regions and has to achieve specific objective like the following (Ionescu & Marchis, 2006, pg. 79 - 80):

- a long term equilibrium between marine resources and their uses;
- growing firms' efficiency in these specific activities;
- improving development of fisheries' goods and supply;
- supporting for those areas which depend of fisheries in order to revitalise them.

During 2000-2006, the budget of the Financial Instrument for Fisheries Guidance was about 1 billion Euros.

European Cohesion Fund was created in order to finance projects for environment protection and transport networks' development. The main objective of this fund is the decreasing of the economic disparities between Member States.

The Cohesion Fund offers financial assistance for those Member States which has a GDP/capita less than 90% from European average. The financial assistance covers projects not programs.

The development projects financed by the European Cohesion Fund cover the following domains (Aldea, 2006, pg. 95-96):

- trans-European transport network;
- environment protection;
- sustainable development friendly for environment;
- sometimes, transports which are not connected with trans-European transport network.

During 200-2006, there were four Common Initiatives: Interreg III, Equal, Leader+ and Urban II. The budget for these initiatives was constituted outside of the budget of Structural Funds. It represented 5.35% from European Structural Funds. Other financing sources for these initiatives were: European programs for candidate countries (PHARE, TACIS), European Investments Bank and European Development Fund.

Interreg III was financed by ERDF in order to stimulate regional initiatives using transnational and transborder cooperation and the idea of Europe of Regions. It contributes to the integration of faraway regions and of those regions which have common borders with the candidate countries.

Equal was financed by European Social Fund and it supported elimination of those factors which determined discriminations and inequities on labour market. The financing proces under Equal was oriented to four thematical areas:

- facilitating labour access on market, racism and xenofoby elimination on jobs, elimination of young unemployment and long term unemployment too;
- entrepreneurship: promoting the initiation of a business and new jobs by encorageing local development;
- adaptability: modernizing labour organization and promoting flexible labour contracts;
- equity in chances for women and men: special measures in order to harmonise women's professional life with their family life.

Leader+ was financed by the European Fund for Orientation and Agricultural Certification, section Orientation. It stimulated active factors from rural localities and economies to elaborate a new local sustainable development strategy.

Urban II was financed by ERDF and it was focused on innovator strategies in order to revitalise cities and urban areas in decline. This common initiative supported information and experience exchange about urban sustainable development across the E.U.

More, Urban II tried to solve problems of the local authorities like economic, social, environment and transport problems.

The budget of the Structural Funds financed Innovator Actions too. These actions supported applying of the newest ideas into regional development strategies. During 200-2006, Innovator Actions were financed in the following way:

- ERDF financed three strategically themes: regional economies based on knowledges and technological innovation; eEuropeRegio (informational society in service of regional development) and regional identity and sustainable development;
- European Social Fund financed training and contracts for labour;
- Financial Instrument for Fisheries Guidance financed actions for fisheries activities.

During 2007-2013, the financial support for Member States using structural funds will be about 308 billions Euros (35.6% from European budget). This sum represents a growth of 44.6% given the situation during 2000-2006 (213 billions Euros).

During 2007-2013, the structural funds have to face to new challenges like the following:

- the latest two enlargements determined the growth of economic disparities between European regions and unemployment; in order to solve these problems there are necessary great financial efforts;
- under a great competition, the enterprises operate in regions with developed infrastructures, with good services and better labour; these imply important specific investments;
- there are more expenditures in order to adapt economy and citizens to the technological exigences and informational society development;

- E.U. has to reconcile interests between old and new Member States about dimension and framework of their structural policies or about the distribution of the European funds.

### **The Financial Framework during 2007-2013**

The third report of the European Commission (Report about the progresses of economic and social cohesion- 18<sup>th</sup> of February 2004) presented some reform proposals for the present financial framework 2007-2013: (Popescu, 2006, pg. 218-226)

#### *1. Guiding lines*

The European Commission proposed that cohesion policy to be focused on investments in a little number of priorities of the .E.U. in which community's intervention can obtain a semnificative add value:

- innovation and knowledge based economy;
- environment and risks' prevent;
- accessibility and local and general economic services.

The programs which are focused on labour need reforms' implementation in order to achieve progresses on labour market, to improve quality and efficiency and to promote social inclusion and cohesion according with European Labour Strategy. European Commission coordinates this policy and Member States create, implement, control and evaluate this policy too.

#### *2. New common priorities proposed by the European Commission (objectives)*

##### *a. Convergence*

Under this objective, the main attention will be given to those regions with a GDP/capita less than 75% from European average until 2013.

Programs under objective Convergence will be finance by ERDF, European Social Fund and European Cohesion Fund.

ERDF will finance actions like the following:

- modernization and diversification of regions and Member States' economic structures eligible for this objective. A great attention will be give to innovation and enterprise in order to establish better connections between



R&D institutes, to simplify access to information and communication technologies and to encourage new initiatives of the enterprises;

- enlargement and modernization of basic infrastructures (transport, telecommunications and energy networks, water networks and facilities connected with environment protection;
- environment protection: supporting ecoindustries, preventing natural and technological risks, using less polluting transports, developing of unconventional energies;
- improving institutional and regional capacity about the management of Structural and Cohesion Funds.

The European Social Fund will be the main financial instrument of European Labour Strategy in order to achieve:

- improving quality and reaction capacity of existing institutions from labour market, educational and training systems and social services;
- growing investments in human capital in order to obtain a higher education, better training and access of labour on specific market;
- promoting adapting of public administration to changes by developing administrative capacity.

The Cohesion Fund is focused on those Member States with a GDP/capita less than 90% from European average in order to support their contribution to sustainable development. The main priorities are: transEuropean transport networks and environment infrastructures.

#### b. Regional efficiency and employment

European Social Fund finances national programs which support citizens to anticipate and adapt to economic changes according with political priorities of the European Labour Strategy. This support is focused on three priorities:

- growing labour and enterprises' adaptability using investments for training in enterprises and encouraging elaboration of an efficient learning strategy all life long;
- better employing and elimination of premature outside from labour market;
- better access on labour market for handicapped persons, ethnic minorities and immigrants.

#### c. European territorial cooperation

The European Commission proposed a new juridical instrument as a European cooperation structure named Regional Transborder Authority in order to allow Member States, regions and local authorities to face to juridical and administrative traditional problems which are connected with the management of transborder programs and projects. More, regions have to incorporate measures of interregional cooperation in their regional programs.

### *3. Proposals about teritorial cooperation*

There are a lot of problems about accessibility and distance from great markets especially in islands, some mountain areas and in regions with low density of population. These regions will benefit by a greater financial support from the E.U.

### *4. Reform of implementation system*

During 2007-2013, the European Commission will continue the process of simplifying management of cohesion policy:

- every Member State will elaborate a political document about its development strategy, document which will be negotiate with the European Commission. This document represents the framework for preparing sector and regional programs;
- using this document, the European Commission will adopt national and regional programs for every Member State.

There are three structural instruments used by regional policy: ERDF, European Social Fund and European Cohesion Fund.

More, section Orientation of the European Fund for Orientation and Agricultural Certification become European Agricultural Fund for Rural Development and the Financial Instrument for Fisheries Guidance become European Fund for Fisheries.

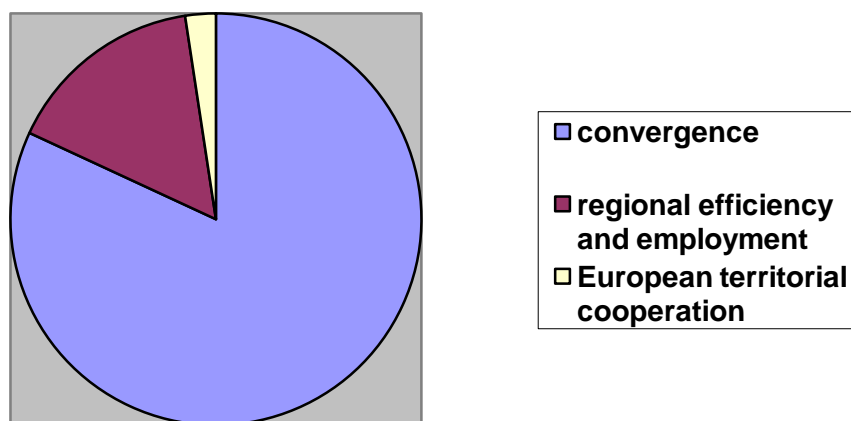
During 2000-2006, the budget of the regional policy was about 0.46% from European GDP. During 2007-2013, will be the same percentage but from the E.U.27's GDP even that some specialists want a necessary correction. As a result, the financial resources will be about 0.41% from European GDP during 2007-2013. These financial resources will be divided into:<sup>1</sup>

- convergence (81.9%): in order to support less developed regions using investments, innovation, environment protection and administrative efficiency;

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<sup>1</sup> <http://www.mie.ro>.

- regional efficiency and employment (15.7%): supporting for other regions in order to achieve the objectives of Lisbon Agenda;
- European territorial cooperation (2.4%): supporting for European coordinated and harmonised development.



**Figure no. 1: Financial resources during 2007-2013**

There are just a little different principles of the European Funds during 2007-2013: (Săvoiu, 2006, pp. 166-167)

- complementarity: funds ensure a complementary assistance to national, regional and local measures in order to integrate community's priorities;
- coherence between fund and Member States' intervention and community's activities, policies and priorities;
- concordance between operations financed by funds and European Treaty's regulations and other conex documents;
- programming: the objectives of the funds are monitoring using a multiyear programming system;
- partnership: the intervention of the funds is decided by the European Commission under a close cooperation with every Member State;
- proportionality: the control instruments applied by the European Commission and Member States vary according with the importance of European contribution;

- concordant gestion:the budget of the European Funds is dimensioned according with guarantee of good financial gestion principle;
- aditionality: Structural Funds don't replace public or equivalent structural expenditures of a Member State;
- equity between men and women during funds' implementation.

Romania developed a specific concept of regional development policy using studies and analysis made by PHARE and asked by the Romanian government. This concept is defined in Green Charter of Regions in Romania.

This new tipe of policy is connected with real needs of the local and regional communities from Romania and it can be defined like a new approach for development from bottom to upper part based on development initiatives, plans and programs of these communities.

Romanian regional policy is based on planified measures which are promoted by local and central public administration authorities using partnership with different private and public actors. The objective of this policy is a dynamic and great socio-economic development using efficient local and regional resources in order to achieve socio-economic cohesion.

As a result, it was elaborate National Development Plan during 2007-2013 based on idea of convergence with domains of Structural and Cohesion Funds.

According with the new acquis comunitaire, National Development Plan was replaced by National Strategical Reference Framework on 1<sup>st</sup> of January 2007. National Strategical Reference Framework becomes the sunique strategical document which is connected with European Structurtal and Cohesion Funds. (Vass, 2006, p. 82)

The similary documents for agriculture and fisheries are National Strategical Plan for Rural Development and National Strategical Plan for Fisheries and Acquaculture.

The National Strategical Reference Framework was elaborated by Public Finances Ministry in April 2006. It represented the base for the negotiations with Eyropean Commission in order to allocate on operational and sector programs the sums for Romania during 2007-2013.

Romania is eligible for two objectives (Convergence and European territorial cooperation) under European Cohesion Policy during 2007-2013.

Under objective Convergence, E.U. will finance Romania using the following Operational Programs:

- economic efficiency: which is financed by ERDF (2240 millions Euros);
- transport infrastructure: which is financed by ERDF and Cohesion Fund (4010 millions Euros);
- environment infrastructure: which is financed by ERDF and Cohesion Fund (3960 millions Euros);
- regional development: which is financed by ERDF (3275 millions Euros);
- technical assistance: which is financed by ERDF (150 millions Euros);
- human resources: which is financed by European Social Fund (3050 millions Euros);
- administrative capacity: which is financed by European Social Fund (185 millions Euros).

Under objective European territorial cooperation, E.U. will finance Romania using Operational Program Transborder, Transnational and Interrregional Cooperation (from ERDF) and Financial Instrument for European Neighbourhood Policy (394 millions Euros).

The financial package for Romania contains 80% from the costs of projects (from Cohesion Fund) and 75% from the costs of projects (from Structural Funds).

Romania's public budget will co-finance these European Structural and Cohesion Funds with 4.55 billions Euros. These funds come from public co-financing (3.1 billions Euros) and private co-financing (1.45 billions Euros).

Under CAP and Common Fisheries Policy, the financial package for Romania will be about 13646 millions Euros during 2007-2013. This sum will cover agriculture, rural development and fisheries and it comes from European Fund for Agriculture and Rural Development which is divided into:

- market measures- 1066 millions Euros;
- direct payments- 5471 millions Euros;

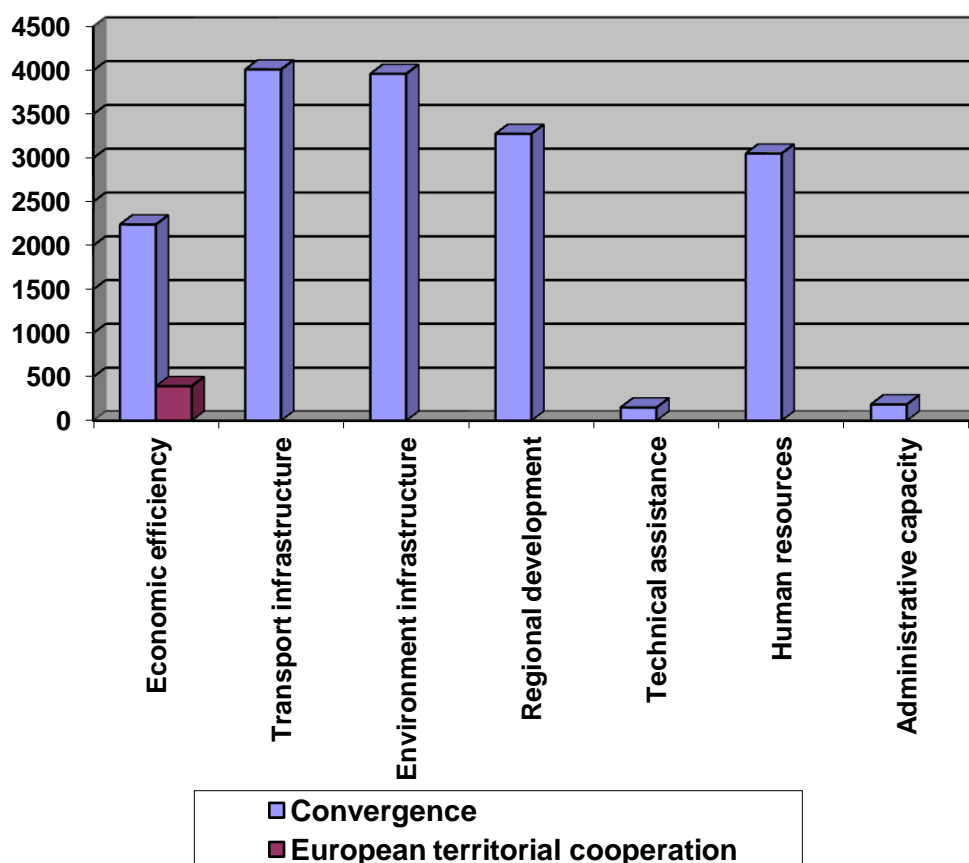


Figure 2. Operational Programs for Romania during 2007-2013

- rural development- 7109 millions Euros;
- European Fisheries Fund- 209 millions Euros.

So, we can conclude that is a great mistake to see preadhering and postadhering negotiations only connected with Structural and Cohesion Funds, in order to obtain more money.

The real interest is that connected with the Member States' capacity to apply the European rules and regulations. As a result, the Member States have to demonstrate the necessity of these funds in order to complete their own financial resources for decreasing regional disparities and sustainable economic development.

Romania applies a regional development policy which is related to European policy and respects European orientative objectives and principles according with Romanian economic, social, cultural, historical and geographical conditions.

The development of the Romania's economy needs more than European Funds. It needs political and law stability and a greater implication of local public administration authorities for economic development.

Romanian authorities have to respect the financial function cycle of the structural funds and to realise a good analyse of regional socio-economic situation in order to delimit geographical areas which have disfunctions and major disparities in their economic development.

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\*\*\*<http://www.mie.ro>.