

INTERNAL AUDITING & RISK MANAGEMENT



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USAGE OF INFORMATIONAL SYSTEMS IN ECONOMIC APPLICATIONS

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Abstract: *The paper presents the usage of informational systems in economic applications. The information system connects the managed system with the management system, being subordinated to them. This link is bidirectional. It can be said that the information system is the “shadow” of the economic processes in the unit. The use of the computing technique produced mutations in the way of carrying out the activities carried out within an information system, and implicitly determined the appearance of the information system concept. The information system is an assembly of functionally interconnected elements in order to automate the obtaining of the information necessary for substantiating the decisions. The usage of informational systems requires a mechanism of building alternatives that give the management of a company the possibility to chose an alternative that may give an advantage in front of the competiton. The economic applications may provide the alternatives based on data stored in files and databases. These applications represent the base for the informational systems and they ensure a higher productivity that gives the advantage before the competition.*

Keywords: *Informational systems, business environment, programing algorithms, information systems, business alternatives, programing language.*

JEL Classification: C23, C26, C38, C55, C81, C87

1. Introduction

Today, more than ever, the conduct of any economic, financial or banking activity can not be imagined without the use of a strong informational support that would provide competitive advantage over other competitors on the market. To acquire knowledge through the information obtained is the role of Information Technology (IT).

IT means hardware, software, communications, networks, databases, office automation as well as all other software and software components required to process information. TI today offers not only the informational support needed to run the business in terms of efficiency but also solutions for rethinking how to organize your business in order to maintain competitiveness [1], [5].

Business Reengineering - Reengineering means the fundamental rethinking and radical redesign of business processes to achieve substantial improvements in cost, quality, and response speed of decision makers. This rethinking of how to do business is influenced and finds answers in new IT solutions. The way of doing business in any one company changes (fig. 1.1) the following actions of the following factors (their list remains open):

- Globalization
- High level competition
- Information became a key resource
- Virtual work space and even running the business under the conditions of the virtual company
- Electronic commerce
- The existence of personnel specialized in data processing and analysis (knowledge worker)
- A new type of relationship with the bank through which new services and products are obtained as a result of the promotion of new IT solutions, etc.

The impact of IT on the firm is not only felt from the outside environment but also from within the firm. Any organization (firm, bank, etc.) assumes the existence of five interdependent elements (components):

- The organizational structure
- Business management and processes - Information technology
- The organization's strategy
- Employees and organization culture.

These components must be in a state of equilibrium and this condition will be maintained as long as no significant changes occur in the external environment or in any of the components.

The IT component has a special dynamic. This causes qualitative mutations on the other components. The dynamics of the IT component is also felt at the level of the organization's strategy, providing the means and tools specific to the analysis and substantiation of the strategy.

2. Information system and computer system

A system is a set of interdependent elements (components) between which a dynamic interaction is established based on predetermined rules in order to achieve a certain objective. The dynamic interaction between elements materializes in the flows established between them, flows involving the existing resources [3], [6].

According to system theory, any economic body is a system because:

1. It presents its own structure consisting of a set of constituent elements that interact with each other on functional principles;

2. The flows between the organizational components involve the resources of the economic body. Inside any economic organization: - material flows (raw materials, semi-finished products, finished products, etc.) - financial flows - information flows

3. The multitude of the organizational components and the interaction between them aim to achieve an overall objective: the operation of the company in optimum conditions or the achievement of some objectives. The work in the field of system has led to the definition of a model that promotes the systemic vision of the enterprise that it considers to consist of the following three subsystems :

- The decision subsystem uses the information provided by the information subsystem to substantiate the decisions.
- The information subsystem plays a dual role: it provides all the necessary information to make decisions at all levels of responsibility, leadership and control and, on the other hand, provides the means of communication between the other subsystems because the decisions made by the management subsystem are passed on to the factors execution through the information subsystem (downstream).
- Operational subsystem (where the economic processes specific to the economic activity domain are carried out) the data collection is then collected and then transmitted to the information subsystem (upstream) in order to store and process the data necessary to obtain the information used in substantiating the decisions at the level of the decision subsystem (driving).

The decisional subsystem requires specific information needed to substantiate strategic decisions on the one hand and tactical and operational decisions on the other hand [2], [5].

The level of strategic and tactical management is characterized by the request for information:

- Ad hoc, unanticipated, determined by a certain context in which the manager is obliged to base his / her decision;
- Synthesized: as we climb the steps of the managerial hierarchy, a selection and a gradual synthesis of information take place;
- Forecasting, allowing anticipation of trend trends in the process led;
- External to define the economic, financial, competitive environment in which the firm will operate. In the case of operational management, characterized by structured decisions, the information provided is:
- Pre-established, their content covering the informational need determined by the derutin decisions taken at this level
- Detailed because the manager needs to know in detail how to run the activity in his area of responsibility
- Interior
- Punctual
- Presents historical character

- Obtained at a certain frequency, the moment of providing the information being preset.

The information subsystem represents the technical and organizational assembly of data collection, transmission, storage and processing in order to obtain the information necessary for the decision-making process.

The information subsystem is interposed between the decision subsystem and the operational subsystem to provide the necessary information to the managerial staff, while being a means of communication between the other two subsystems. The informational subsystem should not only be seen as an interface between the operational system and the management system, but also as the link between the company's internal environment and its external environment (economic, financial, banking). The main purpose of the information system is to provide each user, according to his responsibilities and responsibilities, with all the necessary information.

The information system is part of the information system that allows the collection, transmission, storage, data processing and dissemination of the information thus obtained through the use of information technology (IT) means and the personnel specialized in automatic data processing.

The information system comprises:

- the set of internal and external information, formal or informal, used in the company, as well as the data on which they were obtained;
- the software needed to process data and disseminate information within the organization;
- procedures and techniques for obtaining (based on primary data) and disseminating information;
- the hardware platform required for data processing and dissipation of information;
- personnel specializing in collecting, transmitting, storing and processing data.

The IT system is structured to meet the needs of different user groups:

- strategic leadership, tactical and operational leadership;
- personnel involved in the data collection and processing process;
- the staff involved in the scientific research process and the design of new defamiation products and technologies.

Along with defining the business strategy it is necessary to define the strategy of the IT system because:

- The information system supports the managers, through the information provided, in the management and control of the activity in order to achieve the strategic objectives of the organization;
- IT systems are open and flexible, adapting the imposed environment to the dynamic environment in which the company operates;
- promoting IT solutions supports the organization in consolidating and developing the business (eg: electronic commerce, e-banking etc);
- the information system provides the information necessary to control the fulfillment and adaptation of the operational and strategic plans of the organization;
- the organization needs to know and control the risks of implementing new technologies and adapting the IT system to the new requirements;
- Establishment of standards in the information system that are meant to specify the characteristics and the hard and soft performances of the components to be purchased and the methodologies to be used in the development of the system.

Analyzing the structure of an organization's global IT system, we can make the following classifications related to its components:

After area of coverage:

a) Information subsystems covering distinct areas, defined on functional criteria within the organization:

- Accounting subsystem
- o Subsystem of production
- o Subsystem of research
- o Commercial subsystem
- Subsystem of Human Resources

Ex: In the IT system of a company, we find: the accounting subsystem, the information subsystem on stock management, the information subsystem on deliveries, etc. Within the IT system of a bank we can find: the accounting subsystem, the computer subsystem on current account operations, the IT subsystems regarding the management of the banking products and services offered to the clients (deposits, credits, deposit certificates etc), the information subsystem on the payment transactions through cards etc

b) Inter-organizational subsystems designed to provide information flows between:

- Organization and its partners (suppliers, customers, bank, etc.). Eg: e-banking, e-commerce, etc. a “Parent Company” and its organizational subdivisions.

Depending on the nature of the supported activities:

a) Management Systems (MSS) have the role of providing information to support and assist managers in decision-making and encompass.

- Management Information Systems (MIS): Information systems are designed to provide managers with the information they need to monitor and control business processes as well as anticipate future performance.
- Decision Support Systems (DSS): Interactive computer systems to assist managers (strategic plan) in solving semi-structured problems using models and databases specialized in well-defined issues.
- Executive Information Systems (EIS): represent information systems designed to provide: fast and selective access to internal and external data of the firm, information on critical determinants in achieving strategic objectives, computational facilities and special graphical representations

b) Operational level systems comprising:

- Office Automation Systems (OAS): mainly used by data processors (officials, secretaries, accountants, etc.), but also to managers, their role being to collect, process, store and transmit information using means IT. This category includes specialized software for: text processing, communication (electronic mail, voice mail etc), collaborative work (Electronic Meeting Systems, Collaborative Work Systems, Teleconferencing), image processing (Electronic Document Management, graphics processors, multimedia system) office management (electronic agendas, accessories, etc.).
- Transaction Processing Systems (TPS): they are specialized in retrieving, storing and processing data for daily routine transactions, ensuring the current updating of data bases: it is customized by the repetitive character of the processing and its reduced complexity, the high volume of the processed data; are intended for current activities in the functional departments of the organization; are used by operational staff in functional compartments [4], [6].
- Process Control Systems (PCS)

c) Knowledge Management Systems (KWS): enable the creation, promotion and integration of new technologies and knowledge in the company. The users of these systems are either engineers and designers (who use CAD - Computer Aided Design applications to design new products), or other analytical specialists and economic, financial, legal advisors, who are creators of knowledge-generating information.

The virtual work group concept: promoting new IT solutions (the Internet) allows for the participation of people geographically placed in different locations or participating with project solutions at different times.

Groupware or collaboration software is software specializing in working within a virtual workgroup. Groupware uses the communication facilities provided by the organization's intranet, creating the possibility of parallel work and interactivity among group members.

3. Infrastructure systems and information systems

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Management Information Systems

Management information systems are defined in the literature by two approaches:

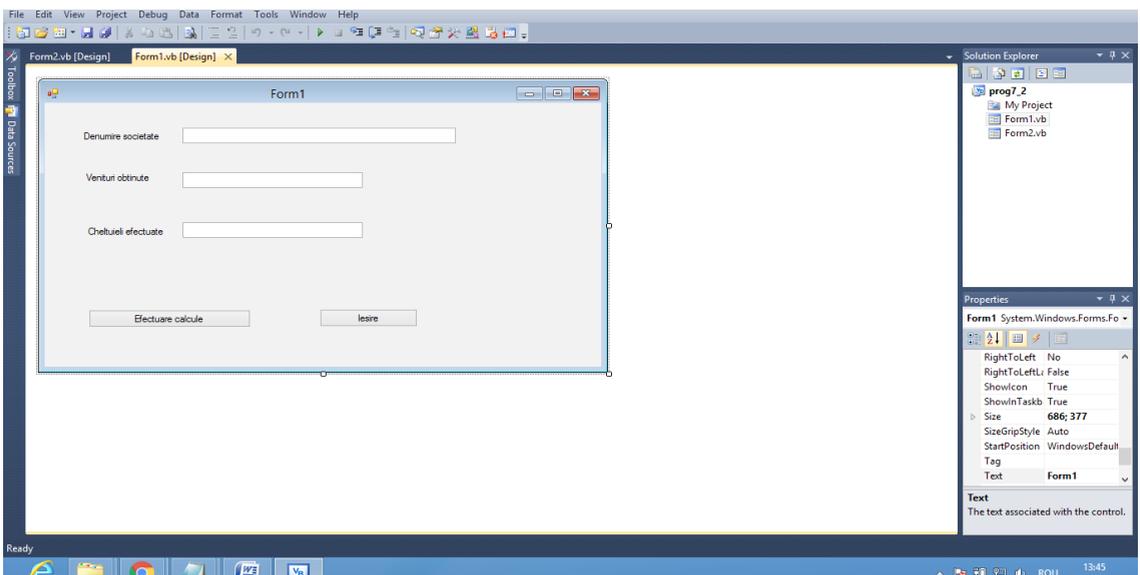
- a) starting from the information and its support;
- b) starting from the function that the management information system has to accomplish.

In the first case, management information systems represent all the information used in the company, the means and procedures for identifying, collecting, storing and processing the information. The second approach to defining management information systems starts from its purpose, namely to provide the information requested by the user in the desired and timely manner in order to substantiate the decisions.

Management Information Systems (SIGs) imply the definition of: management domains, data, models, management rules. Such a Management Information Systems may be describe by the following economic application.

Ex: A visual application (containing at least one data entry form) in the Visual Basic - Windows Application language. The application will allow the user to enter data about a company (Company name, Revenue earned, Expenses incurred) through a form. Input data will be processed and the results of processing (Gross Profit, Taxable Profit, Profit Tax, Net Profit, Dividends) will be entered into an output (txt) file. The results file will be opened by pushing a button within the form, with the default txt file editor.

The source program is the following:



Form1 source code:

```
Public Class Form1

    Private Sub Button1_Click(sender As System.Object, e
As System.EventArgs) Handles Button1.Click

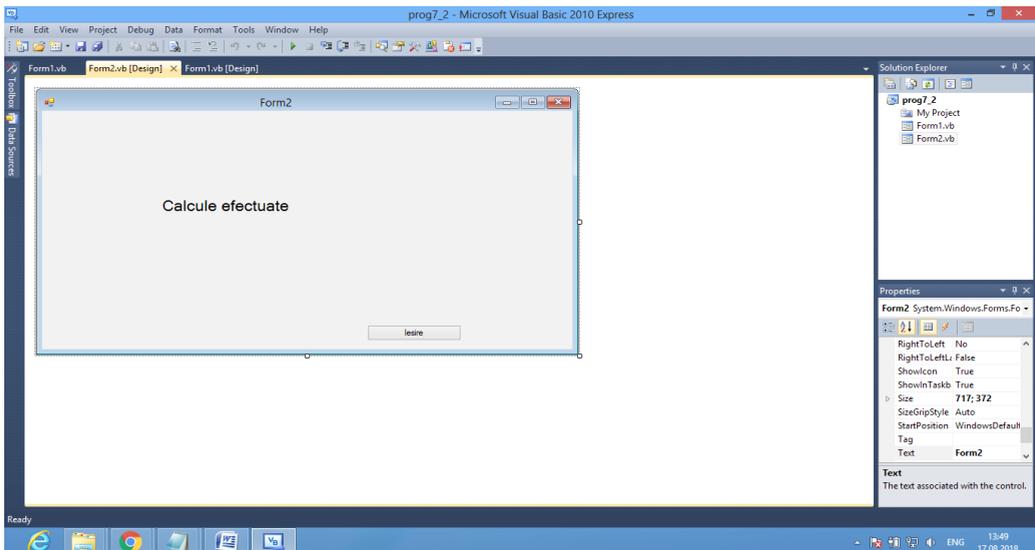
        Form2.Visible = True
    End Sub

    Private Sub Button2_Click(sender As System.Object, e
As System.EventArgs) Handles Button2.Click
        Close()
    End Sub

    Private Sub Form1_Load(sender As System.Object, e As
System.EventArgs) Handles MyBase.Load

    End Sub
End Class
```

Form 2 - used to make economic calculations:



Form2: Source code

```
Public Class Form2

    Public den_soc As String
    Public ven As Double
    Public che As Double
    Public prof_brut As Double
    Public fond_dez As Double
    Public impoz As Double
```

```
Public prof_impoz As Double
Public prof_net As Double
Public rep_dez As Double
Public rep_cons As Double
Public impoz_divid As Double
Public prof_divid As Double
Public divid As Double
```

```
Private Sub Form2_Load(sender As System.Object, e As System.
EventArgs) Handles MyBase.Load
```

```
den_soc = Form1.TextBox1.Text()
ven = Form1.TextBox2.Text
che = Form1.TextBox3.Text
```

```
prof_brut = ven - che
fond_dez = prof_brut * 5 / 100
prof_impoz = prof_brut - fond_dez
```

```
impoz = prof_impoz * 16 / 100
prof_net = prof_impoz - impoz
rep_dez = prof_brut * 50 / 100
rep_cons = prof_net - rep_dez
impoz_divid = rep_cons * 10 / 100
divid = rep_cons - impoz_divid
```

```
Dim FILE_NAME1 As String = „c:\fis_rez.txt”
Dim objWriter1 As New System.IO.StreamWriter(FILE_NAME1,
False)
```

```
objWriter1.WriteLine(„ SITUATIE CALCUL”)
objWriter1.WriteLine(„-----”)
objWriter1.WriteLine(„ ”)
objWriter1.WriteLine(„*****”)

```

```
objWriter1.WriteLine(„Profit brut: ” & prof_brut)
objWriter1.WriteLine(„Profit impozabil: ” & prof_impoz)
objWriter1.WriteLine(„Impozit pe profit: ” & impoz)
objWriter1.WriteLine(„Profit net: ” & prof_net)
objWriter1.WriteLine(„Dividende: ” & divid)
objWriter1.WriteLine(„ ”)

```

```
objWriter1.Close()
```

```
System.Diagnostics.Process.Start(„c:\fis_rez.txt”)
```

```
End Sub
```

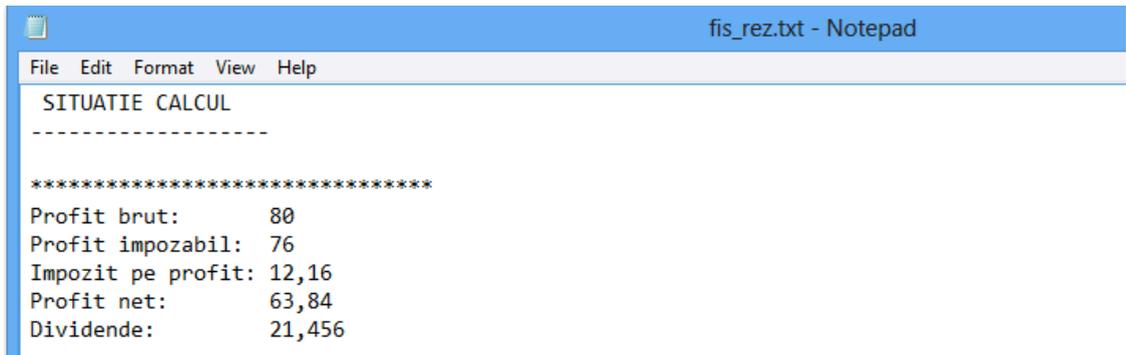
```
Private Sub Button1_Click(sender As System.Object, e As
System.EventArgs) Handles Button1.Click

    Form1.TextBox1.Text() = ""
    Form1.TextBox2.Text() = ""
    Form1.TextBox3.Text() = ""
    Form1.TextBox1.Focus()

    Close()

End Sub
End Class
```

The resulting file - fis_rez.txt:



```
fis_rez.txt - Notepad
File Edit Format View Help
SITUATIE CALCUL
-----
*****
Profit brut:      80
Profit impozabil: 76
Impozit pe profit: 12,16
Profit net:      63,84
Dividende:       21,456
```

Turning to the significance of the algorithm, to the effect of its execution, we will observe that each algorithm defines a mathematical function. Also, from all the following sections it will be very clear that an algorithm is written to solve a problem. From several examples, however, it will be noticed that there are several algorithms to solve the same problem.

For each P problem, there are assumed known data (initial data for the corresponding algorithm, A) and the results that are to be found (final data). Obviously, the issue may not make sense for any initial data [2], [4].

4. Conclusions

Using specialized algorithms helps solve complex problems that will not depend on input data, but only on their type, and the ability to use functions, procedures, classes and objects allows them to encapsulate and use them to solve specific sub-problems. Ease of use of encapsulated algorithms

allows programmers to focus on data flow specific issues and the integration of specifications and results into major projects, specific to solving complex economic problems [1], [3]. In the Visual environment, the programmer can design data entry forms and apply algorithms for data processing and display results. In this programming environment, data can be stored in vectors and matrices, and then by applying specific scrolling and calculation algorithms, the desired results can be obtained, and problem solving is implicit [4], [6]. Another feature of the visual environment is the possibility of using txt files with delimiters, which allow the storage of input data and its subsequent use by opening for reading and retrieving data in specific structures (objects, vectors, matrices), and then writing the results in txt or pdf files that can be opened with programs specific to the operating system installed.

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FINANCING THE NATIONAL ECONOMY IMPACT OF THE EUROPEAN FUNDS ON ECONOMY

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Abstract: *European funds have been and represent a source of funding for the national economy through funding programs managed by the managing authorities of the central institutions of Romania. In order to assess to what extent EU funds directly or complementarily contribute to the fulfillment of nominal convergence criteria, ie how it influences through EU-funded financial flows, we are presenting national analysis of European funds and their impact on the Maastricht criteria.*

Keywords: *finance, european funds and the romanian economy*

Jel Classification: E36, N24, O52

Introduction

Romania currently fulfills all the nominal convergence criteria, as can be seen from the table below.

Table 1: The degree of fulfillment of the nominal convergence criteria

	Criteria Maastricht	Romania
Inflation Rate (HICP) (%, annual average)	≤ 1.5 pp above the average of the top 3 EU members * (0.2% on 31 July 2017)	0,3% (31 July 2017)
Consolidated budget deficit (% GDP) **	$\leq 3\%$	3,0%
Public debt (% of GDP) **	$\leq 60\%$	37,6%
Exchange rate against the euro *** (2-year maximum rate of appreciation / depreciation)	$\pm 15\%$	+0,8%/3,5% (31 July 2017)

Long-term interest rates (% pa, annual average)	≤ 2 pp above the average of the top 3 EU members in terms of price stability (2.1% on 31 July 2017)	3,6% (31 July 2017)
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Source: Eurostat, BNR calculations

* In calculating the reference level for July 2017, Bulgaria, Ireland and Romania were considered.

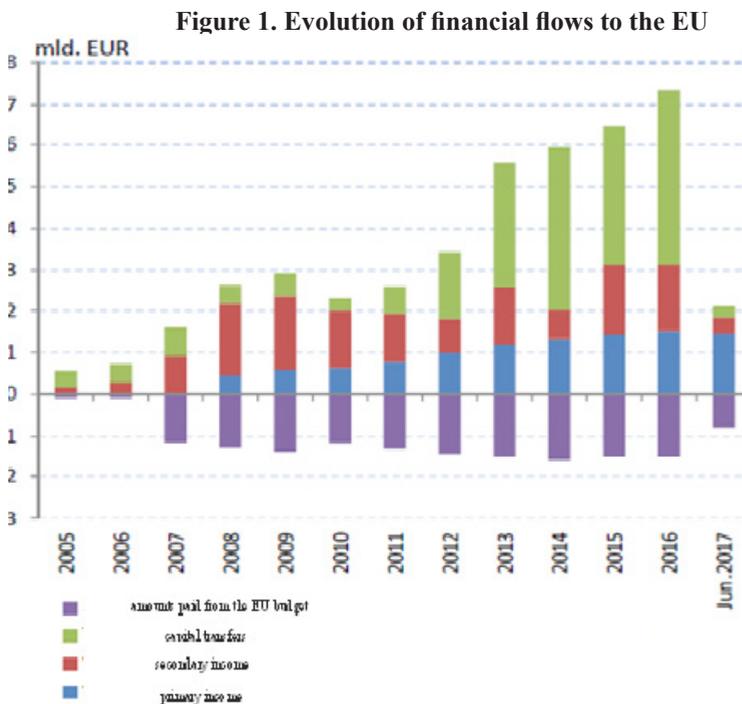
** 2016, SEC 2010 methodology.

*** Maximum exchange rate deviations from the euro between August 2015 and July 2017. The calculations are based on the daily frequency series and refer to the average of July 2015.

Romania has been permanently a net beneficiary of European funds, starting with the pre-accession period and continuing with the post-accession period (2017), according to the situations presented by the National Bank of Romania regarding the financial flows with the EU budget, as we can see in the chart below.

1. Overview

Despite some controversy over their size and efficiency, Romania has always been a net beneficiary of European funds, starting with the pre-accession period and continuing with the post-accession period (2007), as reported by the National Bank of Romania on financial flows with the EU budget (Figure 1, annex 1).



Source: „Romania in the eurozone: when and how” presentation, Liviu Voinea, Vice-Governor, Bucharest, 31 August 2017

2. The impact of European funds on the financing of the national economy; the level of absorption of European funds in Romania during the programming period 2007-2013, and the stage of absorption in the programming period 2014-2020

Estimates of absorption of European funds during the allocation periods 2007-2013 and 2014-2020. In the budget year 2007-2013, Romania received from the European Union budget approximately 30.7 billion euros, of which 18.43 billion euros, amounts that were used until 31 December 2013 and 12.3 billion euros between 2014-2016 (31 March 2016), also within the same programming period 2007-2013 (in structure, the evolution of the amounts received from the EU budget can be seen from the table below).

Table 2: Amounts received by Romania from the European Union budget in the allocations for the period 2007-2013 (EUR million)

Name	Total by 2013	2014	2015	1st January-March 31, 2016	Accomplished 2007 - 2016
Structural and financial funds Cohesion (FSC)	7335,61	3587,61	2635,56	520,89	14079,67
Funds for rural and rural development fishing (EAFRD + FEP)	5123,38	841,02	1247,35	405,19	7616,94
FEAGA	4643,39	1325,84	1420,24	0,00	7389,47
Other (post-accession)	1324,72	158,79	160,83	9,67	1654,01
Total amounts received by to the EU budget	18427,11	5913,26	5463,98	935,75	30740,09

Source: Own processing based on data provided by the Ministry of European Funds

The absorption capacity of European funds (3) increased gradually from one year to another in the period 2007-2013, from 1.6 billion euros in 2007 to about 5.56 billion euros in 2013.

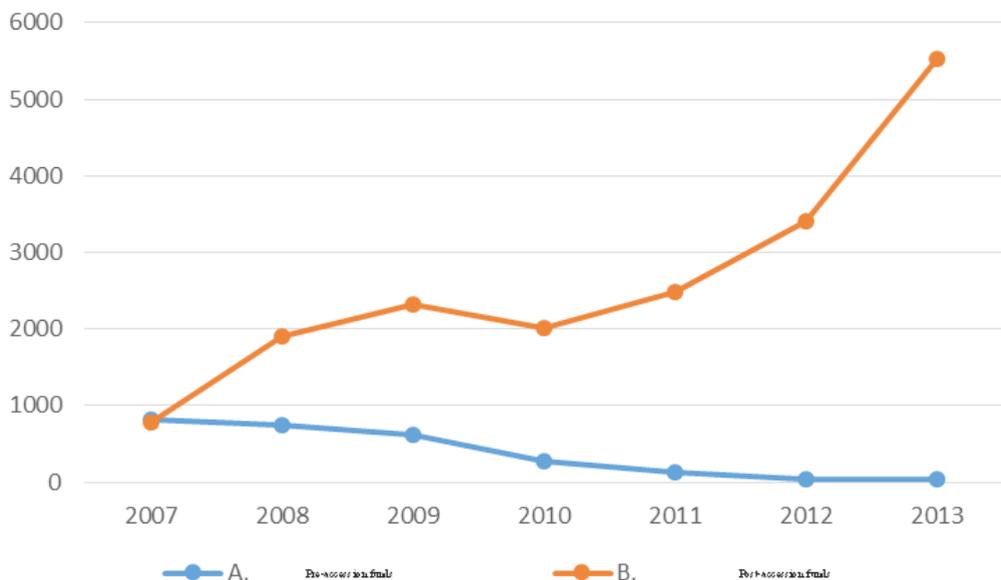
Out of these amounts, 45.80% represented payments for the Structural and Cohesion Funds, 50.00% of the total amounted to rural development, fisheries and agricultural guarantees, and around 5.00% for other destinations (table 2).

Table 3: The total amounts received by Romania from the Union budget European Union in the period 2007 - 2013 (mil. euro)

Name	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
A. Funds pre-accession	812,26	747,68	618,74	273,17	132,61	43,90	31,02	2.659,38
B. Post-accession funds	787,45	1.894,67	2.311,50	2.020,46	2.488,98	3.398,24	5.525,81	18.427,11
Structural and Cohesion Funds (FSC)	421,38	648,45	917,84	505,54	708,36	1.170,92	2.963,12	7.335,61
Rural Development and Fisheries Funds (FEADR + FEP)	15,13	578,75	565,93	760,48	883,05	1.090,05	1.229,99	5.123,38
FEGA	6,89	461,87	575,93	663,78	768,95	991,27	1.174,70	4.643,39
Other (post-accession)	344,05	205,60	251,80	90,65	128,62	146,00	158,00	1.324,72
Amounts received from the EU budget	1.599,71	2.642,35	2.930,24	2.293,63	2.621,59	3.442,14	5.556,83	21.086,49

Source: Own processing based on data provided by the Ministry of European Funds

Figure 2. The total amounts received by Romania from the Union budget European Union in the period 2007 - 2013 (mil euro)



Source: Own work using the data provided by the Ministry of European Funds

These developments reflect difficulties in the process of project start-up and implementation, and the relative progress recorded through learning and administrative capacity building, especially in the context of each management authority involved in managing EU funds for the 2014-2020 period was subject to accreditation, overlapping the monitoring and reimbursement activities for the projects under implementation for the 2007-2013 period. The state of absorption of EU funds for operational programs for the period 2007-2013, expressed in terms of the sums collected from the EC, is relatively low compared to our national targets (36). Furthermore, managing authorities remain involved in the absorption process related to the implementation and monitoring of the operational programs for the period 2007-2013 until 31 December 2018.

Expectations regarding the involvement of European funds in the financing of the economy were high, but the results were not adequate, due to problems related to difficulties in formulating and submitting project proposals, in the quality of the projects and in their implementation.

The effective absorption rate is relatively low for programs funded by the European Structural Funds and Investment Fund (FESI) and payments from the European Agricultural Guarantee Fund (EAGF) for the period 2014-2020 (Table 2). This is explained by the fact that the managing authorities reimbursing the EU budget have been accredited by the European Commission very late, only from the second half of 2017, which is why until 31 December 2017, Romania has received from the EC only EUR 3.58 billion for the funds allocated to EU programs for the 2014-2020 programming period. Currently, the absorption rate has started to increase to 5.87 billion euros on August 3, 2018.

Table 4: The state of absorption for programs funded by the European Structural and Investment Funds (ESF) and payments made of the European Agricultural Guarantee Fund (EAGF) * in the allocation period 2014-2020

Programm 2014-2020	Allocation 2014-2020 (UE) mil.euro	Payments for the beneficiaries (UE)		Prefinancing receive from CE		Amounts requested by the EC within the EU allocation of OP (current absorp- tion rate)		Repayments from the EC (effective absorption rate)		Total amount received from the EC	
		Amounts mil.euro	%	Amounts mil.euro	%	Amounts mil.euro	%	Amounts mil.euro	%	Amounts mil.euro	%
	1	2	3=(2/1) *100	4	5=(4/1) *100	6	7=(6/1) *100	8	9=(8/1) *100	10=4+8	11=(10/1) *100
PO Regional	6760.00	143.24	2.12	426.22	6.30	65.10	0.96	58.59	0.87	484.80	7.17
PO Infrastructure	9218.52	1248.77	13.55	594.48	6.45	1132.27	12.28	1016.45	11.03	1610.93	17.47
PO Competitivity	1329.79	227.18	17.08	84.27	6.34	136.85	10.29	123.16	9.26	207.43	15.6
PO Human Capital	4371.96	123.25	2.82	276.72	6.33	20.08	0.46	18.07	0.41	294.79	6.74
PO Administrative Capacity	553.19	39.73	7.18	35.10	6.35	31.32	5.66	28.19	5.10	63.29	11.44
PO IIMM	100.00	93.09	93.09	2.75	2.75	93.09	93.09	83.78	83.78	86.53	86.53
PO Technical Assitance	252.77	66.29	26.23	15.46	6.12	66.11	26.16	58.41	23.11	73.88	29.23
SUBTOTAL	22586.23	1941.55	8.6	1435.00	6.35	1544.82	6.84	1386.66	6.14	2821.66	12.49
PN Rural Development	8128.00	3002.63	36.94	325.12	4.00	2938.19	36.15	2706.96	33.30	3032.08	37.3
POPAM	168.42	26.91	15.98	10.69	6.35	19.43	11.53	11.01	6.54	21.70	12.88
TOTAL FESI*	30882.65	4971.09	16.1	1770.81	5.73	4502.43	14.58	4104.63	13.29	5875.44	19.03
POAD	441.01	129.27	29.31	48.51	11.00	76.62	17.37	68.96	15.64	117.47	26.64
FEGA 2015-2020**	11255.21	5022.71	44.63			5022.71	44.63	4993.63	44.37	4993.63	44.37

* State of play on 3 August 2018. European Territorial Cooperation Programs are not included

Source: Ministry of European Funds (MFE)

Delays in the formulation and submission of projects

Managing authorities did not really estimate the significant amount of activity required by the proposals that could be submitted as part of a call for projects, so that the assessment of the staffing needs or the number of evaluating experts, the volume of activity, the time required evaluation and selection of projects to be appropriate and real, and to allow this process to take place within a reasonable period or in line with the one announced in the applicant's guidelines (35).

Quality of projects

Project rejections submitted under the seven operational programs accounted for 53.19% of the total number of projects submitted. Higher percentages of rejection were registered in the case of the Human Resources Development Operational Program - 66.90%; Administrative Capacity Development Operational Program - 57.40% or the Operational Program Increase of Economic Competitiveness - 48.62%.

The lowest rejection rate - 11.76% was recorded for the Operational Technical Assistance Program, where the beneficiaries are the public institutions involved in the management and control of the operational programs.

Contracting capacity

There are significant differences between the number of approved and contracted projects. Thus, on 31 December 2015, the report published by the Ministry of European Funds shows that, compared to the 20724 projects approved under the seven operational programs, financing contracts were concluded for a total of 15760 projects, for 4964 projects with no contracts although they have been approved (about 24% of the approved projects and about 10% of the total number of projects submitted).

Project implementation (financial corrections)

In order to have an overview of the financial corrections made by the European Commission in 2014, Table 4 shows the corrections confirmed in 2014 in relation to payments received from the EU, broken down by Member State. The level of global corrections and breakdown by Member State changes significantly from one year to the next as a result of the standing reports issued by the managing authorities. An example of the largest financial corrections confirmed by the EC in 2014 were the corrections for the European Social Fund (ESF). Among the Member States with the highest values of these corrections is Romania (EUR 43 million), alongside Spain (EUR 56 million), Poland

(EUR 32 million) and France (EUR 20 million). These financial corrections made by the EC in 2014 are financial corrections at source, which means that these financial corrections are being applied by Member State authorities when expenditure is declared to the Commission by applying flat-rate corrections to Commission audits.

Table 5: Financial corrections confirmed in 2014 in relation to payments received from the EU; broken down by Member State

Member State	Payments received from the EU budget in 2014 (EUR million)	Financial corrections confirmed in 2014 (Million euros)	Financial corrections confirmed in 2014 in relation to the payments received from the EU budget in 2014 (%)
Belgia	1 028	25	2,40%
Bulgaria	2 096	148	7,10%
Republica Cehă	4 152	441	10,60%
Danemarca	1 212	9	0,70%
Germania	9 712	39	0,40%
Estonia	610	2	0,30%
Irlanda	1 376	18	1,30%
Grecia	6 829	187	2,70%
Spania	10 219	379	3,70%
Franța	11 159	1 383	12,40%
Croația	407	-	0,00%
Italia	9 450	401	4,20%
Cipru	237	-	0,00%
Letonia	1 005	5	0,50%
Lituania	1 774	9	0,50%
Luxemburg	79	0	0,00%
Ungaria	6 342	189	3,00%
Malta	221	0	0,20%
Tările de Jos	1 285	(30)*	-2,30%
Austria	1 301	15	1,20%
Polonia	17 088	49	0,30%
Portugalia	4 772	50	1,00%
România	5 775	295	5,10%
Slovenia	1 078	15	1,40%
Slovacia	1 577	142	9,00%
Finlanda	866	7	0,80%
Suedia	1 338	4	0,30%
Regatul Unit	5 685	62	1,10%
INTERREG	1 866	44	2,40%
TOTAL	110 537	3 890	3,50%

Source: own processing from Communication from The Commission to The European Parliament, The Council and The Court Of Auditors, The Protection of The Eu Budget by End 2014

It can be noticed that Romania, together with France, Bulgaria, the Czech Republic and Slovakia, are countries with significant financial corrections (over 5% compared to payments received from the EU budget).

3. Use of European funds in territorial profile

The purpose of programs is to help increase the convergence and consistency of sustained economies. In order to have a comprehensive picture of the importance of the amounts actually received from the EU budget, we present in the following table the evolution of the GDP share of the amounts actually received by Romania from the EU budget for the period 2007-2015.

Table 6: Evolution of the share of the amounts actually received by Romania from the European Union budget in the GDP of Romania, for the period 2007 - 2015

	PIB (mil. euro)	Amounts received by Romania from the EU budget / year (million euro)	Share of the amounts received by Romania from the European Union budget to GDP (%)
2007	123700,00	1599,72	1,29
2008	139700,00	2642,35	1,89
2009	118300,00	2930,24	2,48
2010	124100,00	2293,63	1,85
2011	131500,00	2621,59	1,99
2012	133900,00	3442,14	2,57
2013	144700,00	5556,83	3,84
2014	150800,00	5590,00	3,71
2015	159000,00	5490,00	3,45

Source: own processing based on data from the National Institute of Statistics and the Ministry of European Funds

It is important that the projects / objectives achieved also distribute well-being in areas less favored by historical-geographic conditions and production factors available to mitigate territorial disparities. The results of the budgetary exercise 2007 - 2013 can show favorable effects for some territorial units in Romania.

The evolution of Gross Domestic Product per county shows a higher increase in 2013 compared to 2007 for Constanta County (+ 89.6%) followed by Calarasi County (+ 81.3%), Ialomita County (+ 78.8%), county Ilfov (+ 72.7%) and Giurgiu County (+ 70.4%). These increases can also incorporate the effects of funding received through European funds for agriculture and rural development and fisheries (if we consider that out of the total amount

received 18.4 billion euro, more than 9.7 billion euros are rural development, fisheries and agricultural guarantees), as can also be seen in the data in Annex 2.

Aggregation of GDP by development regions largely diminishes the differences recorded in the counties. As compared to a nominal increase of + 52.4% of GDP per total country in 2013 compared to 2007, the highest growth is registered by the Bucharest - Ilfov region (+ 67.8%), followed by the South region - East (+ 62.3%), compared to only + 41.9% in the North - West and South - West Oltenia region or + 44.9% in the Center region.

Regarding the payments made on the regional operational programs it is found that compared to the 17,4 lei payments from the European funds for 1000 lei of GDP (cumulated for the period 2007 - 2013) at national level, in Bucharest the level of payments was 24,7 lei / 1000 lei compared to only 12.2 lei / 1000 lei in the South - Muntenia region and in the West region.

The Bucharest - Ilfov Region holds 37.1% of the total payments made on all operational programs. The Northeast region is in order with 10.9%, Northwest with 10.2%, the last position being the West region by 6.9%. Sensitive differences between regions are also recorded in terms of the proportion of amounts allocated to different operational programs.

Concerning the ROP, the highest share in EU payments is held by the North - East region (18.2%), followed by South - Muntenia (14.1%) and South - West Oltenia (13.3% %) compared to only 8.2% - Bucharest - Ilfov region.

Environmental funds have a less differentiated distribution on a regional profile, 17.5% of payments were allocated to South East, 14.8% for North East, compared to 10.6% for Bucharest - Ilfov or 8.9 % for South - West Oltenia.

Bucharest - Ilfov region accounted for 32.7% of total payments on the Competitiveness Program, 51.2% of SOP HRD, 93% for transport, 84.5% and 87.9% respectively for PODCA and OPTA.

The EU 2014-2020 financial perspective foresaw a new approach to strategic programming for cohesion policy in line with the Europe 2020 objectives. A short comparison of the two financial perspectives is presented in the following table.

**Table 7: Characteristics of EU funding programs
for the two financial perspectives (2007 - 2013 and 2014-2020)**

Financial Perspective 2007-2013	Financial Perspective 2014-2020
National Strategic Reference Framework (ERDF, FC, ESF)	Partnership Agreement (ERDF, FC, ESF, EAFRD, FEPAM)
Strategic and Programming Guidance - EC Guiding Principles on Economic, Social and Territorial Cohesion, taking into account relevant Community policies	The Europe 2020 strategy Position paper of EC services Country Specific Recommendations
Performance reserve, 3% at SM	Performance reserve, 6%, mandatory
Result indicators and immediate achievement (output) based on EC guideline (communicated during implementation)	Common indicators established by the regulations Background: - output (ERDF, ESF, FC, FEADR) - result (ESF)
Thematic Concentration - No	11 Thematic Objectives; financial allocations made conditional on the specific ERDF / ESF Fund Regulations
Priorities / Fund	Investment priorities / fund / thematic objective
Without predefined territorial development tools	ITI, CLLD
No conditioning financing	Ex-ante conditionality

Source: Information provided by the Ministry of European Funds

In the 2014-2020 period, Romania will invest in all 11 thematic objectives of the Europe 2020 strategy, using the resources of the European structural and investment funds (ESI funds) through the 2014-2020 operational programs, presented below in continuation with the programs for the period 2007-2013: Operational Capital Program (POCU), Competitiveness Operational Program (POC), Operational Program for Large Infrastructure (POIM, Operational Program Technical Assistance (OPTA), Regional Operational Program 2014-2020, Operational Capacity Administrative Program), Operational Program Disadvantaged People 2014-2020 (POAD).

A final evaluation of the gains and losses resulting from the use of European grants is difficult because the European Commission has applied the $n + 3$ and $n + 2$ rule to avoid disbursement of unspent funds and only by the end of 2018 a centralization clear of all the amounts attracted and received from the European Commission for the 2007-2013 programming. However, it can be said that for all operational programs there were deficiencies and many bottlenecks, especially due to the malfunctioning of public procurement legislation.

Financial corrections (between 5% and 25% of the value of public procurement contracts) applied to declared expenditures and related to public procurement procedures exceeded 672 million euros.

On programs, the Romanian and European authorities, through audit missions, applied corrections of over EUR 300 million for SOP HRD, over EUR 170 million for SOPT, about EUR 95 million for SOP ENV, etc. The state of recovery of budgetary receivables and corrections is difficult to present because many of them have entered the courts, with decisions likely to be issued by the end of 2019.

In the expert's opinion, „In fact, Romania had to take the most serious task of identifying its own development needs and to start a dialogue with the Commission and not only to automatically take over the themes and priorities suggested by it” (Annual Report on Analysis and Forecasting - Romania 2014, page 57) (33).

It is also necessary to ensure the financial conditions so that the added value created by the European funds can sprout development, primarily through the participation of local companies. We say this because in the construction sector, for example, the proportion of public procurement contracts won by international firms was 37.2% in 2008, 42.4% in 2011 and 42.6% in 2013.

Conclusions

The experience of two pre-accession and post-accession periods offers enough useful elements in the process of financing the economy by accessing European funds so that the deficiencies found are reduced / eliminated. Experts believe that a code of conduct for the beneficiary of funds and a code of conduct for the official involved in the management of European funds (including prevention measures for the beneficiaries of funds at the time of the changeover to the euro) would be useful, would make implementation problems and possible shocks even better resolved by partners involved in the actual absorption of European funds. The real absorption of the European Structural Funds and Investments (FESI) by 2020 could benefit from better preconditions by taking several measures, including:

- Accelerating the launch of „calls” to operationalize EU-approved programs. We are currently witnessing a major improvement in the open tender process, including procedural and legislative procedures;

- The rapid completion of the Ministry of European Funds (IMS) platform for all phases of administration and monitoring of the financed projects;
- Strict adherence to the financing deadlines for the projects provided for in the financing contracts, so that the effects of these funds in the economy can be monitored and evaluated correctly from the impact point of view in the real economy;
- Support the implementation of projects through government guarantees related to the bank credits necessary for the beneficiaries to co-finance projects with European funds (the involvement of the banking system in the real absorption process and financial education of the beneficiaries of EU funds).
- Implementation of European funding programs specializing in the financing of internationalization of Romanian affairs, so that at the moment of joining the euro area, they will be prepared and respond to the European competitive environment.
- The problem is, however, to identify its own development needs through an open dialogue with the European Commission and not just automatically take over the themes and priorities suggested by it.

Here are some of the new conditions set by the European Commission to access structural funds after 2020 (11):

- Respect for the rule of law: a strict condition relating to the independence of the judiciary and the preservation of European values of the rule of law has been introduced as a direct response to the behavior of several governments in Europe;
- Permanently applied conditionality: Strict conditions linked to a stable legislative and strategic framework and adequate administrative capacity for the management of European funds. If until now it was important that these conditions were met only at the beginning of the 7-year budget period, their assessment in 2021 will be continuous and any non-compliance will result in suspension of payments.
- Observing the macroeconomic balances: the conditions related to the good management of the budgetary balance and the public debt have become more stringent.
- Reduced absorption period: European money will be able to spend less than one year over the current situation (it goes from $N + 3$ to $N + 2$). Concretely, it will no longer be possible to spend the money „on

the last hundred meters”, as we did in 2016, for example, when we managed to absorb over € 4 billion in cohesion policy only in a year and increase absorption with over 25%.

- National co-financing rates are significantly increased: of each euro spent on a project financed by the European budget, the Romanian state will have to contribute at least 30 cents (for projects implemented in Bucharest, even 60 cents).
- Pre-financing is significantly reduced: from around 3% per year as it is now received, from 2021 only a pre-financing of 0.5% per annum will be received. So, again, Romania will have to manage its public finances with much more responsibility than it has to date if it wants to implement major projects.
- Structural reforms: Romania will be granted an additional EUR 2 billion in non-reimbursable funds, provided reforms are implemented to modernize the public administration and the legislative framework. However, these reforms must be completed and maintained for at least five years in order for the funds to be paid. Therefore, vision, predictability, competence and stability are needed.
- The objectives for which these funds are to be used are low: investments must focus on high-value-added infrastructure projects that lead to immediate economic development, adaptation to climate change, labor market adaptation to current needs and research and innovation .
- The role of financial instruments is growing: Romania is among the last states in terms of the use of financial-banking instruments and ample efforts are needed to multiply the effect of using European funds in financing the economy.

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**Annex 1: The evolution of the financial flows between Romania and the European Union (net financial balance) as at 31 May 2017 (mil.euro)
Suma primite in Multi-Annual Financial Framework 2007 - 2013**

Name	Done 2007	Done 2008	Done 2009	Done 2010	Done 2011	Done 2012	Done 2013	Done 2014	Done 2015	Done 2016	Done 2017 (execution 31 May 2017)	Done 2007-2017 (execution 31 May 2017)
I. Amounts received from the EU budget (A+B)	1599.71	2642.34	2930.24	2293.63	2621.59	3442.13	5557.21	5932.51	5493.30	4540.14	8.01	37060.82
A. Pre-accession funds	812.26	747.68	618.74	273.17	132.61	43.90	31.02	19.25	29.33	1.51	0.00	2709.47
B Post-accession funds	787.45	1894.67	2311.50	2020.46	2488.98	3398.24	5526.19	5913.26	5463.98	4538.63	8.01	34351.35
B1. Structural and Cohesion Funds (FSC)	421.38	648.45	917.84	505.35	708.36	1170.92	2963.12	3587.61	2635.56	3693.39	1.29	17253.45
B2. Funds for rural development and fisheries (FEAD+FEP)	15.13	578.75	565.93	760.48	883.05	1090.05	1229.99	841.02	1247.35	522.29	0.00	7734.02
B3. European Agricultural Guarantee Fund (FEAGA)	6.89	461.87	575.93	663.78	768.95	991.27	1174.70	1325.84	1420.24	269.34	0.00	7658.82
B4. Others (post-accession)	344.05	205.60	251.80	90.65	128.62	146.00	158.38	158.79	160.83	53.62	6.72	1705.06

Amounts received in the Multi-Annual Financial Framework 2014-2020

Name	Done 2007	Done 2008	Done 2009	Done 2010	Done 2011	Done 2012	Done 2013	Done 2014	Done 2015	Done 2016	Done 2017 (execution 31 May 2017)	Done 2007-2017 (execution 31 May 2017)
I. Amounts received from the EU budget (A+B)	x	x	x	x	x	x	x	48.51	945.11	2820.74	1664.37	5478.74
A1. Structural and Cohesion Funds (FSC)	x	x	x	x	x	x	x	48.51	666.25	660.15	1.05	1375.96
A2. Funds for rural development and fisheries (FEADR+FEPAM)	x	x	x	x	x	x	x	0.00	248.59	610.05	265.06	1123.69
A3. European Agricultural Guarantee Fund (FEAGA)	x	x	x	x	x	x	x	0.00	0.00	1240.59	1316.14	2556.73
A4. Others (post-accession)	x	x	x	x	x	x	x	0.00	30.27	309.96	82.12	422.35

Amounts paid over 2007-2017

Name	Done 2007	Done 2008	Done 2009	Done 2010	Done 2011	Done 2012	Done 2013	Done 2014	Done 2015	Done 2016	Done 2017 (execution on 31 May 2017)	Done 2007-2017 (execution 31 May 2017)
II. Amounts paid to the budget UE	1150.89	1268.93	1364.43	1158.91	1296.24	1427.77	1534.77	1619.89	1456.25	1504.70	639.38	14422.17
C. Romania's contribution to the EU budget	1129.13	1246.78	1315.49	1109.25	1234.26	1405.57	1469.80	1604.92	1441.69	1479.98	630.31	14067.17
D. Other contributions	21.77	22.15	48.94	49.66	61.98	22.20	64.96	14.97	14.57	24.72	90.08	355.00

Balance - Multi-Annual Financial Framework 2007 - 2013 + Multi-annual Financial Framework 2014-2020

Name	Done 2007	Done 2008	Done 2009	Done 2010	Done 2011	Done 2012	Done 2013	Done 2014	Done 2015	Done 2016	Done 2017 (execution 31 May 2017)	Done 2007-2017 (execution 31 May 2017)
I. Amounts receive from budget UE (A+B)	1599.71	2642.34	2930.24	2293.63	2621.59	3442.13	5557.21	5981.02	6438.42	7360.88	1672.38	42539.56
A. Amounts received from the EU budget from the Multi-annual Financial Framework 2007 - 2013	1599.71	2642.34	2930.24	2293.63	2621.59	3442.13	5557.21	5932.51	5493.30	4540.14	8.01	37060.82
B. Amounts received from the EU budget from the Multi-Annual Financial Framework 2014-2020	x	x	x	x	x	x	x	48.51	945.11	2820.74	1664.37	5478.74
II. Amounts paid to the EU budget	1150.89	1268.93	1364.43	1158.91	1298.24	1427.77	1534.77	1619.89	1456.25	1504.70	639.38	14422.17
III. Balance of flows = I - II	448.82	1373.41	1565.81	1134.72	1325.35	2014.36	4022.45	4361.13	4982.17	5856.18	1032.99	28117.38

Source: own processing, based on data provided by the Ministry of Public Finance

Annex 2: Evolution of GDP per county over the period 2007-2013
- miliarde lei, % -

Counties	2007	2008	2009	2010	2011	2012	2013 ¹	Total PIB = 100,0		Dynamics 2013/2007 (%)
								2007 (%)	2013 (%)	
Municipiul București	91,9	126,2	114,6	124,3	138,9	140,1	153,7	22,0	24,1	167,2
Timiș	18,5	24,9	23,6	25,9	27,4	27,1	29,6	4,4	4,6	160,0
Cluj	18,1	20,9	20,9	21,7	23,1	25,8	27,7	4,3	4,3	153,0
Constanța	16,3	19,3	19,7	21,2	22,2	26,7	30,9	3,9	4,9	189,6
Prahova	15,7	19,8	20,3	18,5	20,9	21,5	26,2	3,8	4,1	166,9
Argeș	13,8	16,9	17,9	16,7	16,8	15,8	16,9	3,3	2,7	122,5
Brașov	13,7	16,4	16,9	18,1	18,4	20,2	21,2	3,3	3,3	154,7
Iași	12,3	15,3	15,1	16,3	16,6	17,6	19,7	2,9	3,1	160,2
Bihor	11,7	13,5	12,8	13,4	12,8	13,2	14,0	2,8	2,2	119,7
Dolj	10,5	13,6	13,5	13,6	14,3	14,9	15,6	2,5	2,4	148,6
Ilfov	9,9	13,4	13,0	13,1	14,7	17,6	17,1	2,4	2,7	172,7
Bacău	9,7	12,1	12,0	12,2	11,7	12,6	12,5	2,3	2,0	128,9
Mureș	9,5	11,3	10,9	11,0	11,5	13,2	13,6	2,3	2,1	143,2
Arad	9,3	11,2	11,0	11,7	12,5	13,0	13,7	2,2	2,2	147,3
Sibiu	9,2	11,5	11,7	11,7	12,2	13,2	13,7	2,2	2,2	148,9
Hunedoara	8,9	9,9	9,5	9,4	9,6	11,1	10,4	2,1	1,6	116,9
Suceava	8,7	9,8	10,2	10,0	10,5	11,1	11,9	2,1	1,9	136,8
Galați	8,5	10,6	9,7	11,1	11,3	11,3	12,2	2,0	1,9	143,5
Dâmbovița	7,9	9,3	9,2	10,4	10,3	11,4	11,8	1,9	1,9	149,4
Alba	7,7	8,8	8,5	9,3	9,3	10,2	10,4	1,8	1,6	135,1
Gorj	7,3	8,2	8,9	9,8	10,2	10,5	10,8	1,7	1,7	147,9
Maramureș	6,9	8,2	8,3	8,6	8,7	9,9	10,2	1,7	1,6	147,8
Vâlcea	6,6	7,9	7,5	7,5	8,3	8,5	8,8	1,6	1,4	133,3
Neamț	6,5	7,6	7,5	7,3	7,6	8,3	8,8	1,6	1,4	135,4
Buzău	6,2	7,8	7,7	7,8	7,9	8,7	9,6	1,5	1,5	154,8
Brăila	5,6	6,7	6,8	6,3	7,1	7,0	7,4	1,3	1,2	132,1
Olt	5,5	6,7	6,1	7,2	7,3	7,8	8,1	1,3	1,3	147,3
Caraș- Severin	5,2	6,1	6,5	6,7	6,5	7,0	6,8	1,2	1,1	130,8
Satu Mare	5,2	6,3	6,3	6,3	6,5	7,2	7,9	1,2	1,2	151,9
Harghita	5,1	6,0	6,0	5,9	6,3	6,5	6,9	1,2	1,1	135,3
Bistrița- Năsăud	4,9	6,0	6,1	5,7	5,9	6,6	6,5	1,2	1,0	132,7
Teleorman	4,7	5,8	5,8	5,6	5,8	6,3	6,7	1,1	1,1	142,6
Vrancea	4,5	5,5	5,4	5,8	5,7	6,2	6,7	1,1	1,1	148,9

Botoșani	4,5	5,5	5,6	5,5	5,8	6,0	6,7	1,1	1,1	148,9
Sălaj	3,8	4,4	4,5	4,5	4,6	5,0	5,4	0,9	0,8	142,1
Mehedinți	3,7	4,4	4,4	4,3	4,5	4,6	4,7	0,9	0,7	127,0
Vaslui	3,7	5,0	4,8	4,8	5,0	5,8	5,8	0,9	0,9	156,8
Covasna	3,4	4,0	4,1	3,9	4,3	4,3	4,7	0,8	0,7	138,2
Ialomița	3,3	4,6	4,5	4,9	5,4	5,5	5,9	0,8	0,9	178,8
Tulcea	3,2	4,1	4,0	4,5	5,2	4,9	5,3	0,8	0,8	165,6
Călărași	3,2	4,6	4,2	5,4	5,5	5,5	5,8	0,8	0,9	181,3
Giurgiu	2,7	3,6	3,9	5,3	5,4	5,0	4,6	0,6	0,7	170,4
TOTAL	417,5	523,7	509,9	533,2	564,5	594,7	636,9	100,0	100,0	
Media	9,94	12,47	12,14	12,70	13,44	14,16	15,16			152,6

GDP dynamics by development regions

- % -

Regions	2007	2008	2009	2010	2011	2012	2013
Nord-Vest	100,0	117,3	116,7	119,2	122,0	133,8	141,9
Centru	100,0	119,4	119,4	123,2	127,4	139,2	144,9
Nord-Est	100,0	121,8	121,3	123,3	125,9	135,0	143,7
Sud-Est	100,0	121,6	120,0	127,6	133,9	145,9	162,3
Sud-Muntenia	100,0	126,1	128,3	130,1	136,4	138,5	151,5
București - Ilfov	100,0	137,1	125,3	134,9	150,9	154,9	167,8
Sud-Vest Oltenia	100,0	121,0	119,9	125,8	132,4	137,4	142,5
Vest	100,0	124,2	120,8	128,2	133,4	138,9	144,5
TOTAL	100,0	125,4	122,1	127,6	135,1	142,3	152,4

Source: Own processing based on data provided by the Ministry of European Funds

Notes

¹ Data published on the site <http://statistici.insse.ro>

ANALYSIS OF THE EVOLUTION OF THE PRIVATE SECTOR IN ROMANIA AFTER 1990

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***Abstract:** The economic structure specific to each country - determined by its level development, the historical typology of its evolution and its specific way regulation of social life (with impact on public services) – influences the evolution and importance of the private sector at some point. Romania has become a member of the European Union, but it is problematic property is not fully clarified. The privatization process has not ended. At the same time, Romania is now among the countries with the highest flows of foreign investments, which a priori modifies the structure of the social capital. That is why an estimate of the future evolution of the private sector contribution to creating gross domestic product, correlated with the expected changes in the structure the social capital is likely to highlight the convergence of the Romanian economy with structures in the other EU Member States and from this point of view. In the late 1980s, in our country, the state sector was quasi-majority, the private sector accounting for only 12.8% of gross domestic product in 1989. The privatization process began in 1990, and it turned out to be much more complex and difficult. In the early period it had a slow pace characterized by the absence of political will, the Romanians' mentality, inherited from the old regime, institutional problems, slow establishment of the necessary legal framework.*

***Keywords:** the evolution of the private sector, forms of ownership, economic development*

JEL Classification: J01, J43, J80

Introduction

The transition to the market economy¹ implied the restructuring of the economic activity and changes in all branches of the economic field. The transition to the market economy has forced the choice of a model to define the steps to be taken in economic reform. Romania has mapped the European model book because it has been considered that there have always been greater similarities with the countries of Europe.

The economic reform involved solving some problems related to the prices instability, covering the trade deficit, non-payment of external debts, efficiency of products and labor in all economic sectors, and redefining the role of the state.

The transition also involved economic and social costs, monetary and non-monetary. The World Bank recommended to the former socialist countries that they should go through the stages for transition:

- macroeconomic stabilization;
- liberalization of prices and market reform
- the development of the Privat sector and the restructuring of the enterprise;
- redefining the role of the state in achieving legislative reforms, modernizing the information system and modifying the social protection system.

The first transition strategies were adopted by the government in 1990-1992; some of the most recent strategic strategies are the “medium-term economic development strategy” of 2000, which has the following objectives:

- achieving sustainable economic development;
- strengthening the class of small receptionists;
- providing larger and stable average income for the largest part of the population;
- allocation and efficient use of national resources;
- reducing the role of the state in regulating the necessary framework for the functioning of the market distortion;
- correcting market failure situations;
- redistribution of revenues through fiscal and fiscal policy, aiming at reducing taxes and directing expenditures towards social protection.

¹ Radu Gheorghe, *Metode și tehnici de cercetare socială și politică*, Editura Pro Universitaria, București 2012.

2. Evolution of the private sector in Romania

The economic structure specific to each country - determined by its level of development, the historical typology of its evolution and the specific way of regulating social life (impacting on public services) - influence the evolution and importance of the private sector at some point. Romania has become a member state of the European Union, but the issue of property is not fully clarified. The privatization process² has not ended. At the same time, Romania is now among the countries with the highest foreign investment flows, which a priori modifies the structure of social capital. Therefore, an estimate of the future evolution of the private sector's contribution to the creation of gross domestic product, correlated with the expected changes in the social capital structure, is likely to highlight the convergence of the Romanian economy with the structures of the other EU Member States and from this point of view.

This study provides for the first time a systematized and correlated assessment of the past evolution of the private sector's share of social capital and gross domestic product¹ as well as a medium-term forecast. In the late 1980s, the state sector was quasi-majority in our country, with the private sector accounting for only 12.8% of gross domestic product in 1989. The privatization process began in 1990, and proved to be more complex and difficult. In the beginning, it had a slow pace, characterized by the absence of political will, the Romanian mentality inherited from the old regime, institutional problems, slow establishment of the necessary legal framework, etc.

In the evolution of the private sector in the Romanian economy there are several stages:

- In 1996, the private sector became the majority of gross domestic product by 55%. Regarding the structure of social capital in the economy, the share of private social capital was reduced, being the consequence of a small social capital necessary for the establishment of a trading company, while the state-owned companies started from the start with a high value of the social capital. At the same time, the private sector, unlike the state sector, has made a profit, thus contributing to the growth of private VAB. It should be noted that the leap of the private sector, as a share of gross domestic product, was largely

² Anghelache, C. (2015). *România 2015. Starea economică pe calea redresării*, Editura Economică, București.

the result of the transfer of ownership. Another feature of this period is that the volume of foreign direct investment was very small, their level throughout the period 1991-1996 (about 1 billion euro) accounting for about 93% of the net flow of 1997.

- The 1997-2000 period was characterized by a slower evolution of the private sector in gross domestic product, but also by an acceleration of capital transfers from the state to the private sector. If in 2000 the share of the private sector in GDP was about 10 percentage points higher than in 1996, in only three years, the share of private capital increased from about 8% to almost 42%. By correlating the two developments, it turns out that the focus was on the privatization of companies with a lower contribution to gross value added.

- After 2000, there are no big jumps from year to year in the private sector in gross domestic product. Concerning the majority private capital, the evolution is increasing year on year, reaching over 77% at the end of 2006, as a result of the high level of foreign investments, especially after 2004.

At branch level, the private sector evolution was largely similar to that of the national economy, although there are some differences:

- In agriculture, the evolution was more spectacular, with high leaps since the early years of transition;

- In industry, the private sector represented about 5% at the beginning of the transition period, with annual evolutions being modest as a consequence of the pace of the privatization process, only in 1999 this sector becoming the majority in this branch;

- In construction, the private sector had minor contributions (around 2%) in the early 1990s, but further developments were significant, due to the strong development of private activity in this area of activity;

- In the services sector, the starting point was low (2%), but annual developments were significant, with the private sector becoming the majority (58%) in services in 1995.

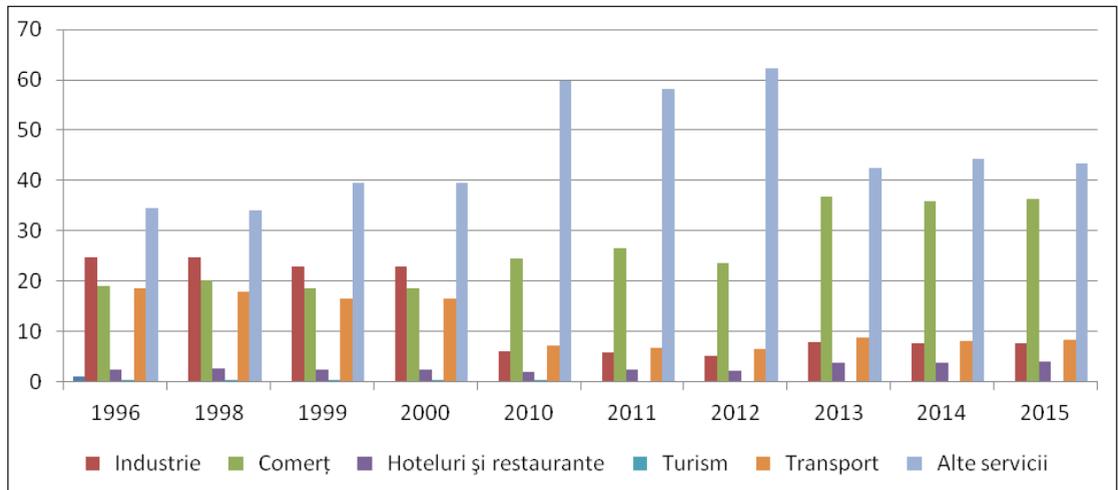
By correlating the privatization programs with the estimation of the level and dynamics of private investments, in 2010, the private sector's weight ranged from:

- 79% of Gross Domestic Product;
- 87% of the social capital in the economy;
- 92% of turnover.

Evolution of the private sector in gross domestic product

Despite all the delays in the privatization process in Romania³, the contribution of private sector units to the creation of gross domestic product increased year on year, reaching 70.42% in 2014, compared with only 16.4% in 1990.

Private entrepreneurs by activity (total share of activity)



The privatization process started in agriculture, more precisely in the agricultural cooperative system. Analyzing the distribution by sector of the private sector, the highest level is recorded in agriculture, where it supplies more than 95% of the gross added value of this branch, the consequence of the fact that the land was returned to the owners and the farms and other state agricultural units, have abolished in the early years of the transition period.

In industry, although the privatization process has taken on some areas (eg the energy sector), there has been an important leap and only 5.7% in 1990, in 1999 the private sector became a majority with 53.7 % to reach over 80% of gross value added in industry in 2014. Constructions are the second area of activity in which the private sector tends to become quasi-majority. The magnitude, after 1990, of the private-sector construction activity has led to a large increase in the gross added value of the branch, from about 2 percent in 1990 to 51, 6% in 1994 and around 95% in 2014.

³ Ludosean (Stoiciu), B.M. (2012). Recent trends in foreign direct investments in Romania, Finance - Challenges of the Future, Volume (Year): 1 (2012), Issue (Month): 14 (December), pp. 131-142.

In services, although the contribution of the private sector has increased considerably, the field with the lowest level remains compared to the other branches. The growth of the private sector's share in the services was the result of the development of business, tourism and hotel services, real estate transactions, financial-banking and insurance services, etc. It should be noted that the share of the private sector in the gross value added in services is lower than in the other branches due to the fact that for some categories of services (public administration, education, health) the public sector is the majority. Significant changes also occurred in the contribution of the branches to the realization of the gross added value in the private sector.

There has been a major change in the structure of gross private sector value added. In 1990, agriculture had an overwhelming contribution (83%), while in 2014 its contribution was only 14%, industry increased its contribution considerably from 14.2% in 1990 to over 30% in 2014. To note also the huge leap made by the service sector from only 3.2% in 1990 to over 55% in 2014 and even the construction, which from almost negligible value in 1990 reached over 15% in the year 2014.

The slow progress of the privatization process in our country has made and made Romania, in this process, to follow other countries in the region. Thus, in some Central and Eastern European countries, the share of the private sector in GDP at the level of 2014 exceeded that of Romania. This is the case for Slovakia (83.6%), Hungary (71.7%) and the Baltic countries. It is worth noting the share of the private sector by activity in Slovakia: 85.2% in services and 75.9% in industry.

Structure and evolution of social capital in the private sector

The analysis of the economic and financial situation based on the balance sheet data centralized by the Ministry of Public Finance highlights the evolution in time of the phenomena, the correlations that exist between them, as well as the factors that contributed directly or indirectly to the phenomenon variation. An aggregate of all companies that have activity and deliver balance sheets reflect an overview of the performance in the economy. Thus, for the correct assessment of the importance of the private sector in the Romanian economy, but also for its future evolution, it is necessary to analyze the economic results obtained by the private sector with the weight of this sector in the social capital of the economy.

Enterprises with financial, banking and insurance activity by ownership forms

	Total	State Majority	Private Majority	Total	State Majority	Private Majority
	1996			2015		
Total	471	14	457	6745	2	6743
Commercial banks	77	8	69	96	2	94
Investment companies	14	1	13	31	-	31
Securities companies	66	-	66	81	-	81
Insurance, reinsurance companies	54	3	51	65	-	65
Other types of companies with financial activities	260	2	258	6472	-	6472

The important role played by the private sector in delivering GDP has led to a high contribution of the sector to GDP formation, thus reinforcing the recent trend and increasing the sector's share from 55% in 1996 to over 75% in 2014. The sector private sector had the most difficult word to say in most economic areas, its contribution to GDP almost entirely in the retail, construction and tourism sectors. In industry, the share of the private sector amounted to more than 80%, as a result of the acceleration of structural processes in the economy, which helped the private sector to significantly increase its participation in industrial production.

The increase in the share of the private sector in the Romanian economy was due, on the one hand, to the increase in the volume of activity, to the private investments made and, on the other hand, to the privatization process, which focused mainly on the sale of state-owned shares. An evolution of the share capital between 1991 and 2014 reveals that until 1997-1998 the social capital of the private sector had a small share, being a consequence of the small social capital necessary for the establishment of a trading company and low investments. However, starting in 1997-1998, the share of the private sector started to increase, except for the year 2000 (when there was a revaluation of the share capital) as a result of the privatization of state-owned companies,

the increase of the necessary social capital for the establishment of a company private investments as well as increasing investment volume.

As regards the evolution of the private capital, it increased year-on-year to more than 80% of the total share capital in the economy, over 65% of wholly private equity, over 20% of the mixed capital most of them. The wholly private companies increased their share in the share capital by 3.6 percentage points, while their share in the turnover increased by only 1.7 percentage points. At the same time, companies with full state-owned capital reduced their share in the share capital and turnover equally. While the majority private equity reached more than 80% of the total capital of the economy, turnover accounted for almost 92% of the economy's turnover.

Conclusions

The development of the private sector is reflected by the balance between functions complementary to the state and the private sector, with a different balance compared to the specificity and level of development of each economy. In a recent study, The World Bank said that private sector development means “rethinking the judiciary of the role of the state, and not a random privatization. policies healthy government that provides room for maneuver for the initiative private sector and which establishes a regulatory framework that channeled the initiative private in a way that benefits society as a whole, are essential. “

It can be appreciated that every economy is characteristic of the term environment, an optimal, possible level of achievement, of the share of the private sector, so the effects on development are maximal. The example of France, like other countries where the public sector assumed, during the economic evolution, its predominant role in vital sectors of business society (transport, energy, public services, post), shows that the transfer of these activities to the private sector are lasting.

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THE INTERNAL AUDIT CONTRIBUTION TO KNOWING AND IMPROVING RISK MANAGEMENT OF ECONOMIC ORGANIZATIONS

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Abstract: *The notion of audit comes from the Latin *auditum* as an obedience, then an investigation, and ultimately a suggestion of solutions, the audit allowing the contribution of value to the reasoning of a motivated and independent person. Audit is the process by which competent, independent individuals collect and evaluate evidence to form an opinion on the degree of correspondence between those observed and certain predefined criteria. The audit term is fashionable. Fashion may pass, but the need for competent and independent evaluations in various areas is growing. As an examination, in order to determine the properties of a representation, the audit first applied to financial representations. There is financial audit, investment audit, marketing audit, quality audit, audit of information systems, IT, office, and social audit.*

Keywords: *audit, risk management process, organizations*

JEL Classification: M42, G11, G30

Introduction

Like each of us, organizations set goals that target different time horizons: short, medium and long. At the same time, any goal, irrespective of the time horizon it refers to, is subject to events that could jeopardize their realization. The importance of risk assessment of an entity is marked by both

the negative impact that can be avoided by developing a protection policy and the probability that can be avoided by developing a preventive policy. The word “risk” derives from the Italian word “risk” that means “dare.” Thus, we can say about this concept that it is “a choice, not a fate”.

Any activity we undertake carries risks that materialize with or without our will in one sense or another. The ideal is to perceive them as they are and to use them for our benefit.

Under 2120.A1¹, internal audit evaluates the exposures to risks associated with the governance of the public entity, its operations and its information systems with regard to:

- the veracity and integrity of financial and operational information;
- the effectiveness and efficiency of operations and programs;
- protecting heritage;
- compliance with national laws, regulations and regulations.

There are several types of risk in practice, classified according to certain criteria.

- After the probability of occurrence, the risks are:
 - potential risks likely to occur if no control is in place to prevent or correct them;
 - Possible risks, represented by those potential risks for which management has not taken the most effective measures to eliminate or mitigate its impact.
- By their nature, the risks are:
 - Strategic risks, related to mistaken actions related to organization, resources, environment, IT endowment, etc.;
 - information risks related to the adoption of unsafe or unreliable information and reporting systems;
 - Financial risks, related to the loss of financial resources or the accumulation of unacceptable liabilities.
- By nature of the activities (operations) carried out within the entities, the risks are:
 - a legislative risk;
 - a financial risk;

¹ Order on the approval of the National Internal Audit Standards no. 113 of 10.12.2012 published in the Official Gazette no.237-241 / 1378 of 16.11.2012

- operational risks;
- commercial risks;
- a legal risk;
- a social risk;
- a picture risk
- environmental risks
- information security risks, etc.

The risk management department, where it is organized, has the task of managing the risks that may arise within the entity and, potentially, the impact it may have on achieving the entity's objectives.

According to the specifics of the entities, the risks are:

- general risks, regarding the economic situation and the organization of the management;
 - Risks related to the nature of specific activities (processes, operations);
 - Risks related to the design and operation of systems;
 - Risks related to the design and updating of procedures.
- According to the General Norms regarding the exercise of the public internal audit activity, the risks are classified as follows:
 - organizational risks, such as: non-formalization of procedures; lack of precise responsibilities; insufficient organization of human resources; insufficient, outdated documentation;
 - operational risks, such as: not recording in the accounting records; inappropriate archiving of supporting documents; lack of control over high-risk operations;
 - financial risks, such as: unsecured payments, non-detection of financial risk operations;

Risk management has the task of continuously reviewing the organization's activities to identify new risks or how they have evolved over time. At the same time, the risk management department develops and updates the organization's rules and procedures regarding internal control to be implemented².

Internal auditing is not the same as internal control, even if we consider the incompatibility of the two functions: you cannot monitor and

2 Domnișoru S., Vînătoru S. (2008). *Internal Audit and Control*. Craiova: Sitech Publishing House.

evaluate objectively and independently what you do. Through internal audit, the management of an organization seeks to ensure that the internal control function in place functions efficiently, effectively and sufficiently to improve or eliminate the identified risks.

The role of audit in the risk management process

The quality of internal auditor requires that a risk-based approach be used in the preparation of an annual audit plan. In fact, professional standards specifically require this. For a good risk assessment, the auditor needs to know the entity, auditable activities, associated risks, and internal control activities that work.

Risk assessment is a permanent issue, as conditions change forever, new regulations emerge, new people appear, topicality emerges, and all these changes constantly change the risk management process, which can never be completed.

In our view, our internal risk-based audit is defined as the activity that provides assurance on risk identification and management by the management structure. The responsibility of internal audit in risk management is underlined even by the definition of internal audit. By examining this responsibility, we have obtained the following conclusions on the role of audit in the risk management process:

- The audit adequately establishes the techniques and procedures only if it is based on sound knowledge of the risks faced by the entity, therefore knowing the risks and their effects is a research scope for the auditor, knowing these risks is designed to help the auditor place the entity in an area or other risk.
- Not many risk factors are important, but the auditor's knowledge of the risk as such, the way in which it acts, the factors that drive and maintain it in a favorable environment, as well as the factors that can direct it to disappearance.
- The importance of risk management arises from the responsibility of management to design and implement an internal control system that performs the legal and effective management of the risks associated with the activities carried out within the entity.

As a consequence, internal audit is designed to provide assurance to the entity's management of the functionality of the internal control system and of the quality of risk management.

Some organizations, especially the large ones, have created a distinct operational structure to carry out this complex process, known as the organization's risk management (ERM). At the same time, given that economic and legislative circumstances are constantly changing, new mechanisms are needed to identify and control the risks associated with these changes.

The internal auditor, from the moment when the activities leading up to the audit engagements are carried out, and until they are completed, will deal with the risks. Risk is any element that may have an impact on the organization's ability to achieve its goals. This may include deprivation of liberty in the sense that internal auditors cannot do anything.

In conjunction with the publication of the Enterprise Risk Management-Integrated Framework (COSO), the IIA has issued a guide to the heads of audit departments presenting recommendations on internal audit relationships with ERMs within their organizations³.

Among other things, the purpose of this guide is to establish a clear line of risk management and internal audit responsibilities vis-à-vis the two.

Thus, the main internal audit activities in relation to ERM are:

- providing assurance on risk management processes;
- providing assurance that the risks are being correctly assessed;
- evaluation of risk management processes;
- Evaluating reports on critical risks;
- Essential risk management analysis.

Regarding the legitimate role of internal audit, the IIA emphasizes:

- facilitating the identification and assessment of risks;
- advise management to take risk protection measures;
- coordination of ERM activities;
- strengthening risk reporting;
- maintaining and developing the ERM framework;
- Developing the risk management strategy subject to approval by the Board of Directors.

At the same time, the IIA warns about the roles that internal audit should not assume:

- establishing the appetite for risk;

³ Renard J. (2002). *Internal Audit Theory and Practice*, Paris: Publishing House, Translation Ministry of Public Finance, Bucharest 2003.

- imposing risk management processes;

Auditor's knowledge of the accounting and internal control system allows effective planning and development of an audit engagement as it will have implications in assessing the control risk and procedures to be used to reduce the risk of the mission at a level acceptable minimum.

Starting from this fact, in a personal sense, the role of internal audit in risk management is to provide a permanent information flow to identify and analyze the risks relevant to achieving the objectives and to provide reasonable assurance as to the extent to which the objectives can be achieved. Within this information flow, we consider that the role of internal audit differs according to the moment of risk reporting as follows:

- If the risk assessment is carried out before its effective occurrence, the role of internal audit is to analyze the sufficiency of internal control to avoid that risk;
- If the risk assessment is carried out after the risk has been detected as an actual product, the role of the internal audit is to determine the causes that have led to the risk exposure and to propose internal control measures for elimination, in order to ensure that the organization's objectives are met.

Thus, the internal audit has the possibility and the task of forming a self-evident, informed and independent view of the risks faced by the economic organization and to communicate directly the points of view, findings and conclusions to the hierarchical body and / or management, supporting superior leadership in effective supervision and achievement of established goals. Collaboration between internal audit and risk management functions creates synergy, generates added value through mutual pooling of resources, skills and experience, and develops the organization's capabilities in risk management.

Models of quantitative and qualitative risk assessment

Risk analysis is not an exact science. By establishing the control activities, the high risks are to be averaged or low, until eventual disappearance. However, the risks have to "evolve" downwards. The literature discusses two models of risk value analysis: the quantitative model and the qualitative model.

These start from the premise that any organization can expect to lose losses due to the inefficiency of a computer system, and this risk of loss results from the impact that threats on the organization's resources pose.

The quantitative model is based on the following elements:

- the credible asset value of the assets;
- the probability of annual losses;
- the expected annual loss;
- cost of control and precautions
- uncertainty.

The impact of one single threat or the potential loss associated with a single occurrence is calculated as follows:

$$\text{Impact} = \text{FV} * \text{VA} \text{ or } \text{PPA} = \text{FV} * \text{VA}$$

The annualized loss is influenced by the annual rate of occurrence of the risk and can be determined as follows: $\text{PAA} = \text{PPA} * \text{RAA}$

where:

FV - vulnerability factor

VA - asset value

PPA - the potential loss associated with an occurrence.

PAA - Early Yearly Loss

RAA - annual rate of occurrence

Such an analysis also includes a cost / benefit assessment that will facilitate the design of the return on investment (ROI) for a given set of controls.

$$\text{ROI} = \text{Net Benefits} / \text{Cost}$$

These mathematical models provide a concrete result, but must be included in the economic environment and noticed if it represents reality.

Internal auditors can carry out accurate and complete evaluations when they have concrete facts or elements, but as a rule, when they intervene it is late because the facts have occurred and the problems have already arisen. This is where the novelty of the internal auditor's work, namely to act before the risk-producing phenomena, comes in. For this, a horizontal approach must be taken to raise the interest of the auditee, to be responsible for the risks it manages. An important element here is communication after the completion of internal audit activities.

Specialist Alan Oliphant, as shown below, proposes a qualitative risk-assessment model that takes into account basic factors in assessing the value of the risk: financial impact, vulnerability, complexity and trust:

In this case, the value of the risk will be expressed by the values

“Very Low, Low, Medium, High, Very High”

and not in absolute values,

and the formula for determining the value of the risk is as follows:

$$VR = VF * [(Cv * Wv) + (Cc * Wc) + (Ct * Wt)]$$

where:

VR - risk value

VF - financial impact on the organization; it represents a potential cost of the organization in the event of an error, system failure, fraud or other negative events.

The material value will be given by the financial value or the value of the assets. The impact on the organization can be increased through a non-financial multiplier:

$$[(Cv * Wv) + (Cc * Wc) + (C1 * Wi)]$$

where:

Cv-vulnerability refers, on the one hand, to the way authorized users have access to the system, and on the other hand, the accessibility of the organization's system and assets to unauthorized users.

Cc - the complexity, takes into account the risk associated with the information technology itself, the number of users in the compartments or in more generic terms the organizational complexity.

But - trust, reflects human behavior in the organization and addresses two aspects: the integrity of staff and the level of involvement of managers.

and, Wv, Wc, Wi - are weight factors (important) that can be applied at the auditor's discretion, depending on the specific conditions.

The accessibility of an information system can be evaluated according to the physical restrictions implemented within the organization and the modalities of access through the communication network. The calculated risk value will be translated into a "translation table" indicating the level of risk; in the design of this table, the auditors take into account the following rules:

1. the lowest risk value = 0 and

2. the highest value is considered to be the total (financial) value of the organization multiplied by 3.

Risk analysis or assessment is an important step in the work of auditors and is carried out for: the preparation of the audit plan and the preparation of the audit program, becoming an essential part of the management that must be carried out constantly at least once a year to identify all risks. It comprises the following phases:

a) identification of auditable objects (elements), which involves a structured approach starting from general to detail

b) establishing the risks for each auditable subject on the basis of the analysis of operations according to certain pre-designed criteria and performing hierarchical calculations and ranking them;

c) risk measurement, which will be based on the likelihood of occurrence of the risks and the impact and duration of the event's consequences.

Risk measurement is done through three methods:

- the probability method, which involves the following steps:
 - assessing probable losses based on statistical tools and a historical approach;
 - Direct valuation of annual losses;
 - recognition and extrapolation, with corrections, if necessary.
- the risk factor method, which is identified in advance from a risk classification.
- method of appreciation matrices, based on the criteria of appreciation and weights

risk on:

- financial impact: I - 35%;
- probability of occurrence: P - 20%;
- level of internal control: CI - 45%

The dimensioning of the relevance of the risks (R) is done through the two components variables of each risk: the consequence (C) and the probability of occurrence (P).

Arithmetically, the calculation relation is expressed as: $R = C \times P$

We recall that if there is a risk management department within the organization, this assessment would be the responsibility of the organization.

Risk assessment involves identifying and analyzing them in light of the perceived threat to the organization's objectives as part of the operational process that needs to identify and analyze internal and external factors that could affect the organization's goals.

Internal factors may be, for example, the nature of the entity's activities, staff qualifications, major organizational changes, or employee performance, and external factors may be the variation in economic, legislative or technological changes.

Financial impact is defined as the value estimate of entity losses as a result of exploitation of system vulnerabilities by threats. This impact can have two components: a short-term impact and a long-term impact.

Risk assessments must cover the whole range of risks within the entity, so work should be done at all hierarchical levels, especially at the highest levels.

The evaluation process should identify measurable risks and non-measurable risks, such as operational risks, and select those that are controllable.

Management, through predefined control activities, identifies the risks and analyzes their evolution at the organization level. The Internal Audit Department, being an independent structure, resumes management risk analysis to assess the internal control system.

Internal auditors should report to management general results of their work and any significant weaknesses discovered during the course of the audit.

However, auditors are at their own risk: audit risk.

They should consider the audit risk at the individual, balance sheet or transaction class. This helps them outline the audit area and set audit procedures.

The risk management process involves several steps, namely:

- identification of activities, operations;
- identifying the risks associated with them;
- establishing risk factors or criteria;
- risk evaluation;
- risk hierarchy or prioritization;
- the establishment of an owner, the person in charge of risk management;
- defining an action plan and tracking its implementation;
- systematic reporting of implementation of the recommendations.

Risk assessment is a concern of both internal auditors, which they perform in accordance with their professional standards, and internal control to provide performance management services. For example, if there is a recession in Romania, it will increase the risk of non-collection of taxes and duties and consequently we have to cut spending to fit into budgets by the end of the year.

From the above presented, it is clear the broad problem posed by the risk assessment based on their great diversity, their permanent evolution, but especially the implications that the risks inherent in today's management, politics, which are transmitted and have a great effect on individuals, those who are confronted or can even say they are struggling with the "perfection" of the risks. In this extremely tough context, we find that the assessment of the risks respecting the phases they have to go through uses classical risk arguments and

control activities, focusing on the self-control of those involved, setting key controls on the flow of procedures, and, most importantly, constantly adapting control activities to the evolution of risks.

Conclusions

Internal audit is a profession that has been redefined over the years, from the desire to respond to the changing needs of entities. In addition, through their activities, internal audit adds value to organizations in which they are performing. Internal audit can act as an efficient and effective agent of change in economic organizations, as long as it is capable of self-refinement, that is to say it is its own agent of change. In other words, internal audit can help entities progress as long as they themselves adapt their procedures, methods, concepts, and mentality to management requirements and expectations.

Internal audit has become an essential component in the structure of any modern organization. Internal auditing ensures greater efficiency through a more appropriate use of human and material resources, as well as better coordination between the different departments of an entity.

Internal audit contributes to building a reputation for integrity, which in turn will help develop trusted business relationships. Also, internal audit will provide the necessary premises for the organization to play a positive role in the community by providing a public image and strengthening its image of seriousness.

As any activity, in particular, and internal audit (and primarily public internal audit), reveals a series of malfunctions resulting from the content of the normative acts and, on the other hand, the confrontation with the realities of an economy market. The existence of a modern legal framework and of rules and procedures developed in accordance with internationally accepted auditing standards and good practice in the European Union would be fundamental guarantees that public internal audit is a true agent of change within public institutions.

The key to auditing is to recognize that auditing can also be of greater value if it analyzes aspects beyond traditional financial issues and focuses on points of interest for a broader audience (such as the perception of the true image of the financial statements of the economic organization).

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ROMANIA AND THE DYNAMICS OF REGIONAL DISPARITIES FROM THE EU

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Abstract: *According to the National Institute of Statistics data in 2017, Romania's economy grew by 7%, with GDP reaching 856 billion lei (187.5 billion euro). Starting in 2018, it is estimated that Romania's economy will become the EU's 16th economy, the prospects being pretty good (it is estimated that in the future years the Czech Republic and Portugal will be overtaken¹, and Romania's economy will become even the 14th economy of UE28). Beyond these advances, Romania remains within the European space a country of disparities. On the one hand, GDP per capita (GDP / inhabitant) remains quite low, with only 9,500 euro (12,100 euro in Poland, 18,100 euro in the Czech Republic), being the last but one place at European level.² On the other hand, even if for Romania the pace of recovery is very good (63% of the European average at the end of 2017, compared to 40% in 2007), the statistical data indicate a process of deepening intra-regional disparities, in the context in which, according to the National Prognosis Commission, the projection of the main economic and social indicators in the territorial profile until 2021 does not seem encouraging at all.*

Keywords: *cohesion, cross-border, disparity index, environment, gap, gross domestic product, growth, imbalance, international development cooperation policy, region, cooperation, territorial development territorial profile.*

JEL Classification: F02, Z1

¹ Czech GDP in 2017 - 191.5 billion euro, Portugal's GDP in 2017 - 193.1 billion euro

² Only Bulgaria is worse, with a GDP per capita of 7,100 euro

1. Introduction

This article attempts to emphasize that:

- beyond disputes in respect of trends converging,

- beyond the relevance of regional development policies applied in order to reduce territorial imbalances existing within the EU³,

across the EU and within the borders of the Member States, there are still significant disparities in revenue and purchasing power.

Situated within a competitive environment characterized by robust economic and social heterogeneities, with problems in striking a balance between the levels of economic and social development of different areas, Romania has always been constrained to accelerate the cohesion process to absorb the gaps as quickly as possible.

One of the instruments used was regional development policy, a relatively new concept, its application assuming the establishment in 1998 of eight regions that comprise the entire territory of Romania.⁴

It should be specified that the regions do not have legal personality and are not territorial-administrative units, their configuration being the result of a free agreement between the county and local councils.⁵

The Ministry of Regional Development and Public Administration (MRDPA) is the specialized body of the central administration with attributions in terms of “regional development, cohesion and territorial development, cross-border, transnational and interregional cooperation.”⁶

3 To strengthen the demonstration the data includes the UK, which has already triggered the EU exit procedure

4 Since 1998, Romania has been structured in 8 development regions, grouping 41 counties and Bucharest. Law no. 151/1998 on regional development in Romania establishes the objectives, the institutional framework, the specific competencies and tools needed to promote the regional development policy.

5 The development regions are eight statistical sizes without legal personality, created in 1998 by the association of county councils in Romania to coordinate the regional development necessary for Romania to join the European Union. Romania’s development regions correspond to the NUTS-II level divisions in the EU. Although they are becoming more and more significant in the area of regional development, these regions have no administrative status, they do not have a legislative council or executive body. The development regions are not administrative-territorial units, they do not have legal personality, being the result of a free agreement between the county and local councils. Their function is to allocate PHARE funds from the EU for regional development and to interpret and research regional statistics. Also, development regions coordinate regional infrastructure projects and become members of the Committee of the Regions when Romania joined the EU in 2007 (See https://ro.wikipedia.org/wiki/Regiunile_de_dezvoltare_ale_Rom%C3%A2niei).

6 See <http://www.mdrap.ro/ministerul/prezentare>

According to MRDPA, the basic objectives of regional development policy are:

- Diminishing existing territorial (regional) disparities;
- Gradual fulfillment of the criteria for integration into EU structures and access to financial assistance instruments;
- Harmonize with governmental sectoral policies and stimulating interregional, domestic and international development cooperation.⁷

This analysis attempts to draw attention to the relevance of the first objective of regional development policy: **could the regional disparities be diminished through the planning and implementation of specific public policies?**

2. Inter-regional disparities. Romania's Regional Development Policy

It should be said that at the end of the 1990s it was elaborated the Report on Economic and Social Cohesion on Inter-regional Disparities in the EU and in the Central and Eastern European Countries (2000). This report has made a proper mapping of the main features in terms of the level of development of each region:

- A common feature of all European states: **the most developed region is the capital** (Great Britain, France, Belgium, Czech Republic, Austria, Portugal, Sweden), the poorest regions are the border regions (for Western European countries border regions with the former socialist states – eloquently example / Germany, Austria);
- **Inter-regional disparities are also encountered within the strongly industrialized states** (ratio of disparity between the region around London / Inner London and the Mersyside region – **3,43**);
- **Poor regions are also encountered in France, Spain, Portugal or Greece**, with a GDP per capita at around 50% of the European average;
- **In 2000, the poorest regions were those in Central and Eastern Europe** (within the borders of the former communist states - Romania, Bulgaria, Hungary, Poland, Czech Republic);

⁷ See <http://www.mdrap.ro/dezvoltare-regionala/politica-de-dezvoltare-regionala>

- Compared to other EU Member States or candidate countries, **at the beginning of the transition process the level of inter-regional disparities in Romania was low⁸**;
- **The disparity ratio between the most developed / poor region in Romania was 1.85 in 2000** (GDP per capita between Bucharest - Ilfov Region / North East Region).

Table 1: Inter-regional disparities in the EU and Central and Eastern European candidate countries (2000)

Nr.	Country	Regions with the highest GDP	GDP relative	Regions with minim GDP	GDP relative	Disparty
1	United Kingdom	Inner London	246,3	Mersyside	71,6	3,43
2	Belgium	Brussels	223,1	Hainaut	71,8	3,11
3	France	Ile –de-France	154,1	Reunion (Ins. Oc. Indian)	50,9	3,02
4	Germany	Hamburg	183,4	Dessau (din fosta RDG)	63,2	2,9
5	Czech Republic	Prague	121,6	Sredni Cechy	48,5	2,51
6	Ungary	Kozep – Magyaroszag	72,4	Eszak –Alfold	32,5	2,23
7	Italy	Lombardia	136,1	Calabria	61,9	2,22
8	Spain	Madrid	108,1	Extmadura	50,3	2,15
9	Austria	Vienna	150,6	Burgenland	70,9	2,12
10	Poland	Mazowieckie	55	Lubelskie	27,6	1,99
11	Portugal	Lisabon	101,1	Azore (Ins. Oc. Atlantic)	52,2	1,94
12	Romania	Bucharest – Ilfov	35,3	Northeast	19,1	1,85
13	Finland	Uusima	137,2	Ita-suomi	74,9	1,83
14	Netherland	Utrecht	143,4	Flevoland	81,3	1,76
15	Greece	Stereia Ellada	81,5	Ipeiros	47,3	1,72
16	Bulgary	Yugozapaden	34	Severozapaden	22,2	1,53
17	Sweden	Stockholm	133,9	Vastsverige	89,9	1,49

Source: European Commission, First report on economic and social cohesion and other calculations, 2002

⁸ See National Development Plan / http://discutii.mfinante.ro/static/10/Mfp/pnd/pnd_2004.htm

A careful look at the following table (Table 4) reveals some important issues:

- After 7 years (2000-2007), we cannot notice a diminution of inter-regional imbalances (disparities) within the European space. Moreover, imbalances seem to amplify;
- Increasing inter-regional imbalances (disparities) is found in 10 of the 17 states under our analysis;
- For the other 7 states, the decrease in imbalances is insignificant;
- With regard to Romania, inter-regional disparities started to increase especially after accession, the Bucharest-Ilfov Region becoming the most developed region of Romania;
- The ratio of the most developed / poor region in Romania has doubled; we could also notice a process of accelerated poverty in the North East Region (relative GDP per capita decreases for the North-East region from 19.1% to 14.47% of the European average compared to the Bucharest-Ilfov region, which has a 20% increase).

Table 2: Inter-regional disparities in the EU and in the former Central and Eastern European countries (2007)

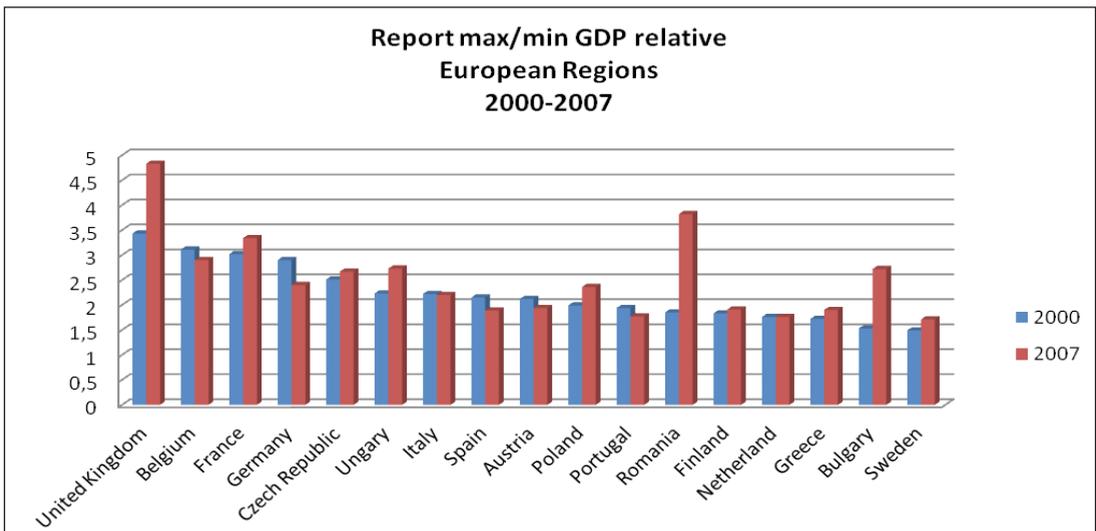
Nr.	Country	Regions with the highest GDP maxim	GDP relative	Regions with minim GDP	GDP relative	Disparity
1	United Kingdom	Inner London	322,97	West Wales and The Valleys	66,81	4,83
2	Belgium	Brussels	254,46	Hainaut	87,65	2,90
3	France	Ile-de-France	203,40	Guyane	60,85	3,34
4	Germany	Hamburg	200,42	Brandenburg Nord	83,40	2,40
5	Czech Republic	Prague	122,5	Sredni Cechy	45,6	2,67
6	Ungary	Kozep-Magyaroszag	65,11	Eszak –Alfold	23,83	2,73
7	Italy	Bolzano - Bozen	153,62	Campania	62,79	2,20
8	Spain	Madrid	127,67	Extremadura	67,66	1,89
9	Austria	Vienna	181,28	Burgenland	93,62	1,94
10	Poland	Mazowieckie	55,32	Lubelskie	23,40	2,36
11	Portugal	Lisabona	94,89	Norte	53,62	1,77
12	Romania	Bucharest – Ilfov	55,32	Northeast	14,47	3,82

13	Finland	Aland	196,59	Ita-suomi	102,55	1,91
14	Netherland	Groningen	190,21	Flevoland	108,08	1,76
15	Greece	Attiki	114,89	Ipeiros	60,42	1,90
16	Bulgary	Yugozapaden	33,62	Severozapaden	12,34	2,72
17	Sweden	Stockholm	192,34	Norra Mellansverige	111,91	1,71

Source: [http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do\(7\)](http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do(7))

Figure 1 is more than edifying - rather, imbalances increased over the period 2000-2007. As we can see, the podium is occupied by Romania, Bulgaria and Great Britain. Not far away is Hungary, Czech Republic, France, Poland, Greece and even Sweden.

Figure 1: Report max / min GDP relative European Regions 2000-2007



Source: author

Table no. 3 shows us how the process of diminishing inter-regional imbalances evolved in the period 2007-2015 (the data provided by Eurostat):

- In 7 out of 17 states, we are still seeing a process of intensifying inter-regional economic imbalances;
- The reduction of inter-regional imbalances in the other 10 states is more than insignificant in 6 of them (a ratio ranging from 0.01 to 0.13), insignificant in 4 of them (a ratio ranging from 0.31 to 1, 00);

- The poorest region of Romania (Northeast) recovered in seven years only 0.05% of the previous imbalance (compared to the richest region of Romania, Bucharest-Ilfov region);
- During this period, the Bucharest-Ilfov Region had an increase in the GDP per capita of 75.88%, while the North-Eastern region had an increase of 19.43% only.
- At the beginning of 2016, the region around the capital of Romania had a GDP per capita of 131.20% of the European average, while in the North-East Region was 33.90% only;
- Regarding GDP per capita, the North-East Region exceeded at the beginning of 2016 only the Severozapaden Region in Bulgaria, which had a GDP per capita of 30.10% of the European average.

Table 3: Inter-regional disparities in the EU and in the former Central and Eastern European candidate countries (Eurostat 2015)

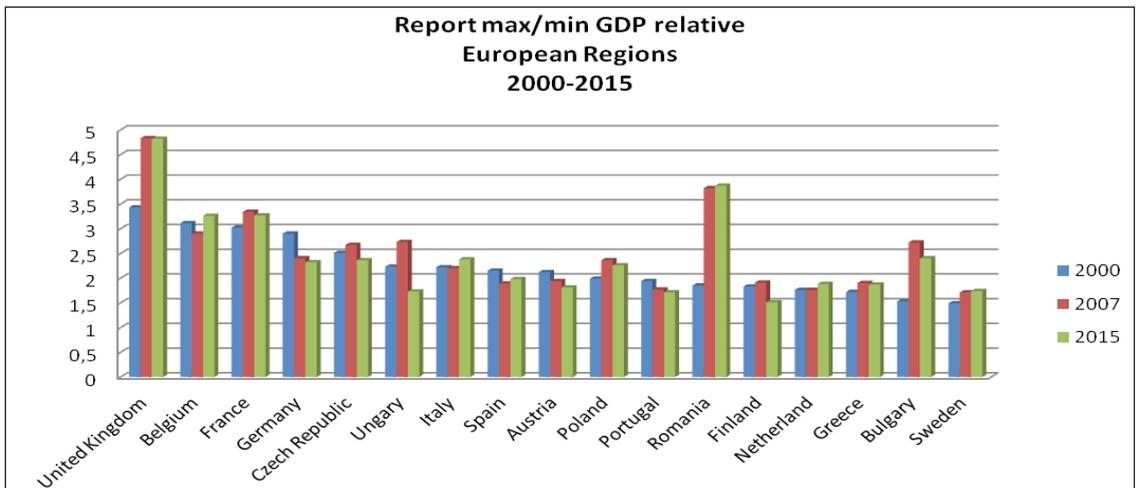
Nr.	Country	Regions with the highest GDP max-im	GDP relative	Regions with minim GDP	GDP relative	Disparty
1	United Kingdom	Inner London	325 (+2,03)	West Wales and The Valleys	67,4 (+059)	4,82 (-0,01)
2	Belgium	Brussels	207,2 (-47,26)	Hainaut	78,00 (-9,65)	3,26 (+0,36)
3	France	Ile-de-France	175,2 (-28,2)	Guyane	53,50 (-7,35)	3,27 (-0,07)
4	Germany	Hamburg	193,5 (-6,92)	Brandenburg Nord	86,7 (+3,3)	2,32 (-0,08)
5	Czech Republic	Prague	173,1 (+50,6)	Sredni Cechy	73,20 (+27,6)	2,36 (-0,31)
6	Ungary	Kozep-Magyarország	73,2 (+8,09)	Eszak –Alfold	42,40 (+18,57)	1,73 (-1,0)
7	Italy	Bolzano - Bozen	149,1 (-4,52)	Campania	62,60 (-0,19)	2,38 (+0,18)
8	Spain	Madrid	128,1 (+0,43)	Extremadura	64,70 (-2,96)	1,98 (+0,09)
9	Austria	Vienna	159 (-22,28)	Burgenland	87,80 (-5,82)	1,81 (-0,13)
10	Poland	Mazowieckie	107,20 (+51,88)	Lubelskie	47,50 (+24,10)	2,26 (-0,10)

11	Portugal	Lisabona	108,40 (+13,51)	Norte	63,50 (+9,88)	1,71 (-0,06)
12	Romania	Bucharest -Ilfov	131,20 (+75,88)	Northeast	33,90 (+19,43)	3,87 (+0,05)
13	Finland	Aland	140 (-56,59)	Ita-suomi	92,70 (-9,85)	1,51 (-0,40)
14	Nether- land	Groningen	187,20 (-3,01)	Flevoland	99,10 (-8,98)	1,88 (+0,12)
15	Greece	Attiki	98,20 (-16,69)	Ipeiros	52,40 (-8,02)	1,87 (-0,03)
16	Bulgary	Yugoza- paden	72,30 (+38,68)	Severoza- paden	30,10 (+17,67)	2,40 (-0,32)
17	Sweden	Stockholm	179,5 (-12,84)	Norra Mellans- verige	103,20 (-8,71)	1,74 (+0,03)

Source: <http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do> (7)

Figure 2 demonstrates unequivocally that reducing discrepancies between developed and poorer areas is a lengthy process and is carried out in small steps. Beyond the higher pace of development of poorer regions, the economies of developed regions not only do not stagnate, but are in most cases on an upward trend.

Figure 2- Report max / min GDP relative European Regions 2000-2015



Source: author

Conclusions

- Even if the fundamental objective of regional development policies is to reduce regional disparities, the practical approach to this issue must take into account the level of development of each country;
- Like any EU Member State, Romania must be seen as a sum of the his regions, whose economic growth depends on their evolution;
- But each region must be interpreted in a key that takes into account the diversity of geographical, economic, human, cultural and historical realities;
- This type of diversity causes strong inter and intra-regional disparities within the EU, the disparity index representing the indicator that describes this phenomenon very well;
- Practically, the effect of implementing regional development policies is not the reduction of regional imbalances, but the territorial development seen in a broader context of EU-wide development dynamics;
- This explains why, for example, after 16 years of regional development policy implementation, the UK's disparity index rose from 3.43 to 4.82 (across EU Member States, the greatest difference between regions is found in the UK);
- Even though at the beginning of the transition process the level of inter-regional disparities in Romania was low, in time it gained another magnitude, the process of deepening the disparities being amplified;
- After 2000 for example, the pace of development around the capital is very high compared to other Romania regions;
- Even though three of the regions in Romania are currently among the poorest in the EU (in terms of GDP per capita)⁹, Bucharest is better than many other EU capitals in gross domestic product per capita;
- In order to stop the process of deepening regional disparities, we appreciate that Romania needs to make its territorial development policies more flexible, taking into account the economic, social, cultural, geographic and historical particularities of each region;
- Romania must also acquire skills in the flawless instrumentation of the continuous process of redefining the objectives in terms of increasing cohesion at the continental level.

⁹ North-East Region, South-West Oltenia region, South Muntenia Region

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