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CONTRIBUTIONS OF THE PROGRAMS OF THE EUROPEAN UNION AND ENTREPRENEURSHIP TO THE DECISIONS REGARDING THE STRUCTURAL CHANGES, THE GROWTH AND COMPETITIVENESS IN ROMANIA

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Abstract: *The economic growth reported annually, from 2012 to the present, is accompanied by the paradox of Romania's fall in most of the global rankings in the reports of the world dedicated to competitiveness, which determines us to appreciate that this growth is not based on supporting elements of sustainable growth at the level of the real economy. The competitiveness of a nation depends directly on the quality of life of its citizens, and on the competitiveness of the company depends the level of performance of the economic-financial indicators and implicitly the welfare of the employees. The loss of positions in the global rankings shows that despite the quantitative advance of the GDP, of the efforts to recover the development gaps, other nations manage to advance faster than us in improving the quality of the investment, administrative, health, education, and living environment day by day. The deficit of foreign trade exceeded 6.7 billion euros in 2018, a deterioration of over two thirds compared to the previous year, and the imbalances continue to deepen in 2019. The deficit of trade in goods and services contributes 71% to the current account deficit the year last. General goods make a negative contribution of over 14.8 billion euros to this deficit, and the surplus of services over 8.1 billion euros partially balances the balance (NBR, 2019). While at European level, the average budget allocated to research and development activities is 2% of GDP, in Romania it is 0.5% of GDP, of which 0.16% is government expenditure, 0.05% sector expenditure of tertiary education and 0.29% private financing (Eurostat 2018). Romania's economy seems to be trapped in middle-income countries, that is,*

those countries that have not exhausted the potential for extensive economic growth, but have not developed the capacity to capitalize and capitalize on investment, innovation and competitive differentiation in order to it reaches among the developed states.

Keywords: *European Union, funds, economic growth, competitiveness*

JEL Classification: *F63, M21, O43*

Introduction

The funds and programs of the European Union contribute directly to the decisions regarding structural changes and to the consolidation of growth and competitiveness in Romania. Romania is one of the main beneficiaries of EU solidarity. The EU funds allocated to Romania amount to EUR 30.8 billion for the programming period 2014-2020, which could represent approximately 2.4% of GDP, annually. By the end of 2018, about EUR 20.8 billion had been allocated for certain projects. Of the total allocation, Romania was paid EUR 7.9 billion according to official data. In addition, through the Mechanism for the interconnection of Europe, EUR 1.2 billion has been allocated to specific projects on strategic transport networks (Dimitriu, Șeitan, Mihăilă, & Manta, 2019). At the same time, research institutes, innovative companies and individual researchers in Romania have benefited from other EU funding instruments, in particular the Horizon 2020 program.

EU funds can contribute to addressing the macroeconomic policy challenges identified in the 2018 recommendations addressed to Romania. Among the actions financed and with an impact on the competitiveness of the business environment include investments in transport infrastructure, energy, water and waste management, in education, employment and social policies, in strengthening healthcare, expanding broadband internet access and development of public administration and interoperable e-government services. During this programming period, 1793 micro-enterprises and 688 SMEs received direct support to strengthen their competitiveness. The SME Initiative generated loans totaling EUR 361 million, supporting 1,344 SMEs. In addition, the European Social Fund is supporting some EUR 473 million of some active measures currently being taken on the labor market, and other EU funds will also allow the recruitment of 174 new researchers. Despite some progress, implementation continues to be delayed in several sectors, including smart, sustainable, and social and connectivity investments.

EU funds can help mobilize private investment. Of the total funding provided by the European Regional Development Fund, EUR 350 million is to be provided through financial instruments and it is expected that they will mobilize additional private investments of around EUR 1 billion¹. The financial instruments of the European Social Fund should in particular support the creation of new jobs and investments in the social economy. However, the implementation stage has not been reached. Romania is making progress in terms of absorption of funds from the European Fund for Strategic Investments, with a total funding of EUR 652 million, which is expected to attract additional public and private investments of EUR 2.7 billion (Dimitriu, Şeitan, Mihăilă, & Manta, 2019).

Research methodology

In order to base the research methodology on the project, we used classical observation and examination instruments, research methods based on the basic principles of scientific research. We used procedures based on factual analysis, intensive documentation at the level of internal and international literature, using the databases and the scientific material existing in the endowment of libraries of specific institutes in Romania and internationally.

The methodology of the paper has as direct instruments the collection of data and information from the literature and from the existing practice in public and private institutions, but especially scientific articles published on specialized research networks (ResearchGate, Academia.edu, etc.), articles published in various journals, relevant books in the field of reference, legislation, analyses and studies, official documents of various tax bodies, tax documents and interactive database of the National Bank of Romania, other relevant sources identified in the libraries: CCFM, Academia Romanian, INCE, IEN, BNR, National Library, INS, etc. Moreover, we analyzed the documents using the comparative, analytical, descriptive method, the no participative and participatory observation, and the use of a set of informational sources, the collection of financial data in the established databases.

The information support of the research was provided by the monographs, books, scientific articles, materials of the scientific conferences, the balance sheets of SMEs during 2008-2017, as well as other materials, which are presented in the scientific papers and publications displayed on the official pages of the national and international research institutes, international financial institutions (research centers), etc. (Manta, 2019).

¹ The data were presented at the International Conference FI-COMPASS, Bucharest, 4-5 July 2019.

Research results

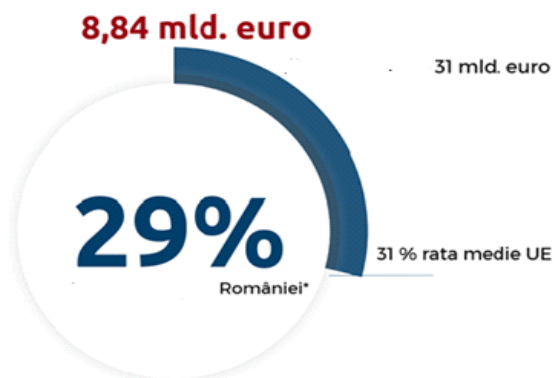
In Romania, the share of innovative companies is below the EU average, and the level of investments made by the business environment in research and innovation is constantly low. Priority investment needs have been identified to strengthen the growth and competitiveness of small and medium-sized enterprises (European Commission, 2019b), and in particular:

- to support the creation of new companies (type of start-up, scale-up), increase their survival rates and increase their degree of competitiveness and internationalization;
- to enhance the innovation capabilities of companies, by introducing product-level, organization or marketing innovations, by offering training courses in innovation management and specific skills for smart specialization, as well as competences with on the results of market research, by supporting key generic technologies and by accelerating market access, as well as by supporting the development of industrial clusters and integrating into research networks based on industry, including by cooperating with countries that fall within the scope of the EU Strategy for the Danube region;
- to facilitate access to finance for small and medium-sized enterprises, including by encouraging start-up and consolidation funding for innovative start-ups with high potential.

According to the reports published by the Ministry of European Funds (2019) on the situation of European funds (MDRAPFE, 2019), it was presented as follows:

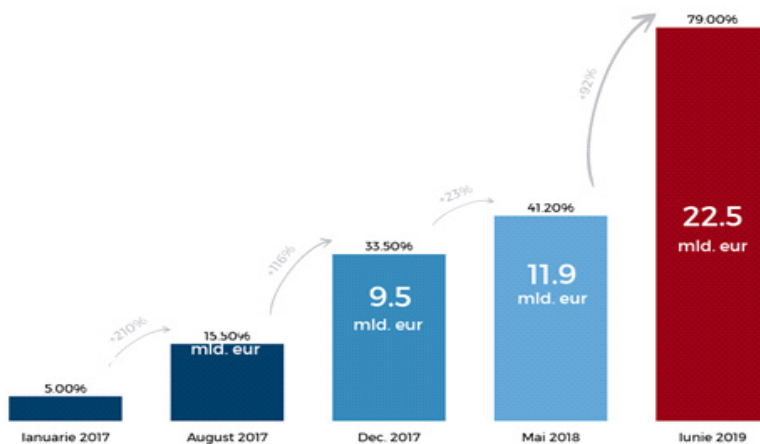
- 8.8 billion euros European money entered in Romania through Cohesion Policy and Agricultural Policy. To these amounts are added another 6.7 billion euros direct payments to farmers;
- approx. 25 billion euros - the total value of the open financing lines, representing over 91% of the total allocation of Romania;
- 43 billion euro the value of the projects submitted for these financing lines;
- approx. 22.5 billion euros the total value of the financing contracts signed. The contracting rate increased more than 15 times, from 5% in 2016 to approx. 79% of the allocation at present.
- The absorption rate of Romania is approx. 29% compared to the EU average, which is 31%.

Figure 1. The amounts reimbursed by the EU to Romania until May 31, 2019



Sursa: <http://mfe.gov.ro/wp-content/uploads/2019/06/ff18ea6dbdf45aa1f620e631d02a74a8.png>

Figure 2. Evolution of the contracting rate of European funds between January 2017 and June 2019



Sursa: <http://mfe.gov.ro/wp-content/uploads/2019/06/fd7a3947b875347b2a3031ed3dd00f96.png>

In the new multiannual financial framework (2021-2027), new financing programs are envisaged that support national competitiveness. The Ministry of European Funds published the architecture of future funding programs in November 2019.

The architecture of the operational programs through which the budget allocated to Romania will be administered between 2021 and 2027 is significantly modified from the current system. According to documents published today by the Ministry of European Funds (MFE), the next financial period brings significant changes in both the institutional and strategic structure. Within the cohesion policy, the Ministry proposes 9 types of programs, the Regional Operational Program to be managed decentralized at the level of the Regional Development Agencies in each of the 8 regions of the country (Polish model) (European Commission, 2019a; Ministry of European Funds, 2019):

1. *The Sustainable Development Operational Program (PODD);*
2. *Transport Operational Program (POT);*
3. *The Smart Growth and Digitization Operational Program (POCID);*
4. *National Health Program (multifund) (PNS);*
5. *The Human Capital Operational Program (POCU);*
6. *Operational Program Helping Disadvantaged People (POAD);*
7. *Operational Program for Integrated Territorial Development (multifund) (PODII);*
8. *Regional Operational Programs - implemented at the regional level (8 ROP);*
9. *Operational Program Technical Assistance (multifund) (POAT).*

The current Big Infrastructure Operational Program (which has the largest financial allocation in 2014-2020) will return to the structure from 2007-2013, the interventions in the Environment field to be taken over by the Operational Program Sustainable Development, and those in the Transport field to pass under a Management Authority within the Ministry of Transport. Separate opportunities will be created for ITI Danube Delta and ITI Valea Jiului.

Moreover, the European Social Fund will no longer finance a Program dedicated to increasing administrative capacity, this intervention being found according to the Ministry among the directions of the future Human Capital Operational Program.

Financing lines for companies

According to the public proposal made by the authorities, the companies will be able to access grants / financial instruments in the following financial period through several programs:

- Regional operational programs will address “smart specialization”, technology transfer, innovation, SME support and digitization;
- The Smart Growth and Digitization Operational Program will provide financial instruments;
- The Operational Program for Integrated Territorial Development will finance interventions in the field of tourism, culture and cultural heritage.
- Priorities defined in support of the business environment:
- Development of an entrepreneurial ecosystem that favors the emergence and maturation of innovative start-up / spin-off;
- Facilitating investments in new technologies - regional interventions;
- Support for internationalization - regional interventions;
- Supporting the adoption of IT&C technologies by SMEs - regional interventions;
- Supporting the clusters in order to integrate them into European value chains - regional interventions;
- Supporting the implementation of the mechanisms of the circular economy within the Romanian enterprises - regional interventions;
- Promote the entrepreneurial spirit, support the entrepreneurial initiatives and the social economy.

Economic sectors with competitive potential in the current context of economic convergence. The analyzes conducted led to the identification of 10 economic sectors with competitive potential that correlate with the areas of intelligent specialization identified in the National Strategy for Research, Development and Innovation 2014-2020 (European Commission, 2019b). At European level, the territorial approach is becoming more and more important in strategic planning. Although traditionally seen as an integral part of Cohesion Policy, space development has received increasing recognition in other EU policies in recent years.

Given the trends at European level of analyzing the territorial component of competitiveness, the European Commission proposed in 2011 the calculation of a Regional Competitiveness Index (ICR). The calculation methodology starts from the premise that in a spatial context economic competitiveness is determined by a complex system of factors, which concentrates, among others: the creative and innovative exploitation of the regional potential, the creation of connections at territorial level by stimulating the appearance and strengthening of the intra and inter-industry value chains, capitalization of natural and cultural heritage, use of research-innovation potential and improving connectivity and accessibility.

ICR is composed of 11 pillars that describe the different aspects of competitiveness (European Commission, 2019a). Through these pillars, the index assesses the strengths and weaknesses of a region. The pillars are classified into 3 groups: elementary, efficiency and innovation. The elementary group comprises 5 pillars: institutions; macroeconomic stability; infrastructure; the health; basic education. These pillars are the essential elementary drivers of all types of economy. As a regional economy develops and progresses, in terms of its competitiveness, factors related to a skilled labor force and a more efficient labor market can come into play. These factors are part of the efficiency group. It comprises 3 pillars: higher education, vocational training and lifelong learning; labor market efficiency; the size of the market. At the most advanced stage of development of a regional economy, the drivers of improvement are part of the innovation group, which consists of 3 pillars: technological maturity; sophistication of the business environment; based on the ICR, whose calculation formula closely follows the Global Competitiveness Index, the map of regional competitiveness at European Union level has been elaborated. Among the countries of the European Union, the development regions of Romania are in the last places both in terms of ICR and in almost all the rankings of the indicators that compose this composite index. The region of the capital has the highest values in terms of competitiveness, but the positive effects on the neighboring regions are limited.

Under these conditions, in the case of Romania, cohesion policy must contribute not only to reducing regional disparities, but also to achieving Romania's competitiveness goals. The results offered by the Competitive Potential Index (CPI) at NUTS 3 territorial level (county) help us to outline some economic aspects related to the diagnosis and the measurement of the economic performance of a territory.

The analysis of the distribution of these values leads to at least two findings:

- an axis of the counties with high values of the Competitive Potential Index, which runs almost diagonally across the country and overlaps the most complete infrastructure in Romania (European, national roads, railways, airports).
- a mosaic aspect of the distribution of this index that overlaps the west, center and south. The east of the country is characterized by a homogeneous distribution of values, which translates into the landscape of economic performance through an inability to make good use of

natural and anthropic capital (low technology transfer, low capital, limitations in the area of polarization of Moldovan cities).

Bucharest - Ilfov is the region of Romania with the highest score (55.92 out of the maximum 100 possible) in the Regional Competitiveness Index 2019, being only 151st out of 268 regions. This, although from the point of view of GDP is at position 25.

In terms of competitiveness, the Bucharest-Ilfov region is similar to Vienna, Antwerpen, Karlsruhe, Prague, but has lower scores on sub-indicators such as macroeconomic stability, compulsory education system, health, labor market efficiency, business sophistication, etc.

It has no indicator to be better placed than the similar regions in the EU, according to the Competitiveness Index published Monday and made every three years by the European Commission.

Bucharest-Ilfov is the only Romanian region in the highest stage of development (NBR 2014-2018), while only three regions reach stage 2—Center, West and North-West—, while all the other four are at the lowest level of development (Dimitriu, Șeitan, Mihăilă, & Manta 2019).

The national average score in the Ranking is 17.84 points and, apart from Bucharest - Ilfov, only the West Region (with 20.9 points) exceeds this threshold. South Muntenia, two places before the Center Region Surprisingly, the total score of the Center is lower, in the Competitiveness Ranking 2019, that registered by South Muntenia: 13.18 (249th place), compared with 15.62 (247th place out of 268).

The North-West region, ranked 246th, has a higher labor market efficiency than existing regions in the EU (Greece, Slovakia, Poland and Romania). In the indicator “Basic education”, all Romanian regions outperform, compared to similar regions in other Member States.

This sub-indicator forms, together with Infrastructure, Health, Institutions and Macroeconomic Stability, the indicator “Basic dimension”, which does not excel any indigenous region. Only South Muntenia (without Bucharest - Ilfov) has performances at the level of similar regions in the EU, in the chapter Basic dimension. In “Innovation”, the following results are inferior to those of the regions of the same grade: North-East, South-East and South Muntenia.

The first place in the ranking is occupied by Stockholm (Sweden), with 100 points, followed by London (UK), with 99.1 points and Utrecht (Netherlands), with 99 points. The last places are occupied by the North Aegean (from Greece) with zero points and the South-East (Romania) with 5.3 points (267 place from 268).

Table 1. Regional Competitiveness Index (IRC)
in the development regions of Romania in 2019

Country	Region	Score/100	Regional classification/268	GDP ranking/268	Development stage
Romania	Bucharest-Ilfov	55.92	151	25	5
Romania	West	20.90	238	222	2
Romania	North-West	17.45	246	244	2
Romania	South-Muntenia	15.62	247	257	1
Romania	Centre	13.18	249	240	2
Romania	South-W. Oltenia	10.57	254	254	1
Romania	North-East	9.05	257	264	1
Romania	South-East	5.35	267	249	1

Source: European Commission Representation in Romania, 2019

The 2019 results of the Index confirm a polycentric model, with a good performance of most of the capitals and regions with large cities, while other regions in the same countries achieve much lower scores, the European Commission statement states.

Conclusion

Entrepreneurship is a pillar of support for the competitive development of the business environment (Manta, 2018). Business start-up and activity is evaluated in the World Bank's annual report, Doing Business, which ranks 190 countries on the basis of a set of 10 indicators, which take into account business regulation and property rights protection, as well as their effects on business, especially on small and medium-sized companies. In 2008, Romania was 48th in the world, and 10 years later, in 2018, it went down 4 positions, up to 52. In the same time period, Central and Eastern European countries have climbed a lot, over 20 of positions: Poland from 74th place in 2008 to 33rd place in 2018, Czech Republic from 56th place in 2008 to 35th place in 2018, both following Romania 10 years ago.

Almost 500,000 SMEs are active on the local market, out of a total of over 25 million small and medium-sized enterprises at EU level, the latest analysis of the European Commission valid at the level of 2018 shows. SMEs account for 99.8% of all EU firms in the non-financial sector, with a similar share in Romania. "The importance of SMEs in the economies of the member countries varies strongly. For example, the EU average in 2018 was 58 SMEs per 1,000 inhabitants, but at the level of member countries there were strong variations, from 29 small and medium-sized enterprises in the

case of Romania, to 115 in the Czech Republic”, according to the report annual report of the European Commission published in October 2019. The local market is not only the last place, but also far from the next ones, namely Germany (35 SMEs per 1,000 inhabitants) and Great Britain (38). What is interesting to note, however, is that the countries in the region of Central and Eastern Europe, those with which Romania is “struggling” in terms of development, average wages or GDP per capita are actually much better placed in terms of regards the indicator of the number of SMEs per 1,000 inhabitants. Funding programs “Romania Start Up Plus” and “Diaspora Start-Up: Find out how many new businesses have been set up and in which areas!” are supporting tools for developing entrepreneurship. Over 8,700 new businesses have been set up through these funding lines, within the 205 projects implemented by the grant managers selected by the Ministry of European Funds (2019), according to data published in August 2019.

In total, the start-ups set up benefit from approximately 384.2 million euros of non-reimbursable European funds for starting and developing the activity and creating at least 2 jobs each. Thus, it is expected that in the next period, the new businesses will generate 17,430 new jobs in the 7 less developed regions of Romania. Most start-ups funded from European funds through RSUP and the Diaspora are in the Center region, with 1,562. Next to the top is the second region of South-Muntenia with 1,418 start-ups, followed by South-West Oltenia with 1,307. In the North-West region there are 1,243 new businesses, followed by the South-East with 1,182, North-East with 1,066, the West region having 937 start-ups set up from European funds. The North-West region is noted by the fact that most of the businesses established are in the IT field, being also the only one in which this field of activity is in the top 3 of the preferences of the entrepreneurs who set up their businesses through these two financing lines. Start-up Nation component settled through Romania Start-up Plus generated 1631 new businesses. Part of the Start-up Nation 2017 program was financed through Romania Start-up Plus through funding attracted by the Ministry for the Environment of Business, Trade and Entrepreneurship. According to the situation presented by the Ministry of European Funds (2019), 1631 businesses were set up that created 4253 new jobs.

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