THE IMPACT OF EUROPEAN ECONOMIC RECOVERY PLAN IN ROMANIA

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According to the official site of EU's *Regional Policy Inforegio*[1]: "The Commission, together with the Member States and its international partners, have taken action to boost investment with a view to generating economic growth and jobs. This was the purpose of the Commission Communication entitled *From financial crisis to recovery: a European framework for action* adopted in October 2008."

With total financial resources of €347 billion for the 2007-2013 period, European cohesion policy provides robust support for budgetary stability and public investment in the Member States and EU regions in times of heavy budgetary constraints.

This is why cohesion policy is so important in restoring confidence in the EU's economy and why it is a key part of the European Economic Recovery Plan. By supporting investment in infrastructure, business and jobs, it can help Europe's regions and Member States tackle the challenges brought on by the global economic crisis.

Cohesion Policy in the Recovery Plan

Since October 2008, the Commission has proposed a series of measures to speed up the implementation of European cohesion policy programmes for the 2007-2013 period to ensure that all cohesion policy resources are fully mobilised to support Member State and regional recovery efforts. These measures are based on both recommendations to Member States and specific legislative measures designed to accelerate investment and simplify the implementation of European cohesion policy programmes. The idea is to introduce greater flexibility, give regions a head start and target cohesion policy programmes on smart investment.

1) Flexibility – modifying cohesion policy programmes

The existing cohesion policy programmes already have a strong strategic focus on jobs, business, infrastructure and energy, and research and innovation. These will continue to be priority areas of investment for cohesion policy programmes. Because of the ongoing economic crisis, the Commission is working with the Member States to see if these programmes require any changes to:

- Meet the new challenges being faced by Europe's regions
- Simplify delivery of the programmes
- Speed up implementation of the programmes

Closing the 2000-2006 programmes

The Commission has extended the final date of eligibility for the 2000-2006 operational programmes to ensure the maximum use of all cohesion policy resources from the 2000- 2006 period. Greater flexibility has also been introduced in the calculation of the final EU contribution. Simplify financial management The Commission has proposed several measures to simplify the financial management of the cohesion policy programmes to reduce the administrative burden. These measures include:

- Introduce lump sum or flat-rate payments for reimbursement
- To further facilitate contracting with the European Investment Bank (EIB) and the European Investment Fund (EIF), direct contracts can be awarded to the EIB or EIF

2) Giving regions a head start – increasing cash flow

[1] http://ec.europa.eu/regional_policy/policy/history/index5_en.htm

The Commission suggested increasing the advance payments to the 2007-2013 programmes. These additional advance payments will provide immediate cash injection of €6.25 billion in 2009 for investment, within the financial envelope agreed for each Member State for the 2007-2013 period. This change would bring the total of advance payments to €11.25 billion in 2009, bringing a much needed boost to public investment.

Help with major projects

To help Member States accelerate the development of major projects, the Commission has proposed the following:

- Increase the resources available to JASPERS (Joint Assistance in Supporting Projects in European Regions) by 25%, to help Member States prepare major projects from 2009 onwards
- Accelerate intermediate payments for major projects to help in the preparation phases

Simplify state aid rules

The Commission is currently negotiating with the Member States to simplify the rules governing state aid schemes which are cofinanced by cohesion policy. In practice, under certain conditions, this would mean that advances to state aid schemes could be reimbursed up to 100%.

In addition, the Commission has put in place a temporary arrangement under the State aid rules for Member States to tackle the effects of the credit squeeze on the real economy until 2010. This temporary arrangement provides the following, under certain conditions:

- A lump sum of aid up to €500 000 per company for the next two years, to relieve them from current difficulties;
- State guarantees for loans at a reduced premium;
- Subsidised loans, in particular for the production of green products (meeting environmental protection standards early or going beyond such standards);
- Risk capital aid up to €2.5 million per SME per year (instead of the current €1.5 million) in cases where at least 30% (instead of the current 50%) of the investment cost comes from private investors. All measures are limited until the end of 2010.

3) Smart investment – investing in areas of high growth potential

The Commission will work together with Member States to, if necessary, modify the existing cohesion policy programmes with a greater emphasis on smart investment. For example, investing in energy efficiency, clean technologies, environmental services, infrastructure and interconnections, broadband networks, forecasting and matching skills with future labour market needs or opening up new finance for SMEs (i.e. research-intensive and innovative SMEs).

- Maintaining public investment

The Commission is encouraging Member States to maintain high levels of public investment to ensure that cohesion policy resources are fully mobilised to support Member State and regional recovery efforts. More flexibility will be introduced to encourage this type of investment, for example by allowing some measures to be financed at 100% through the EU funds in 2009.

- More energy-efficiency investments

The Commission is negotiating with Member States to include more energy efficiency improvements and renewable energy schemes in housing in all Member States. For Member States who joined after 2004, the possibility to invest in the housing sector already exists.

- Promote entrepreneurship and enhance cooperation with the European Investment Bank (EIB) and European Investment Funds (EIF)

The Commission encourages and helps Member States and regions get the most out of the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative for SMEs, including guarantee, debt and equity instruments, and improving the business environment for micro-credit. The new JASMINE initiative (Joint Action to support Microfinance Institutions in

Europe) will channel various forms of technical and financial support to non-bank micro-credit providers to promote the availability of micro- credit for businesses across the EU.

Among most important developments is the one from 22nd of July 2009 when the European Commission proposes simplifying the management of the European Funds to assist regions in tackling the crisis IP/09/1175[2]:

"The European Commission today adopted new measures aimed at simplifying management rules for the Cohesion Policy. In the context of the current crisis, the aim is to boost the European economy by improving the conditions for launching more projects in the regions. As part of the measures to combat the crisis, the Commission may reimburse 100% of the costs declared by the Member States for projects financed by the European Social Fund (ESF) in 2009 and 2010."

The Member of the Commission responsible for Regional Policy, Pawel Samecki, stated that: "These new measures are intended to lend a hand to the regions of Europe to help them to recover more quickly. We are facing up to the current situation while continuing in the long term to accelerate the implementation of our policy and facilitate the management of the Funds".

The Member of the Commission responsible for Employment, Social affairs and Equal opportunities, Vladimír Špidla, responsible for the European Social Fund (ESF), added that: "Given the rapid increase in unemployment in Europe at a time when state budgets are under strain, the Member States must be in a position to make full use of the ESF. Total reimbursement under the ESF is therefore vitally important for supporting citizens in a time of crisis. These exceptional measures are an expression of European solidarity with those who are most vulnerable."

The changes announced are intended to facilitate the implementation of the 455 Cohesion Policy programmes planned for 2007-2013, representing a total investment of €347 billion, or more than a third of the Community budget. The aim is to accelerate investment flows directed particularly towards project promoters and those citizens most affected by the crisis in the regions of Europe.

Account also needs to be taken of the impact of the crisis on the public finances of Member States and regions encountering difficulties in providing additional financing for European investments. In particular, the Commission is witnessing a slow start-up of major infrastructure projects.

The changes introduced clarify certain rules and simplify the day-to-day management of the European Funds.

"The principal measures are:

- In 2009 and 2010, as part of its 'anti-crisis' measures, the Commission may at the request of the Member States reimburse 100% of the public costs declared by the Member States for projects financed by the ESF. Specifically, Member States will not be obliged to provide national cofinancing, thus speeding up the implementation of projects to support employment. This option does not call into question the distribution of the Funds between the Member States, nor the total budget for the Funds, nor the obligation for Member States to provide subsequent cofinancing.
- The Commission proposes establishing a single category of 'major project'. Previously, the Commission's approval was required for projects where the total cost exceeded €25 million for the environment and €50 million for other sectors. The threshold for approval is now set at €50 million for all areas. Smaller-scale environmental projects will therefore be able to start up more quickly.

[2] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1175&language=RO

- The rules relating to 'revenue-generating' projects (for example, toll motorways or projects involving the leasing or sale of land) are also simplified in order to reduce the administrative burdens on the Member States.
- Cohesion Policy programmes may be simplified by Member States to take account of the new realities. In addition, certain provisions concerning the obligation to maintain investments over a five-year period will not apply to undertakings which go bankrupt.
- Investments in sectors linked to energy efficiency and the use of renewable energies in housing will be encouraged, given their considerable potential to provide growth and jobs.
- The Commission proposes a modification aimed at increasing flexibility with regard to the rules on decommitment. For example, grants for a major project will in principle be protected as soon as the Member State submits the project to the Commission. Grants are currently only protected once the Commission has approved the project.
- The European Regional Development Fund (ERDF) will be able to support the renovation or construction of housing for communities faced with social exclusion, particularly Roma, in both rural and urban areas. Previously, the construction of housing was ineligible under the ERDF and only housing in urban areas was eligible for renovation.
- The Member States and the European Parliament had called for simplified management of the Cohesion Policy, particularly in the context of the crisis."

As the title announced we intended to find out which were theoretically the concordant priorities and the impact of Cohesion Policy in the Member States Romania[3].

Impact and Results of Cohesion Policy in Romania

Having joined the European Union only in 2007, this is the first time that Romania has had an opportunity to benefit from the Community funds under Cohesion Policy. Preliminary work suggests that Cohesion Policy programmes in Romania may contribute substantially to an overall increase in gross domestic product (GDP), with estimates of a 15% increase for the period 2007–13, and create and safeguard approximately 200 000 jobs. It is expected that through these investments, the proportion of the population with modern broadband access will increase more than tenfold.

European Investment in Romania for 2007 – 2013

For the 2007–2013 period, Romania has been allocated almost €20 billion under the Convergence Objective[4] and €455 million under the European Territorial Cooperation Objective. Romania has seven programmes. Three programmes will receive funding from the ERDF: the Regional Programme (POR), the Increase in Economic Competitiveness Programme (POSCCE) and the Technical Assistance Programme (POT), while two programmes will be funded by the ESF and will focus on human resources development and improving administrative capacity. Two infrastructure-oriented programmes, the Environment Programme (POS Mediu) and the Transport Programme (POS Transport), will be funded by both the ERDF and the Cohesion Fund. All regions in Romania are eligible under the Convergence Objective.

Delivering the Lisbon Strategy for Growth and Jobs

The relaunch of the Union's Lisbon Strategy in 2005 aimed to bolster the competitive position of EU regions in the world economy by placing growth, jobs and competitiveness at the top of the Union's agenda. For the 2007–2013 period, European Cohesion Policy has attached

[3] http://ec.europa.eu/regional_policy/sources/docgener/informat/country2009/ro_en.pdf

[4] The Convergence Objective concerns regions characterised by low levels of GDP and employment, where GDP per head is less than 75% of the EU average as it stood between 2000 and 2002. It applies to 99 regions representing 35% of the EU-27 population and aims to promote conditions conducive to growth and ones which lead to real-time convergence in the least-developed Member States and regions. It should be noted that the rural development and fisheries policy are separate.

increasing importance to delivering the so-called *Lisbon objectives*. It is expected that around 56.2% of the funds will directly contribute to the Lisbon priorities for growth and jobs.

Main priorities of cohesion policy in Romania, 2007-2013

Improving basic transport infrastructure and accessibility is a top priority. Nearly €5.3 billion (equivalent to 28% of total allocation) will be spent on reducing the country's high infrastructure deficit.

Construction of some 1400 km of new roads will be financed from the funds under priority designated trans-European transport networks (TEN-T) which criss-cross the EU. Cohesion Policy will contribute €2.6 billion to research and innovation to ensure long-term sustainable economic competitiveness.

Nearly €570 million will be invested in business support, with the majority share of these resources focused on supporting small and medium-sized enterprises (SMEs). Some 5000 SMEs are expected to receive support from the fund. Romania also plans to use new innovative financial tools, such as the JEREMIE (Joint European Resources for Micro to Medium Enterprises) financial engineering instrument, which combines grants and loans.

Almost €445 million of funds will be invested in developing modern broadband networks and e-services for business and citizens.

A total of €940 million will be invested in employment measures. The European Social Fund (ESF) will support 15000 management trainees and skills development for 280000 trainees. Some €1.2 billion will be invested in education and training measures to support the development of a knowledge-based society. Funding will be provided for 15000 doctoral students and for upgrading the skills of 75000 teaching staff. The social inclusion of disadvantaged groups will be supported to the tune of some €1.2 billion. The number of participants in training/retraining programmes for vulnerable groups is expected to be around 150 000 (of which 65 000 will be Roma), while some 10000 professionals are expected to attend training programmes on social inclusion.

The total allocation for investments directly contributing to improving the environment (including water treatment) is €8.6 billion (almost 45% of total allocations, and representing the highest proportion in relative terms of any Member State). Some €2.8 billion (14.6% of the total Community contribution) will be invested in areas directly contributing to climate change mitigation, with projects on energy efficiency and renewable energy set to benefit from €604 million. The JASPERS (Joint Assistance in Supporting Projects in European Regions) initiative will assist Romanian authorities in the preparation of major project applications for support from the funds.

Yet, in the 9th of April 2010, "jobless number increased slightly in March by 2,910 from February, to 765,285, the highest since 2003, while unemployment rate came in at 8.36% data from the National Labor Department (ANOFM) show"[5].

Accordingly to MediaFax Romania's net average salary in February was at 1,411 lei (EUR1=RON4.0967), down 1.1% compared with the previous month, the National Institute for Statistics, or INS, said Wednesday. The gross average salary was at RON1,940 in February, down 1.4% compared with the previous month. The net salary in February was slightly down on the month, as employees were given occasional loyalty bonuses in January and a lower output was reported. Employees in the brokerage sector saw the biggest average net salaries of RON3,226, while employees in hotels and restaurants were at the opposite pole, with RON775. February net average salary in agriculture was down 0.7% on the month to RON1,026, while employees in the energy sector saw a 6% salary decrease on the month in February, to RON2,324. Net salaries in industry averaged RON1,305 in February, down 0.1% from January. Employees in the sector of

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[5] Wall Street Journal, 9th of April 2010, Number of jobless reaches 7-year high, http://www.wall-street.ro/articol/English-Version/83449/Number-of-jobless-reaches-7-year-high.html

tobacco manufacturing products saw a 18.4% salary hike on the month in February, at RON3,004. The average net salary in Romania rose 3.9% on the year in February.

As far as the SME sector is concerned, early profit tax payment was to be introduced at the beginning of the year and firms were supposed to pay their profit tax quarterly. The tax is calculated at a quarter of the profit tax paid in the previous year, indexed to inflation. Representatives of small businesses said reintroducing early profit tax payment in 2012 is inappropriate because access to financing is still scarce and businesses need cash flow. Romania's Government decided Wednesday to cancel until 2012 the early payment of tax on profit, although the Finance Ministry had drafted a decree to have the measure cancelled until 2015.

"According to a flash estimate, the Romanian economy shrank by 8.8% y-o-y during Q209, marking an acceleration in the rate of decline since Q109 and confirming its place as one of the worst positioned economies in CEE. Given the rapidity and magnitude of decline so far, and likely inventory re-stocking in H209, we believe that the business cycle is closing to reaching its nadir. However, we caution that the recovery will look somewhat anemic owing to a protracted period of weak domestic demand, with financial stability still under threat in the meantime as global deleveraging continues apace."[6]

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