PUBLIC AND PRIVATE CO-FINANCING OF EUROPEAN PROJECTS AND ITS CORRELATION TO REGIONAL DEVELOPMENT IN ROMANIA

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Abstract

The co-financing from public and private sources of the financial support from the European Union in the Member States is an expression of the public-private partnership. The private sector involvement is a factor favouring the effectiveness of the use of financial resources altogether, considering the direct incentives given to beneficiaries, who take the benefits and risks with the EU and the Member State. In Romania, given the lack of implemented standard public-private projects (PPP), the typical partnership of this kind relies on the Partnership Agreement Romania – EU, which identifies the development priorities. The paper provides an analysis of the structure of payments for projects with European support, by financial sources, in the period 2007-2016 in a regional distribution. The focus is on the assessment of the beneficiaries' financial contribution to European projects and its correlation to the regional economic development.

Keywords: co-financing, public-private partnership, regional development

JEL Classification: H54, R11, R12

1. Introduction

Since 1990 there has been a change of paradigm regarding the development model by shifting to the sustainable development. In the UN Conference on Environment and Development of Rio de Janeiro in 1992 the Local Agenda 21 became a starting point for the reorientation of the governance system. The change in paradigm observed by researchers in the field of regional development (Stimson, Stough and Nijkamp 2011) consists in the transition to the principles of sustainable development that emphasize an integrated approach to development strategies. These strategies could stimulate the capacity of regions to us their own resources. The new approach involves encouraging the collaboration between the public and private sectors.

This paradigm shift is reflected also in the objectives and means of implementing the cohesion policy in the European Union. The traditional cohesion policy concentrated on providing financial aid for poorer regions to support the process of catching-up, but the new policy envisages support for identifying new investment opportunities for exploiting the existing development potential in various types of territories. In addition, the cohesion policy should support explicitly the more general EU objectives formulated in the Europe 2020 strategy.

Essential aspects that have been discussed since 2013 and meant to redefine the cohesion policy were: a more strategic approach, rather territorial than regional; renewal of the strategic partnership principle; improved co-ordination of the European and national funds; increase of cohesion policy's efficiency (Zuber, 2013). Making strategic partnership in the new form assumed a closer cooperation between the European institutions, on one hand, and governments as well as representative internal structures of the Member States, on the other hand. The result of the agreement was a political contract, respectively the Partnership Agreement EU – Member State. In the Romanian case was signed the Partnership Agreement Romania (Ministry of European Funds, 2013). Regarding the co-ordination of funds, the cohesion policy has to identify ways to allow various policies using different funds to cooperate in order to reach all the general objectives of the Europe 2020 strategy.

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During the preparation of their partnership agreements the Member States and the regions scheduled the funds within the Common Strategic Framework (CSF) by taking into account the latest EU recommendations for each country, as well as their national reform programmes. The partnership agreement for each Member State had to establish the way in which various financial flows from the EU and national sources could respond to the specific EU recommendations. Joint financing of projects of national interest is a concrete manifestation of partnership within the EU.

The additionality of European funds requires that funds granted by the EU should be complementary to national funds. This co-financing rule is expected to generate new projects and to stimulate the economic development of the country. The actual contribution rates for each operational programme and for each priority axis are established by the authorities and are subject for approval by the European Commission.

In the post-crisis context expectations have grown regarding the contribution of private investment to the achievement of European goals. The World Bank considers that the recovery of private investment, the higher efficiency in using public resources and the public-private partnership (PPP) are critical for the recovery of economies in Europe (World Bank Group, January 2017). The Central and East European Countries could benefit from the EU experience in the field of investment done in public-private partnership before the last two waves of the EU enlargement, which was even richer compared to the U.S.A. (Engel, Fisher and Galetovic, 2011). Beside the standard PPP, there could be other organization forms of the cooperation between stakeholders able to allowing private fundraising for objectives of public interest and/or for supporting European goals (Dheret, Martens and Zuleeg 2012).

The general absorption rate is undoubtedly an important measure of success or failure of the European programmes. However the own contribution of the beneficiaries from the private and public sectors providing financial support to these programmes is an issue that was insufficiently researched in this context.

2. Research objective and method

The paper aims at estimating the own financial contribution of private and public beneficiaries to the implementation of European funds in Romania at regional NUTS3 level during the programming period 2007-2013, by considering also the grace period of three additional years.

The analysis refers to the change of financial indicators related to projects financed from structural and cohesion funds in the period 2009-2015. The analyzed period is shorter than it should be because of objective reasons. Thus, during the first two years of the multiannual financial period 2007-2016 (including the additional period) the absorption of European funds was almost inexistent, while available data for 2016 were not complete at the date of their collection.

The data source is the data base of the Ministry of European Funds in Romania available at 10.05.2016 regarding the formal submission and approval of projects, the signing of contracts and the payments made to the beneficiaries. The breakdown of the total financial support for projects by three sources (EU contribution, co-financing from the state budget and co-financing from the beneficiaries) refers only to final financing decisions and to internal payments made to beneficiaries of projects.

In the paper, the national co-financing from the state budget was delimited from the national co-financing from other sources, which were private or local public sources. These co-financers are generally referred to as "European project beneficiaries". Since the available data did not allow the strict separation of co-financing from private sources, the study uses the term "own co-financing of beneficiaries" as bringing together the own financial contribution of both private and regional/local public institutions which have signed contracts with European funding.

The analysis at NUTS3 level used the SMIS data regarding the status of the contracted projects[1] by summing for each county all projects by financial sources. The paper highlights the ineligible expenditures of the projects, which is the part of the total budget covered by the beneficiaries. The calculation method was as follows:

Ineligible co-finance of beneficiaries = Total budget − (total EU payments + payments from the state budget + eligible payments of beneficiaries)

The co-financing by the beneficiaries has been taken into account as the amount spent by project beneficiaries until the projects were finalized, therefore it is not the amount reimbursed. The data was collected at the moment of submitting the requests of reimbursement, which marks the completion of the projects. Starting with this moment the results of the projects produced economic effects.

3. The co-financing of European projects in Romania

Granting EU non-reimbursable loans consists of transfers based on allocations from the EU budget. The Community transfers must be complemented by the national public co-financing of Romania. This relies on the principle of additionality and the co-financing effort is determined by applying co-financing rates to all public expenditures for the operational programmes.

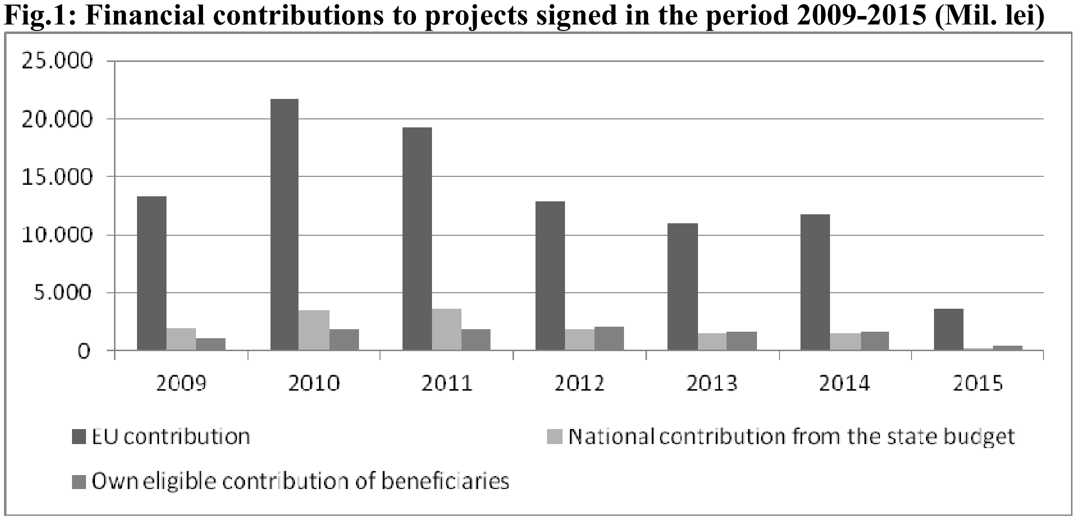
The ceiling rates for the EU contribution in the period 2007-2013 for Romania were the following (European Commission 2006):

- Objective „Convergence": 85% of the public spending co-financed from the Cohesion Fund (CF);
- Objective „Regional competitiveness and employment": 85% of the public spending co-financed from the European Regional Development Fund (ERDF) și European Social Fund (ESF),
- Objective „European Territorial Cooperation": 85% of the public spending.

The calculation of actual co-financing rates from the EU budget relies on several criteria: the rates should be higher in disadvantaged areas, in poor areas which face difficulties in finding sources for co-financing, as well as in sectors having the potential to produce high value added and contribute to the economic recovering.

The absorption of funds in the programming period 2007-2013 started in fact in 2009. Fig.1 shows an upsurge of allocated funds in 2010, then a gradual decline until 2015.

Fig.1: Financial contributions to projects signed in the period 2009-2015 (Mil. lei)



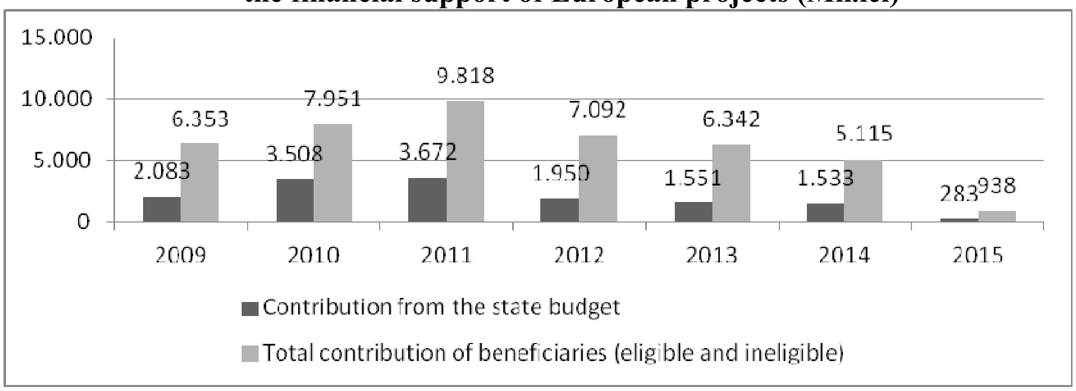
Source: own calculations based on the cumulative data from the Ministry of European Funds, http://www.fonduri-ue.ro/

[1] Ministry of European Funds, http://old.fonduri-ue.ro/baza-de-date-proiecte-contractate

Fig.2 highlights the significant effort of private and public beneficiaries of European projects in Romania. The total contribution of beneficiaries (eligible and ineligible contribution) has been higher than the financial support from the state budget. Even if part of the amounts spent by beneficiaries were subsequently reimbursed and implicitly were not own effort, the beneficiaries behaved like entrepreneurs by paying money in advance and by assuming the risk of failure to fulfil the reimbursement conditions.

Certainly the predefined contribution rates within the Common Strategic Framework EU-Member States have shaped the similar trend of payments from the three sources. Thus, the contribution from the state budget, as well as the contribution of beneficiaries peaked in 2011 and then dropped to the minimum in 2015.

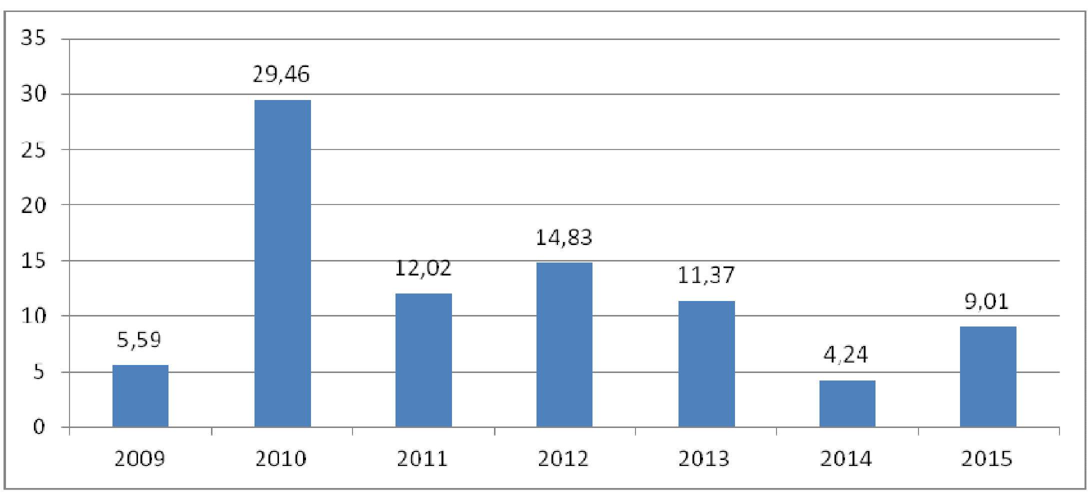
Fig.2: National contributions from the state budget and contributions of beneficiaries to the financial support of European projects (Mil.lei)



Source: own calculations based on the cumulative data from the Ministry of European Funds, http://www.fonduri-ue.ro/

The average value per project was highest in 2010 (fig.3), while in 2011 a much higher number of projects associated with a more important total contribution of beneficiaries led to a lower average value per project.

Fig.3: The average value per contracted project, 2009-2015 (Mil.lei/project)



Source: own calculations based on the cumulative data from the Ministry of European Funds, http://www.fonduri-ue.ro/

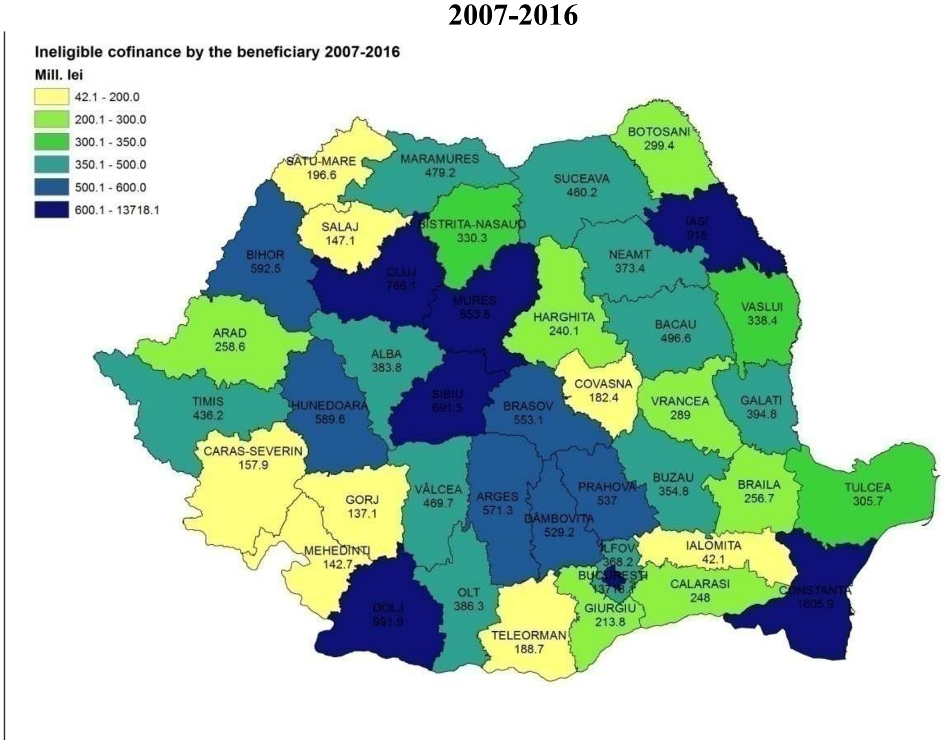
4. **Assessment of the ineligible co-financing of beneficiaries in the period 2009-2015 – a regional analysis**

Starting from the partnership and additionality principles, the assessment of the national effort has a higher relevance if both public and private sources are studied. The actors involved have to make certain expenses before getting the funds from the European Union on the base of the reimbursement principle. After submitting the requests of reimbursement they have to wait sometimes weeks or month until the documents have been checked, which induces a high pressure on the beneficiary's budget. The beneficiaries' lack of financial capacity is a significant hindrance in accessing European funds and keeps at low level the chance of development in some regions. The co-financing capacity of the local public authorities has been considered as a weak link in the process of EU funds' absorption since the pre-accession period (Oprescu et all, 2005).

Since there are important regional differences in economic development, firms located in richer regions have more chances to be able to access European funds compared to those in poorer regions. This is the research hypothesis used in this paper when analysing the ineligible financial effort of the beneficiaries of European projects at NUTS3 level.

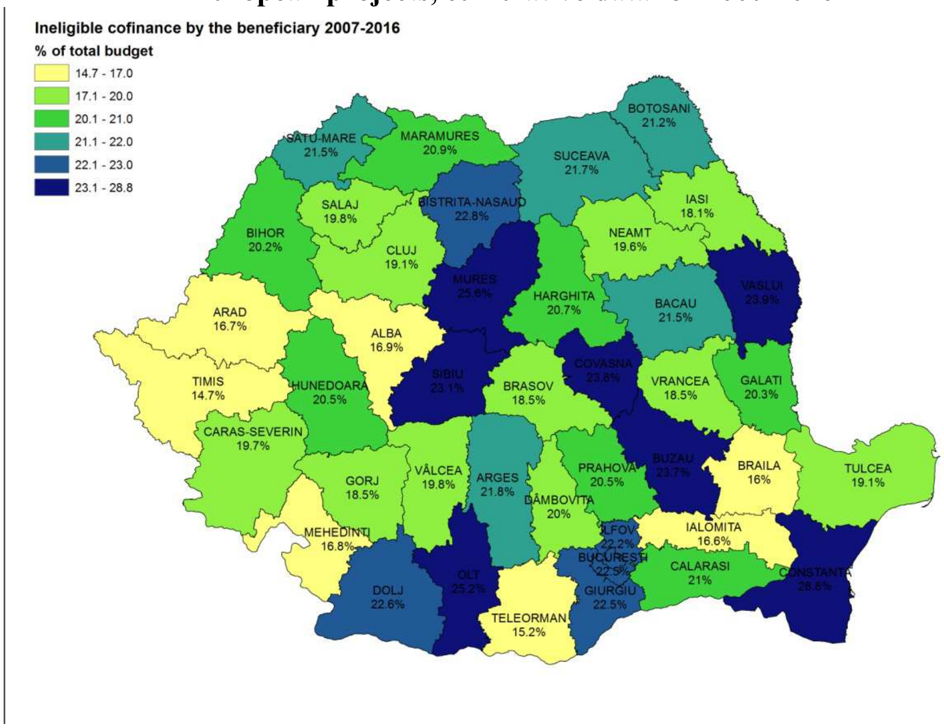
The level of co-financing is measured by the ineligible amount spent by private economic agents and regional/local public institutions. The highest level is in Bucharest and in counties such as Constanța, Dolj, Iași, Cluj, Sibiu and Mureș (fig.4). The capital city Bucharest together with the counties Cluj, Constanța and Sibiu were in top seven the most developed NUTS3 regions in 2016. But there are also less developed counties, such as Dolj or Iași, which are dynamic and host economic agents willing to use the opportunities provided by the European Union.

Fig.4: Own ineligible co-financing from beneficiaries, cumulative data for 2007-2016



Source: own calculations

Fig.5: Share of own ineligible co-financing from beneficiaries in the total budget of European projects, cumulative data for 2007-2016



Source: own calculations

The share of own ineligible co-financing from beneficiaries in the total budget of European projects is around 20% (fig.5). It is interesting to note that poor counties, such as Vaslui, Buzău, Olt and Covasna register a share of 23-25%, while well developed counties like Timiș, Arad and Alba have a share of about 14-17%. The deviations from the average at county level are quite various and data does not indicate a strict link between the level of development and the mobilisation of ineligible resources.

5. Conclusions

The application of the sustainable development's principles in the field of financing projects based on partnership agreements between the European Union and a Member State implies boosting the capacity of each region to use its own resources. A higher financial contribution of private economic agents and of the regional/local institutions provides a better chance to meet the real needs of the economy and to increase the effectiveness in using the resources.

In Romania, the total co-financing (eligible and ineligible) from the beneficiaries for European projects in the period 2009-2015 was larger than the contribution from the state budget, which reflects the significant effort of beneficiaries, associated with an entrepreneurial risk, even if part of the amounts spent were finally reimbursed.

Higher levels of the ineligible contribution have been found in more developed and/or dynamic counties, where more concentrated public investment becomes a support for private investment.

The component of ineligible expenditures of beneficiaries reaches an average of about 20% of the total budget for European funds, but at regional level this contribution has deviations from the average. These deviations are quite various and data does not indicate a strict link between the level of development and the mobilisation of ineligible resources.

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