The cohesion policy of the European Union: alternative funding mechanisms of the Romanian economy

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Abstract
Along with the internal market, as well with the Economic and Monetary Union, the economic and social cohesion is one of the main objectives of the European Union under the Treaty of Maastricht, respectively, to "promote social and economic progress and a high level of employability and the to achieve a balanced and sustainable development..." (Treaty on European Union - the Maastricht Treaty - 1992). In other words, economic and social cohesion would require the European Union population not to be disadvantaged, regardless of the region in which are living and/or working. This will depend very much on how it will be implemented, the cohesion policy by the European Union in cooperation with each Member State individually. This is the practical process of eliminating or at least reducing disparities in economic and social development of some Member States and/or their regions. European Union cohesion policy has three major dimensions: economic, social and territorial dimension size. The third dimension, size "territorial" (Lisbon Treaty 2007) was introduced by the Lisbon Treaty and refers to the recognition of territorial diversity and the need to build on this diversity to generate development. Thus, it can be said that, currently, the main purpose of the cohesion policy of the European Union is represented by alleviating economic disparity, social and territorial cohesion. As regards, the cohesion policy, which are used to achieve its objective, namely to reduce disparity and strengthening economic, social and territorial cohesion can say that they are the Structural Funds and the European Investment. These structural and investment funds practically represent true alternative of funding mechanisms in the economy of a Member State, with a number of advantages over traditional financing mechanisms. To those mentioned above in this article, the authors have proposed to emphasize the cohesion policy and their role as alternative funding mechanisms of the Romanian economy and their trends in 2014-2020.

Keywords: *Cohesion policy; European funds; regional development; cohesion policy instruments; economy; alternative funding mechanisms*

1. Introduction

The research topic on which we intend to analyze in this article is the impact of cohesion policy and its instruments on the Romanian economy. The reason why this theme was chosen is the current debate about the cohesion policy and regional development of Romania and the importance of increasing the absorption of European funds by Romania in the 2014-2020 programming period, to finance economy so as to

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ensure the fulfillment of the three new priorities set by the Europe 2020 strategy, namely "smart growth: developing an economy based on knowledge and innovation; Sustainable growth: promoting a more efficient economy in terms of resource use, greener and more competitive; Inclusive growth: promoting an economy with a high rate of employment, ensuring social and territorial cohesion." (Communication from the European Commission 2010: p 3).

However, given the current social phenomenon economically tied wave "immigrants stemming largely from poor countries and those at war in the Middle East and Africa are moving towards the European Union", which is a phenomenon that lately becomes the main priority in the agenda of the governments of the Member States and the European Commission, taking into account the very low degree of absorption of European funds by Romania for the period 2013-2014 (absorption rate is 63,48% at the end of February 2016)" (Capital newspaper 2016) and that Romania has greatly delayed launch of several funding programs for the period 2014-2020 for attracting European funds, we believe that analyzing the influence of EU cohesion policy, its role and its instruments for financing the Romanian economy is a highly debated issue deserves to be treated very carefully.

2. European Union cohesion policy: definition, role and evolution

Taking account of membership of the European Union, Romania has benefited since 2007, the year it joined the European Union, by the Cohesion policy support thereof that aims under the provisions of the Treaty of Rome, a "harmonious development by reducing disparities between different regions and prevent backwardness of the least favored regions"(Treaty of Rome 1957).

It should be stressed that cohesion policy has evolved over time, meaning that it was adapted to the new challenges facing Europe in order to achieve its intended purpose. Thus, nowadays, referring to the EU's cohesion policy, we express to economic, social and territorial cohesion. Some authors even consider that cohesion policy has four types, namely "economic, social, territorial and political cohesion" (Tarschys 2003: p. 5). Cohesive policy means the process by which political parties form alliances achieve certain common objectives, at national and even at regional level. In terms of territorial cohesion, it should be noted that it has become one of the overall objectives of the cohesion policy of the European Union, alongside economic and social cohesion, with the signing of the Lisbon Treaty. By territorial cohesion we understand balanced development, consistent, harmonious, "polycentric development" (European Commission 1999: p.7), economically and socially in all geographic regions of the European Union. Territorial cohesion aims at reducing the disparities in development between urban and rural areas, between center and periphery, preventing extensive territorial disparities, this based on three fundamental principles "concentration, namely overcoming differences in density Connecting territories and overcoming distance and cooperation, as well as overcoming the division" (Trașcă et. al. 2013: pp. 64-74).

With regard to *economic cohesion,* we consider that it involves the overall objective of each state, namely to achieve a high level of welfare of the State and its inhabitants, due to the implementation of an effective cohesion policy, a policy that is based on "financial solidarity" and serves as "a mechanism for payments, redistribution of budgetary contributions of Member States to reduce disparities in regional development between them" (Drăgoi 2014: p. 6) in order to promote a high level of competitiveness and employment of labor, increasing the level of life for European citizens, sustainable and harmonious development of the European Union.

Regarding the *social cohesion* should be noted that, according to some authors in the field, it appeared as a separate policy that was aimed at reducing the differences between people, following the emergence of technological progress that has affected a number of social groups, either from being vulnerable (women, children, disabled, etc.) or from being affected by changes in the economy (unskilled). Social cohesion refers to managing those elements common societal or better manage the factors of division that exists in a society (ethnic, religious, cultural, welfare and social status differences, etc.) that can cause conflicts between individuals or groups of individuals that are inevitable in a society and even normal in a free market economy.

We believe that, in terms of the evolution of cohesion policy should be highlighted the next steps that contributed to the improvement and its reform, namely: the drafting of the Treaty of Rome on 25 March 1957, a document which was established by the European Economic Community (EEC) and which have been defined for the first time the principles of regional development policy. The establishment in 1958 of the European Social Fund and the European Fund for Agricultural Guidance and Guarantee which was focused on economic and social development at Community level. In 1975 the European Regional Development Fund (ERDF), was created, which aims at reducing disparities between the levels of regional development in the Community space. In 1986 the Single European Act document was signed that sets the foundation of cohesion policy. In 1988, the European Council in Brussels restores the operation of the Solidarity Funds (Structural). On 7 February 1992 is signed the Maastricht Treaty, which entered into force on the same date. On 1 November 1993 the incurrence European Union which currently comprises 28 member states (at that time consisting of 12 countries: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, UK Netherlands, Portugal and Spain, following along the time to join: in 1995: Finland, Austria and Sweden, in 2004: Latvia, Lithuania, Cyprus, Estonia, Malta, the Czech Republic, Slovakia, Poland, Slovenia and Hungary, in 2007: Romania and Bulgaria in 2013 and Croatia). In 1993 it is created the Financial Instrument for Fisheries Guidance (FIFG). In 1999 it set up funding programs for Pre-Accession Instrument for Structural Policies (ISPA) and the Special Accession Program for Agriculture and Rural Development (SAPARD). In 2000, the policy takes the Lisbon objectives for growth and employment (objective of the Lisbon Strategy by 2010 was to make Europe "*the most dynamic and competitive knowledge-based economy*". In 2001, Strategy Lisbon has completed its objectives, including among new objectives "sustainable development". In 2005 the European Commission presented the integrated Strategic lines for Growth and Jobs (bowing from the premise that the development of the EU economy will be based on a sustainable growth and employment). In 2007, occurs Cohesion Policy Reform (2007-2013 thus were established three objectives, which were included in the Community Strategic Guidelines 2007-2013, namely: "Europe: a more attractive to invest and work, improving knowledge and innovation for growth, more and better jobs". (Communication from the Commission Europe 2010: p 4) in 2007-2013, cohesion policy contributes to "*convergence*" (Communication from the Commission Europe 2010: p 3) in the new programming period 2014-2020 according to the Strategy 2020, the new cohesion policy has three new priorities, namely "smart growth: developing an economy based on knowledge and innovation, sustainable growth: promoting a more efficient economy in terms of resource use, greener and more competitive, increase inclusive growth: promoting an economy with a high rate of employment, ensuring social and territorial cohesion" (Communication from the Commission Europe 2010: p 3). As can be seen, European Union cohesion policy has undergone many changes over time to achieve its goal.

In our view, we believe that currently the cohesion policy continues to reform and redirect objective in view: the refugee crisis in the African and Middle East that "invades" the European Union. The lately position of Great Britain and Greece on the European Union that have sent signals recently regarding the intentions of leaving the community space, increasing terrorism in the European Union, etc. Thus, we consider that all the problems facing the European Union, have led to a crisis generalized across Europe, which we believe that can be overcome through the implementation of cohesion policy of solidarity conducive to the harmonious development of all Member States by reducing disparities in economic, social and territorial of all existing nations into the EU. American analyst Robert D. Kaplan believes that "It became, therefore, clear that the centralization imposed for decades by the European Union and bureaucracy distant, cataloged commonly as unrepresentative, and has led to the construction of a united Europe. On the contrary, triggered across the continent a shockwave, which the EU may only survive if he can find in the shortest time, the appropriate way to preserve legitimacy to the diversity of nations and opinions" (Vidu and Andrei 2016: p. 1). In the same article, it is mentioned that a role in amplifying the current crisis in the European Union plays Russia whose leader "knows that geography and raw power - military and economic - are still the starting point in asserting national interests" (Vidu and Andrei 2016: p. 1), while technocrats, respectively EU leaders see tackling the division of Europe into "social state and the common currency" (Vidu and Andrei 2016: p. 1).

Considering the allegations of the analyst Robert D. Kaplan in connection with the European Union, the question arises: Will cohesion policy through its instruments get out of the current crisis? According to the authors, the answer is YES, but only under certain conditions. One of those conditions, in our opinion, would be for cohesion policy through its instruments to provide greater concern for social cohesion, given the social phenomenon of the economy that has grown lately, namely the immigrant's crisis. Thus the social cohesion policy needs to strengthened social security systems in the Member States for fighting poverty, migration management, encouraging social inclusion, etc. This was reported by experts in the field who have promoted the idea that "one of the main goals of social cohesion is to strengthen social security systems" (Androniceanu et. al. 2004: p. 5). New social cohesion policy should focus more on equal opportunities (focusing on the religious orientation of individuals who apparently recently sparked many conflicts within Europe and is believed to have influence also the refugee crisis), democracy, freedom and responsibility. On the situation of migrants in the European Union, Corina Cretu, the European Commissioner for regional policy said through a press release to Agerpres that "EU funds for cohesion policy can also be used to ensure effective integration of immigrants and asylum seekers" (Economica newspaper 2016). In other words, through the instruments used by cohesion policy, in particular the European Social Fund (ESF) and European Regional Development Fund (ERDF), the Asylum, Migration and Integration (AMIF) and even through the

European Social Fund (ESF) will be able to finance invested by European funds to ensure social integration of immigrants. The second condition would orientation of cohesion policy instruments to finance funding programs that aim to invest in key growth sectors. We believe that the third condition is simplifying the implementation of cohesion policy for 2014-2020, raising absorption by all Member States of the European Union European funds allocated in this programming period in order to develop the economy, promote more efficient economy in terms of resource use, greener and more competitive economy and a high rate of employment and ensure social and territorial cohesion. The fourth condition would be to continue the introduction of the single currency "euro" across all Member States, which would represent a major step for the integration process that will lead to the achievement of economic and legal convergence. The single currency "euro" will provide greater security in transactions, particularly cross-border and higher profitability of the business (since there will be no costs related to currency exchange), will contribute to price stability, increase economic growth, financial market integration and not least, will contribute to more efficient single market by making it more powerful in the world's economy.

3. The instruments of EU cohesion policy: source of financing for Romanian economy?

As you know, the main funding mechanisms of the economy are: self-financing, bank credit and leasing, budgetary subsidy. Referring to alternative mechanisms for financing the economy can say that for Romania at the moment the most important alternative source of financing the economy are the main instruments of cohesion policy that provides solutions for financing from European funds, namely: European Structural and Investment Funds (FSIE), namely: European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EARDF) and European Maritime and Fisheries Fund (EMFF).

European Regional Development Fund (ERDF) was established in 1975 and aims to reduce disparities between levels of regional development at Community level. European Regional Development Fund (ERDF) finances projects aimed at: reducing disparities between regions in the Community, the development of regions suffering from natural or demographic handicaps, development lagging regions, the conversion of industrial regions in decline, making investments that aim at growth and jobs, promoting and strengthening regional cooperation, sustainable development, etc.

Cohesion Fund (CF) was established in 1994 with the aim of contributing to projects in the environment and trans-European networks. Since 2007, the Cohesion Fund has begun to contribute to projects in fields related to sustainable development, energy efficiency and renewable energy. Cohesion Fund (CF) will finance in 2014-2020, projects in the following areas: environment, transport TENs. In order to obtain financing through the Cohesion Fund must meet certain eligibility conditions by the respective states namely gross national income (GNI) per capita is less than 90% of the EU average. Thus, in the 2014-2020 programming period, the Cohesion Fund will be available Romania.

European Social Fund (ESF) promotes economic, social and territorial cohesion, and is the main instrument of cohesion policy that makes investments in people.

European Social Fund (ESF) aims to create jobs for European citizens providing better education and protection of vulnerable groups. Regarding the 2014-2020 European Social Fund aims: fighting poverty, enhancing institutional capacity and efficient public administration, employment, improved education, social inclusion.

European Agricultural Fund for Rural Development (EAFRD) aims to promote sustainable rural development throughout the European Union, contributing to the market supporting policies and the common agricultural policy. Concerning the programming period 2014-2020, the European Agricultural Fund for Rural Development (EAFRD) has three objectives that are also among the objectives of the Europe 2020 Strategy and the objectives of the Common Agricultural Policy, namely: "increasing competitiveness of agriculture, ensure sustainable management of natural resources and combating climate change, promoting balanced territorial development of rural economies and communities including creating and maintaining jobs."

European Maritime and Fisheries Fund (EMFF) finances the European Union's policy of fisheries and maritime affairs respectively: creating new jobs, improving quality of life in coastal areas of Europe, helping operators transition to sustainable fisheries and support coastal communities to diversify their economies.

Apart from the above mentioned instruments, the European Union uses other tools that support only certain fields of interest, namely: the development of SMEs, culture, research, environment, research, education, etc. The most relevant and current instruments of this type are: Erasmus + - instrument that finances projects in areas such as: youth and sports, education, training, etc. The Creative Europe - an instrument which finances projects aimed at: transnational mobility, audience development, capacity building - education and training. The program Horizon 2020 is aimed at financing research projects, educational and social that are found in the "Europe 2020". The Horizon 2020 is a tool to finance research. The Cosmos is a tool that funds the development of SMEs. Connecting Europe Facility (CEF) is a tool to finance infrastructure projects: roads, railways, gas pipelines, electricity networks and services for a digital single market.

In order to achieve the objectives of European Union cohesion policy as an instrument used to finance the economy and the European Investment Bank (EIB**)**. This bank was established in 1958 in order to provide funding to projects that have as priorities: economic growth, jobs, climate change mitigation, etc. European Investment Bank finances these types of projects by granting loans and providing advice.

We believe that it should be noted that the effective use of the tools described above, cohesion policy of the European Union using instruments such as JASPERS technical assistance and JASMINE, along with financial assistance instruments such as JASMINE and JESSICA. Is JASPERS technical assistance facility that supports countries in preparing quality projects, to be financed from funds allocated through cohesion policy instruments? JASMINE is a tool for technical and financial assistance that are supported by non-bank micro-credit providers. Financial engineering is a tool which finances micro-enterprises and SMEs. JESSICA is a financial engineering instrument which finances investment in urban areas.

Considering the above, the question arises: Why cohesion policy instruments are considered a source of financing for Romanian economy particularly cost-effective? The answer according to the authors of this article appears by simple analysis of the funding mechanisms of classical economics mentioned above. Thus, the ideal funding mechanism is the self-financing, which represents financing of the economy by using its own sources, a mechanism that does not involve costs being the most profitable, but the problem is that Romania currently has no cash on hand to finance the economy. In this case as funding mechanisms for the economy remain to be analyzed the credit and leasing for Romania and in some cases budgetary subsidy.

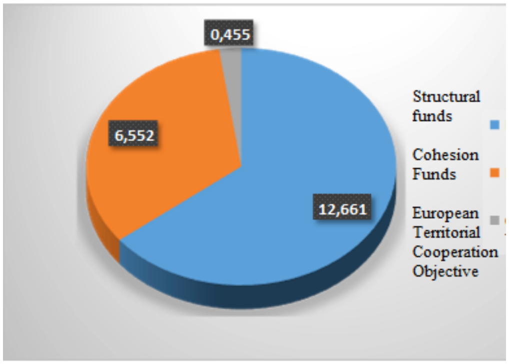
The credit is a form of financing most popular savings. But credit incur quite large banking institutions that are perceived as commission for the loan file analysis, commission of credit, borrowing, credit management fees, etc. *Leasing or loan bail* is a funding mechanism in the medium term (leasing movable) or long term (real estate leasing). This funding mechanism allows the exploitation of property without resorting to loans or equity to spend. Leasing is basically a lease of a movable or immovable property which contains a clause on the promise of sale at the end of the contract period based on the residual value. *The grant budget* is funding mechanism that allows financing from the state budget, specific companies or agencies in priority sectors of the state economy through financial subsidy policy. This mechanism is not common, is subject to availability of funding sources and be granted under certain conditions and for a certain period of time.

Therefore, we believe that it is very clear that cohesion policy instruments is the most cost-effective source of funding for the Romanian economy, given that European funds is not a process so costly as loan from a bank because many cases expenditure preparation of the European financing are eligible expenditures (recovered by the beneficiary from the European Union or partially by share non-refundable support established program funding), European funds does not involve fees award as assumed often grant credit, European funds does not involve the payment of installments or interest payments as a credit or assume a lease.

Given the advantages of cohesion policy instruments gives them Romanian economy above a second question that emerges: Why, during 2007-2013 Romania has made so little absorption of European funds, given the advantages they provide the cohesion policy? The answer according to the authors is as follows: the level is so low for the absorption rate of European funds by Romania in 2007-2013 was due to the following causes: weak institutional capacity administrative, not harmonized with EU legal framework, the authorities hired unqualified personnel management and intermediary bodies which managed EU funds on political criteria not based on competence, lack of effective strategy development, lack of experience in managing European funds, excessive bureaucracy, fraud with European funds, lack of involvement of banking institutions in the financial sustainability of the projects financed from European funds, poor inter-institutional cooperation, the staff lack of experience involved in writing projects, their evaluation, implementation and monitoring etc.

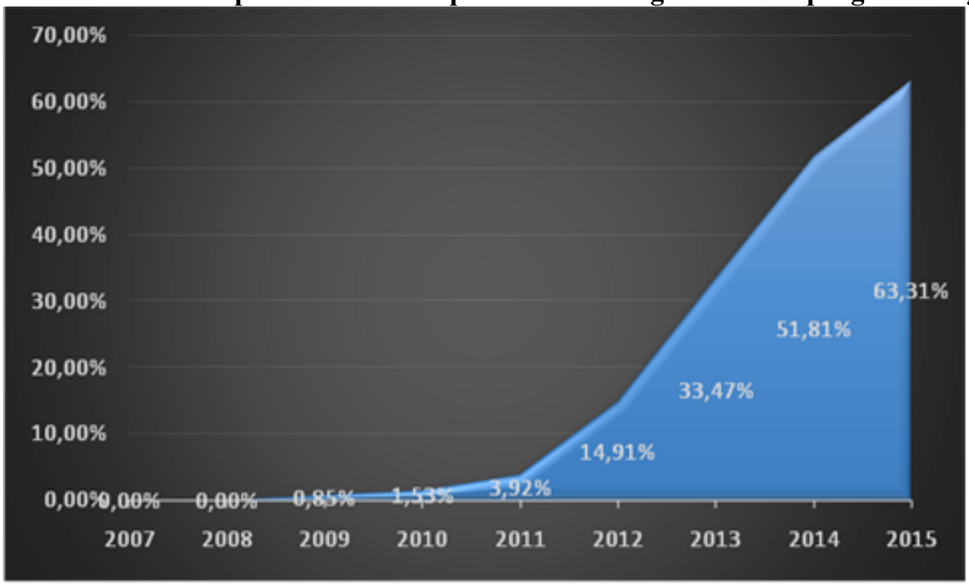
In 2007-2013, they were allocated to Romania through cohesion policy instruments 19.668 billion euro. The allocation of these European funds was divided as follows:

Chart no. 1 - The allocation of European funds for Romania through the instruments of cohesion policy in 2007-2013



Source: Developed by authors, according to data on the website of the European Commission (2016)

Chart no. 2 - European funds absorption rate during 2007-2013 programming



Source: developed by authors, according to data from the Ministry of European Funds - Structural and Cohesion Funds Absorption (2016)

According to the chart above, we can see that because of the obstacles mentioned above, the absorption rate of European funds in Romania, in the 2007-2013 programming period, was only 33.47% on 30.12.2013, representing approximately 5.1 billion Euro, rising to 51.81% in 2014, in 2015 to 63.31% and even 66% in April 2016.

4. Conclusions

As conclusions on the instruments used by the EU cohesion policy, we can say that there are divided opinions on the effectiveness of cohesion policy to fulfill the purpose among specialists. Some specialists consider that the instruments used for economic and social policy have a negative role, other considering that they have a positive role and contribute to achieving the objectives of cohesion policy. Opinion on the negative role of these instruments is based on the fact that these instruments by which European funding will teach applicants to fill out forms to finance investments and business, instead they make them study and seek funding mechanisms have basic economic principles and time-tested classics.

In the 2014-2020 programming period, Romania will have to take advantage of European funds allocated through cohesion policy instruments and absorb as much funding, given that, in our opinion, they represent the most cost effective solution to finance the economy and why not the most effective, given that through cohesion policy instruments are funded investments were selected on the basis of analyzes and strategies made by experts both at macroeconomic and microeconomic which were interrelated and aimed primarily sustainable development and economic growth.

Regarding Romania's economy, we appreciate that the cohesion policy will have a positive impact on the Romanian economy and contribute to its sustainable development, to increase employment, create better living conditions for the population, etc. but only by overcoming certain obstacles, which include: implementing a legal framework consistent with the European Union to develop programs / strategies for effective development, administrative capacity building, institutional distribution of European funds to sectors with growth potential, involvement of banking institutions in the implementation of projects with EU funding, preventing and eliminating fraud with EU funds, the implementation of efficient management of funding programs in all phases: programming, implementation, monitoring, evaluation, strengthening inter-institutional cooperation, eliminate excessive bureaucracy.

Authors' opinion is that the new cohesion policy will have to adapt tools used to overcome the current crisis facing the cohesion policy in the European Union and Romania, for the purposes of allocating more EU funds to instruments that fund social cohesion to solve the refugee crisis and terrorism. In addition, we believe that the cohesion policy will be administered and managed more effectively in order to attain the objectives set by the Europe 2020 strategy.

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