The effects of the European Regional Development Fund on the large Romanian enterprises

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The regional development of Romania in 2014-2020 should rely on the lessons learned from the 2007-2013 period. In this wider context, the paper analyses the effects of the European Regional Development Fund (ERDF) provided within the 2007-2013 programme focusing on the development of the economic competitiveness, on the large enterprises from the North-East region of Romania. Three hypotheses are tested within this empirical research. First, that the EU financial assistance granted to a large enterprise implies an increase in its net turnover, gross profit and number of staff. Second, we aim to see whether the increase in the net turnover, gross profit and number of staff is directly linked to the increase of the ERDF grant. Finally, we analyse if the increase of the three indicators is higher for the large enterprises that implemented more projects than for the enterprises that implemented a single project. The analysis also puts under discussion the quality and the availability of the information concerning the projects funded by the European Union in Romania, taking also into consideration the 2014-2020 e-cohesion requirement.

Keywords: regional development, large enterprises, complementarity, e-cohesion, European Regional Development Fund

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Background

One of the operational programmes implemented in the 2007-2013 programming period in Romania was the Sectoral Operational Programme Increase of Economic Competitiveness, which focused on fields of intervention such as competitiveness of SMEs and large enterprises, research and development, information and communication technologies for both public and private sectors, energy efficiency, etc. (Ministry of Economy and Finance, 2012: 9). The programme was cofinanced by the European Regional Development Fund.

The programme offered Romanian large enterprises several financing opportunities, including the possibility of creating a new production facility or developing an existing one, under the operation 1.1.1: “Support for strengthening and upgrading the productive sector by tangible and intangible investments” (Ministry of Economy, Trade and Business Environment, 2011: 13-14). This operation was addressed both to large enterprises and SMEs, with the exception of microenterprises.

Such opportunities are not provided anymore for the 2014-2020 programming period. Large enterprises will still be able to access EU funding for research and development but not for productive investments as in 2007-2013.

Methodology

The analysis was performed on a population made up of large enterprises that correspond to a number of criteria. A large enterprise was considered an enterprise that does not qualify as an SME according to the Law 346/2004 with the subsequent modifications. In other words, it has more than 250 employees, a turnover of more than 50 million euros or a balance sheet total of more than 43 million euros.
The selection was already performed by the managing authority of the programme, when granting the funding.

The first criterion was that the large enterprise had reimbursement claims paid during 2009-2013 from the previously described operation 1.1.1 of the Increase of Economic Competitiveness programme. Also, the large enterprises with cancelled projects were excluded from the population.

The second criterion regarded the location of the large enterprise, namely the North-East region of Romania. At the beginning of the implementation of the 2007-2013 operational programmes this was the least developed region. All the six counties of the region were taken into consideration: Iasi, Neamt, Suceava, Botosani, Vaslui and Bacau.

Finally, the third criterion was the availability of reliable data. In order to collect all the necessary information, several sources of information were used. We initially used the online search facility from the website www.fonduri-ue.ro, which belongs to the Ministry of European Funds. This facility enables the user to sort the projects from all the 7 operational programmes implemented in Romania according to different criteria. The criteria used regarded the operational programme, the operation 1.1.1 and the geographical location. Due to the large number of results, six different lists were generated, one for each county.

The lists included 60 projects belonging to 53 enterprises for Iasi county, 66 projects from 53 enterprises for Bacau county, 13 projects from 13 enterprises for Botosani county, 73 projects from 57 enterprises for Neamt county, 37 projects from 32 enterprises for Suceava county and 15 projects from 13 enterprises for Vaslui county. In total, 264 projects belonging to 221 enterprises. As the online facility does not differentiate between large and SMEs, which can both access operation 1.1.1, another source of information was used, namely the list of contracted projects published by the Ministry of
European Funds. This list comprises information such as the beneficiary’s name, the title of the project, the budget split by funding source and reference to the call of projects which allows the identification of the large enterprises. The latest available version of the list, used for this analysis, includes projects contracted by 31.03.2015 (Ministry of European Funds, 2015). This list does not allow the identification of the enterprise’s geographical location. The crosscheck performed with this list resulted in the fact that out of the 221 enterprises, 205 were SMEs and 16 were large enterprises. Out of the 16 enterprises, 2 had cancelled projects.

The population of the 14 large enterprises was verified using the detailed information regarding the reimbursement claims provided by the online facility from the www.fonduri-ue.ro website. Out of the 14 large enterprises, 13 had reimbursement claims paid between 2009-2013 and one had the first reimbursement claim paid in 2014 by the managing authority.

For the 13 remaining large enterprises, a check was performed in order to identify if any of them also had projects not included under operation 1.1.1, for which reimbursement claims were paid in 2009-2013. The result was that one large enterprise had such a project. The check was performed using the list published by the North East Regional Development Agency with all contracted projects in the region, from all the operational programmes. This list was last updated in September 2013. This list also includes the SMIS code, which is a unique code assigned to each project and which was used in order to verify the reimbursement claims with the online facility from the www.fonduri-ue.ro website.

In conclusion, the population analyzed is made up of 13 large enterprises and is not representative for Romania. For these enterprises, data was collected regarding on the one hand, the amount reimbursed between 2009-2013 (using the online facility from the www.fonduri-ue.ro website) and, on the other hand, information
regarding the net turnover, the gross profit and the average number of staff for 2009 and 2013 (using the information available on the website of the Ministry of Public Finances).

For this population, three hypotheses were tested within the empirical research presented in this paper. First, that the EU financial assistance granted to a large enterprise implies an increase in its net turnover, gross profit and number of staff. The second hypothesis is that the increase in the net turnover, gross profit and number of staff is directly linked to the increase of the ERDF grant. Finally, the third hypothesis is that the increase of the three indicators is higher for the large enterprises that implemented more projects than for the enterprises that implemented a single project.

Results

Regarding the first hypothesis, namely that the EU financial assistance granted to a large enterprise implies an increase in its net turnover, gross profit and number of staff, the results for each of the three components are presented in the figures below.

As such, 85% of the large enterprises presented an increase in the net turnover and only 15% presented a decrease, as shown in Figure 1 below. It is important to mention that in the evaluation process, more points were given to the projects that were going to support the increase in the turnover of the company in 5 years following the date of project completion. As such, 7 evaluation points out of 100 were given to the projects leading to a 15% increase in the enterprise’s turnover (Ministry of Economy, Trade and Business Environment, 2011:94).
Figure 1

Evolution of net turnover 2009-2013

Source: adaptation of data from www.fonduri-ue.ro and www.mfinante.ro

The situation is different in the case of the gross profit, as only 48% of the large enterprises presented an increase in the gross profit and 62% presented a decrease, as shown in Figure 2 below.

Figure 2

Evolution of gross profit 2009-2013

Source: adaptation of data from www.fonduri-ue.ro and www.mfinante.ro

Regarding the number of staff, 75% of the large enterprises presented an increase and 25% presented a decrease, as shown in Figure 3 below. Also in this case, in the evaluation process more points were given to those projects that intended to create or maintain jobs. For instance, 4 points out of 100 were given to the projects leading to a 20% increase
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of the enterprise’s staff (Ministry of Economy, Trade and Business Environment, 2011:95-96).

Figure 3

Evolution of number of staff 2009-2013

Source: adaptation of data from www.fonduri-ue.ro and www.mfinante.ro

Considering the results obtained, the first tested hypothesis is partially confirmed, in the sense that the EU assistance granted to a large enterprise leads to an increase in its net turnover and number of staff but does not lead to an increase in its gross profit. The data show a strong relationship between the EU funding and the increase in the net turnover and the number of staff, over 75% of the enterprises presenting an increase in terms of these indicators.

The second hypothesis tested was that there is a correlation between the amount of the EU funding provided to a large enterprise (amounts actually reimbursed) and the evolution of the net turnover, number of staff and gross profit. The correlation between the value of the EU funding and the evolution of the net turnover is presented in Figure 4 below.
In order to more accurately present the variation of the values, one of them that showed an abnormal increase in the net turnover (over 79,000%) was eliminated from Figure 4. As the figure clearly illustrates, there is no apparent link between an increasing amount of funding provided to a large enterprise (amounts actually reimbursed) and the increase in the net turnover.

A similar conclusion can be drawn from Figure 5 below, which presents the variation of increase in the gross profit in relation to the increase of the amounts actually reimbursed. Also, in order to more accurately present the variation of the values, two of them, that showed an abnormal increase/decrease (over 5,000%), were eliminated from Figure 5.
Finally, regarding the variation of the number of staff in relation to the increase in the amounts actually reimbursed to a large enterprise, presented in Figure 6 below, the same conclusion can be drawn as for the previous two correlations. Also in this case, one of the values was eliminated from Figure 6 due to the fact that it showed an abnormal increase in staff (over 1.000%) and for one of the enterprises no information was available regarding the number of staff in 2013.

Source: adaptation of data from www.fonduri-ue.ro and www.mfinante.ro
Taking into consideration these results, the second tested hypothesis cannot be confirmed, as there is no identifiable relationship between the amounts actually reimbursed to a large enterprise and the evolution of the three parameters.

The third tested hypothesis was that the increase of the three indicators is higher for the large enterprises that implemented more projects than for the enterprises that implemented a single project (complementarity effects). Out of 13 large enterprises analysed, 11 had only one EU funded project and that was under operation 1.1.1, one large enterprise had 2 projects, both under operation 1.1.1, and one enterprise had two projects, one under operation 1.1.1 and one under operation 4.1.1 regarding energy efficiency. The results of the analysis are presented in Table 1.
Large enterprises showing an increase in the net turnover, gross profit and number of staff

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Large enterprises with 1 project</th>
<th>Large enterprises with 2 projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of net turnover</td>
<td>82%</td>
<td>100%</td>
</tr>
<tr>
<td>Increase of gross profit</td>
<td>80%</td>
<td>50%</td>
</tr>
<tr>
<td>Increase of number of staff</td>
<td>64%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: adaptation of data from www.fonduri-ue.ro and www.mfinante.ro

The results indicate that the third hypothesis can not be confirmed, as the increase in the number of projects did not lead to an increase in the gross profit or the number of staff and the increase in the net turnover was not significantly higher in the case of the large enterprises which implemented 2 projects instead of one.

Conclusions

The results of the research performed on the large enterprises from the North-East region of Romania that had financing contracts signed within operation 1.1.1 of Increase of Economic Competitiveness programme and amounts reimbursed in 2009-2013 show that there is a strong link between the EU funding granted to a large enterprise and an increase in its net turnover and number of staff. No such link was identified regarding the gross profit.

The data did not reflect any correlation between the increase in the amounts actually reimbursed to a large enterprise and the increase in its net turnover, gross profit or number of staff. Also, the increase in the number of projects did not lead to a significantly better evolution of the large enterprises measured by the three parameters previously mentioned.
An important conclusion of the research performed is that there is a lot of room for improvement regarding the quality and the availability of information regarding the EU-funded projects. As it was explained in the methodology, the information is fragmented in several sources, at times obsolete and usually presented in formats that do not allow data processing.

For the 2014-2020 period, for which the e-cohesion requirement applies (the possibility of exchanging electronically the information between beneficiaries and national authorities), the quality and the amount of the information provided to the general public with regard to the EU-funded projects should improve significantly, enabling more detailed analyses.

References


