The Role of European Funds in the Economic Development

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Abstract
European Union was created for enhancing the cooperation and economic development of country members. This very complex initiative is a long-term process that contributes to reduction of inequalities due to the expansion of trade relations, increased mobility of factors of production and dissemination of technology and gradually added more freedoms between countries and common policies in this respect. Among the main objectives of EU are economic and social cohesion, which must be achieved mainly by promoting the conditions for economic growth and reducing disparities between the levels of development of EU regions, ensuring a high level of employment and a balanced and sustainable economical growth. The European Funds are the financial instruments of the common policies, being significantly diversified and improved in the last decades. The EU enlargement implied new challenges and higher efforts to support such common policies from a very limited common budget. For new members from Eastern Europe that joined EU, these European Funds were seen as a very important and reliable support for boosting their economic development. This paper will discuss, from both theoretical and empirical perspectives, the possible impact of these funds on the economic development, with a specific focus on the Eastern European Countries (EEC).

Keywords: *European Union, European Funds, common policies, economic development.*

JEL Classification: E60, O11, F30

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1. Introduction

The European Union was created to put an end to the large number of bloody wars waged by neighbouring countries, which culminated in World War II. Starting in 1950, European countries began to unite, economically and politically, within the European Coal and Steel Community, to ensure lasting peace. The six founding countries are Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

The formula of multinational integration is based on the idea of creating relationships between information that participates in the process. These relations

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are the common laws that drive economic activities and influence personal activities and, as a result, the standard of living of the citizens who participate in the process of multinational integration.

The gradual development of common policies suggests that multinational integration between sovereign states is a process that is constantly evolving, without a well-defined end.

The 1960's are also economically beneficial because EU countries incorporate more customs duties into each other's trade. Through its regional policies, the EU is beginning to transfer very large sums to job creation and infrastructure development in poorer areas. The fight against pollution intensified in the 1970s. The EU adopted the environmental protection rule and introduced, for the first time, the "polluter pays" principle. The Single European Act is signed in 1986. It is a treaty that lays the foundations for an extensive six-year program to address the problems of free movement of goods in the EU, thus creating the "single market".

In 1993, the "four freedoms" were added to the single market: the free movement of goods, services, people and capital. Two more treaties were signed during this decade: the Maastricht Treaty on European Union (1993) and the Treaty of Amsterdam (1999). People are becoming concerned about environmental protection and taking common security and defense measures.

In 1995, the EU receives three new members: Austria, Finland and Sweden and a small village in Luxembourg, Schengen, gives its name to an agreement that will gradually allow Europeans to travel without having their passports checked at the border. This agreement will allow young people form all the corners of EU to go to study in other countries with the help of the EU.

We witness currently an ecological approach in the policy of European funds that is focused on different levels, including the relationship between people and their environment, and the many factors that impact health and nutrition. The interaction between different environments is also seen as a relationship between the microenvironment (individuals who have knowledge, skills and attitudes, households) and the macroenvironment (communities, governments, international events, food industry, agriculture and economy, policies, food assistance programs).

Today European Union is a powerful and dynamic construction but with more and more challenges and problems generated by the integration of Eaastern European Countries (EEC). Local and national authorities agreed to transfer authority to European level, creating institutions and policy instruments for strengthening the integration effort (Paun, 2014).

EU funds have taken different forms and are substantial in relation to each country's contribution to EU budget. Also, the financial support for each contributing country is based on EU cohesion policy it is meant to have a strong economic and social impact on national economies, in accordance with development priorities established by European Commission.

2. EU financial assistance, main European funds

EU financial assistance is provided through 5 types of European Structural and Investment Funds (ESI Funds) managed jointly by the European Commission and EU Member States and with the general aim of a strong European economy and a healthy environment, to provide economic and social prosperity in a united and strong Europe, to reduce development gaps between regions, between Member States, but also within Member States.

The 2014-2020 programming period introduced a new legislative framework for this five funds, pursuing the cohesion policy of EU, the common agricultural policy and the common fisheries policy at EU level, in order to stimulate smart, sustainable growth and favorable to EU inclusion, to improve coordination, to ensure consistency of implementation and to simplify access to ESI funds by potential beneficiaries.

ESI Funds focus mainly on **5 areas**:

- research and innovation - represents one of the priority sectors because it allows the creation of investment opportunities for the improvement or renewal of services and products, with direct results in increasing the competitiveness of work as well as the degree of employment.
- digital technologies - the digital market is also of major importance in the future of the EU, aiming at removing barriers and unlocking many opportunities in the online environment through solid investments in telecommunications infrastructure
- support for the low carbon economy - EU cohesion policy has a major role in supporting the transition from the common market to a low-carbon economy and will stimulate Member States, through tools and programs tailored to the specifics of each state, to implement investments in order to increase the energy efficiency of buildings, in renewable energy, with the ultimate goal of

reducing very expensive energy imports, diversifying energy sources and reducing carbon emissions.

- sustainable management of natural resources - the integration of the concept of sustainable development in the projects financed by ESI funds will put into practice the legal regulations in this field and will thus make the environmental, economic development and social development aspects to be treated as a single theme, and economic development will must overcome the negative impact on the environment and be based in the future on sustainable production and consumption models and tools
- small businesses - small and medium-sized enterprises represent the vast majority of enterprises operating on the EU market and provide two thirds of private sector jobs, so improving the competitiveness of these enterprises is a key objective for EU cohesion policy, and increasing use of financial instruments, which will mobilize EU funding, will pursue easier access to new technologies, know-how, improving access to new markets, even global, investments in human capital, creative industries and culture

The 5 types of European Structural and Investment Funds are:

1. European Regional Development Fund (ERDF) - promotes balanced development in the various regions of the European Union, by giving special importance to disadvantaged regions due to permanent natural or demographic handicaps, such as, for example, the regions of the northern extremity of the continent, the insular or mountainous ones, with a very low population density) – the fund was created in 1975 and in it soon became the most important component of structural support. The financial allocations for this program were in the period 2014-2020 of approximately 199 billion Euros, and for the programming period 2021-2027 ERDF will receive a budget of approximately 200.36 billion Euros.
2. European Social Fund (ESF) - supports employment-related projects across Europe and invests in the EU's human capital (workers, young people and jobseekers) - fund established under the Treaty of Rome in 1957, it is the oldest of the structural funds and has always aimed to increase employment, but has adapted its tools over time to meet the challenges (starting with the migration of workers throughout Europe, then the fight against unemployment, currently reaching the support of groups with specific difficulties in finding a job, such as women, young people, the elderly, migrants or people with disabilities). The budget of this fund in the financial program 2014-2020 was 86 billion Euros, and for the financial program 2021-2027 was proposed EFS+, a simpler, more integrated European social fund, with a budget of 101.2 billion Euro.

3. Cohesion Fund (CF) - finances transport and environment projects in countries where gross national income (GNI) per capita is below 90% of the EU average. It has been established that, for the period 2014-2020, these countries are Bulgaria, Croatia, Cyprus, Estonia, Greece, Latvia, Lithuania, Malta, Poland, Portugal, the Czech Republic, Romania, Slovakia, Slovenia and Hungary - It was created by the Maastricht Treaty in 1992 and later the cohesion policy, together with economic, monetary and single market unions were declared the main objectives of the EU. The budget of this fund was of 63.4 billion euros within the financial program 2014-2020, and for the next program 2021-2027, a financial allocation of 42.6 billion Euros was proposed.
4. European Agricultural Fund for Rural Development (EAFRD) - focuses on addressing the specific problems facing rural areas in the EU - represents the instrument through which the CAP supports rural development strategies and projects, with financial allocations of approximately 100 billion euros in 2014-2020, respectively 95.5 billion Euros, budget proposed for the next program, 2021-2027. The future EAFRD will have to react firmly and quickly to current and future challenges and with the help of intuitive, innovative policies will promote a sustainable and especially competitive agricultural sector, which will prosper in the future, ensure a stable and fair economic environment for farmers.
5. European Fisheries and Maritime Fund (EMFF) - encourages fishermen to adopt sustainable practices and helps coastal communities diversify their activities for a better life - financial instrument that applies from January 1, 2014, had a budget allocated for the financial program 2014-2020 of 6.5 billion Euros and tries to help investors in the field of fisheries and aquaculture, as well as coastal populations to adapt to the reformed common policy in the field of fisheries for the period 2014-2020[2].

3. Structural changes in EU financial assistance as a result of reforms but also as a result of enlargement to CEE

In the 2014-2020 programming period, the European Union faced several challenges, namely encouraging recovery from the economic crisis by creating jobs, but also addressing the challenges of environmental protection and climate change, remedying persistent educational gaps and combating poverty and social exclusion. These challenges affect or threaten millions of Europeans and require the creation of new tools to meet their aspirations.

[2] Source: European Commission, Link: https://ec.europa.eu/info/funding-tenders/funding-opportunities/funding-programmes/overview-funding-programmes/european-structural-and-investment-funds_en (Accessed oct. 2020).

For these reasons the new framework includes new mechanisms, which should ensure the necessary conditions for change: a sound strategic approach through partnership agreements and programs, thematic concentration, performance framework, strengthening the link with European economic governance, increasing opportunities for the use of financial instruments, supporting institutional capacity, minimum quotas for contributions from the European Social Fund and an initiative on youth employment, created specifically to combat unemployment.

Each managing authority will be responsible for making the most of these means by mobilizing large-scale territorial partnerships and bringing together all forces to build development strategies that achieve the objectives of this proposed new strategic framework.

4. EU financial assistance and economic development

The European Union is currently in a period of profound reforms to adapt to the new realities of the contemporary world. The 2007 and 2013 enlargements, mainly from Central and Eastern Europe, take into account a perspective that requires the establishment of a new legislative and institutional framework by reorganizing the Community's system of competences.

What will be the effects of achieving political union on the component states? There are fears that the EU's internal reform, so much discussed and seen as strictly necessary, would lead to a hegemony of the centre over the periphery. Redefining competences could lead to an increase in Brussel’s political role to the detriment of Member States sovereignty.

The financial aspect of EU enlargement should not be bypassed either, as it will absorb a large part of the Community budget, and much disputed by EU Member States. The inclusion of such a large number of countries with an income / inhabitant much lower than the Community average will be difficult to hang in the EU budget in the next EU financial year (2021-2027) (Poladian, 2003)

All these EU financial assistance programs are managed by EU Member States through partnership agreements. Each country is preparing an agreement, in collaboration with the European Commission, setting out how the funds will be used. Partnership agreements lead to a number of investment programs that channel funding to the various regions and projects in the policy areas concerned.

5. Findings

European funds granted to member states are allocated to general directions adopted by the EU, are vital for economic development, especially for countries that joined the EU in the last waves of enlargement to Central and Eastern Europe, but come with a number of restrictions and limitations, are followed by periodic controls and verifications, meant first of all to correct possible errors of adaptation or implementation and, last but not least, to limit corruption.

One of the main objectives of the European Union is regional development. Also called the Economic and Social Cohesion Policy, it was defined for the first time in the Treaty on European Communities as follows: "cohesion is necessary to promote overall harmonious development, the overall objective being to reduce existing disparities between the levels of development of the different regions and the lagging behind of the less developed regions ".

But this results in a paradox of EU cohesion policy, because each region as an administrative-territorial unit will focus on applying for European funds in areas that best represent the economic potential of the area (specialization in production, tourism, agriculture, IT), minimizing cohesion over time even between regions of regional development, by specializing in very clear areas of development.

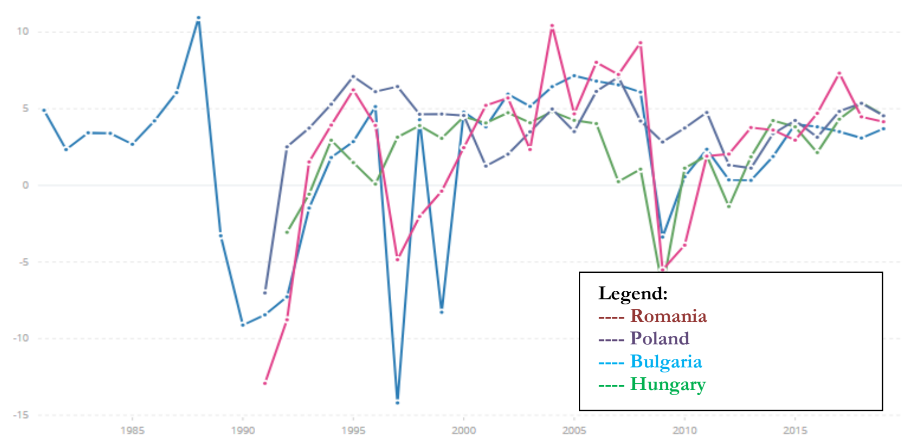


Figure 1. Real GDP Growth rate (Eastern European Countries (%)
Source: Word Bank Database, 2020

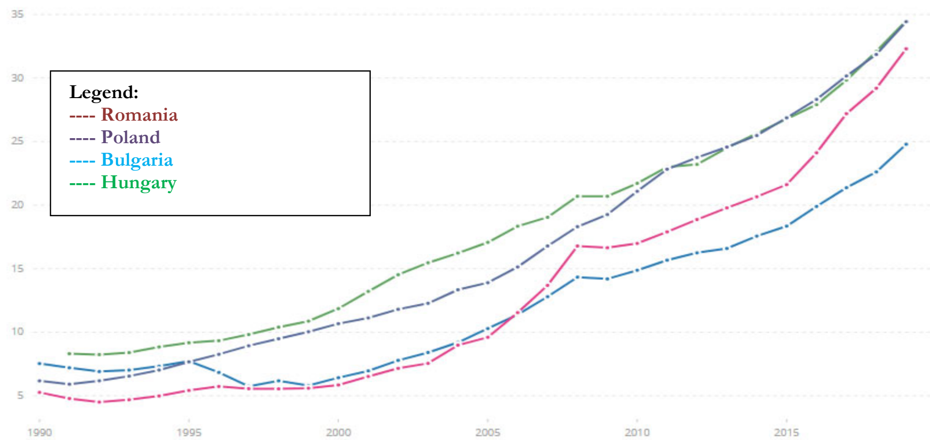


Figure 2. GDP per capita of selected Eastern European Countries (PPP, international USD, thousand)
Source: Word Bank Database, 2020

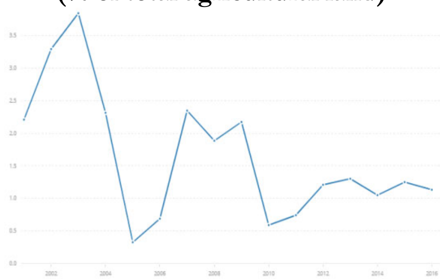
Figures 1 and 2 presented above show some aspects to consider and debate: since 1990, with the opening of the economy to the European market, the development of welfare in Romania has been sustained and robust, even reaching the second place in the CEE area, after Poland.

But the pace of GDP growth has not been constant, proving high volatility over time, over that of other neighbouring states, showing even spectacular increases over time, but also equally strong collapses and heavier recoveries after periods of crisis. (ex: period 1997-1998 or 2008-2009). Also, the contagion to crises is more accentuated in the case of our country than the neighbouring countries in the region, and the accession to the EU accentuates this exposure to crises.

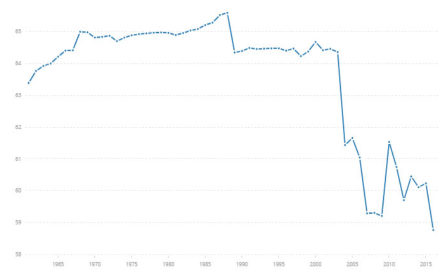
Although Romania has benefited from positive and consistent GDP developments, the resilience of the crisis is low and the recovery of the economy is difficult because the legislation has not stimulated fair competition, access to the labour market, attracting of major private investment, populist policies have been applied so far, especially in the periods preceding the local, parliamentary or presidential elections.

However, Romania has recovered in recent years from the gaps to Hungary and Poland, although it was severely affected by the crisis of 2008-2009, large social movements and political instability, and the EU integration (which in the first years after 2007 did not show the expected effects in the national economy) meant a lot for the well-being and economic development of Romania in recent years.

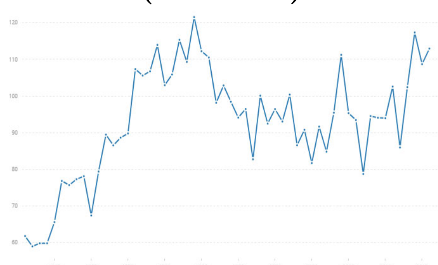
3.1 Agricultural irrigated land (% of total agricultural land)



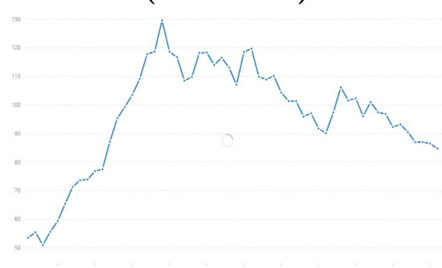
3.2 Agricultural land (% of land)



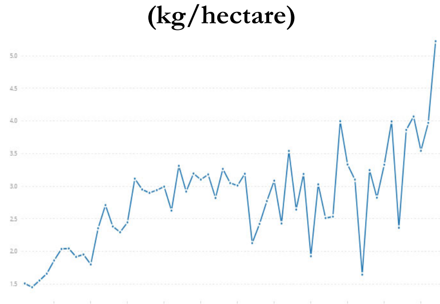
3.3 Food production index (2006 – 100%)



3.4 Livestock production index (2006 = 100%)



3.5. Cereal yield (kg/hectare)



3.6. Crop production index (2006 – 100%)

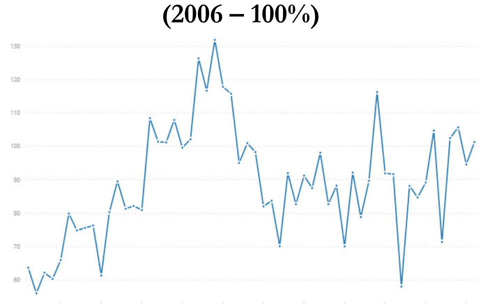


Figure 3. Agriculture development figures (Romania)
Source: Word Bank Database, 2020

In all CEE countries, including Romania (which is shown in Figure 3), after 1990 the proportion of agricultural land decreased from year to year, until the moment of EU integration and awareness of the need to access European funds for development, modernization, expansion.

However, in these years not only the proportion of agricultural lands decreased, but also the investments in irrigation, in the improvement of lands through damming and all these led in time to the gradual decrease of the contribution of agriculture to GDP and a very high volatility of agricultural production due to lack of investment and its dependence on climatic conditions.

The substantial European funds made available by the EU have meant for all CEE countries a major impetus in bringing agriculture and the general economic development of each country closer to the requirements of the EU competitive market and show the major importance of agriculture in economic development and the relationship of dependence between them.

European Funds are submitted to contribute to the development of European countries, to improve the infrastructure, to improve the quality of human resources, to boost R&D and innovation. In fact the funds are extracted from taxes transferred from local and national level to European level in order to be sent back into national economies in order to be redistributed through different financing programs that will require projects and application efforts from private or public operators (Paun, 2014).

The most important resource of funds in the EU budget is based on gross national income (GNI), which is a fixed percentage rate applied to each Member State's GNI, ie Member States contribute to the budget in amounts approximately proportional to their economic prosperity. Although it is an uneven category, it has over time become the largest source of revenue for the EU budget, currently contributing with 76% of total income. (European Union budget, on short, p. 6)

However, the distribution of European funds between Member States is not based on the same principle, EU funds go to beneficiaries from Member States and third countries in accordance with the priorities set by the Union.

While all Member States benefit from funds allocated from the EU budget, less prosperous Member States receive proportionately more funds than richer states as a result of the solidarity underlying EU programs, including in the context of cohesion policy.

However, this policy can have, in the long run, undesirable and unforeseen effects, in the sense that it could cause negative incentives for rich countries, which no longer see the point of their contribution to the EU budget, given that they receive fewer funds than they offer in the centralized budget of EU.

On the other hand, less developed countries, now accustomed to European funds exceeding their contribution to the EU budget, will "forget" what it means to develop economically sound principles and they could stagnate or even involve economically, maybe even knowingly, in order to continue to benefit from European funds larger than its own contribution to the consolidated budget.

A very eloquent example in this regard is shown in the table below, which shows Romania's contribution to the EU budget compared to our financial allocations in 2007-2017.

Table 1. Romania's contribution to the EU budget compared to financial allocations, 2007-2017

Year	Amounts received from the EU	Amounts paid to the EU budget	Balance
2007	1.6	1.1	0.5
2008	2.6	1.3	1.3
2009	2.8	1.3	1.5
2010	2.3	1.2	1.1
2011	2.6	1.3	1.3
2012	3.4	1.4	2
2013	6.5	1.4	4
2014	5.9	1.6	4.3
2015	6.4	1.4	5
2016	7.4	1.5	5.9
2017	4.8	1.5	3.3
TOTAL	**45.7**	**15.3**	**30.4**

Source: The Romanian Ministry of Finance

Over time, there will be a risk that EU funds will be distributed on priorities or projects that will no longer take into account real competitive advantages. Who will set the priorities and depending on what strategies, factors? How transparent will the decision to allocate funds be for a certain strategy or project? Will further developed countries accept EU enlargements and the prioritization of European funds to more economically disadvantaged areas or to new states entering the Union? This raises serious questions about how important such funds become for development, especially when we talk about the microeconomic area, the business area.

We must also not forget the role of subsidies in the market economy, because they distort competition, distort prices, with consequences that become dramatic over time, especially when we talk about the microeconomic area, small businesses, which, let's not forget, is one of the main areas on which EU financial assistance focuses.

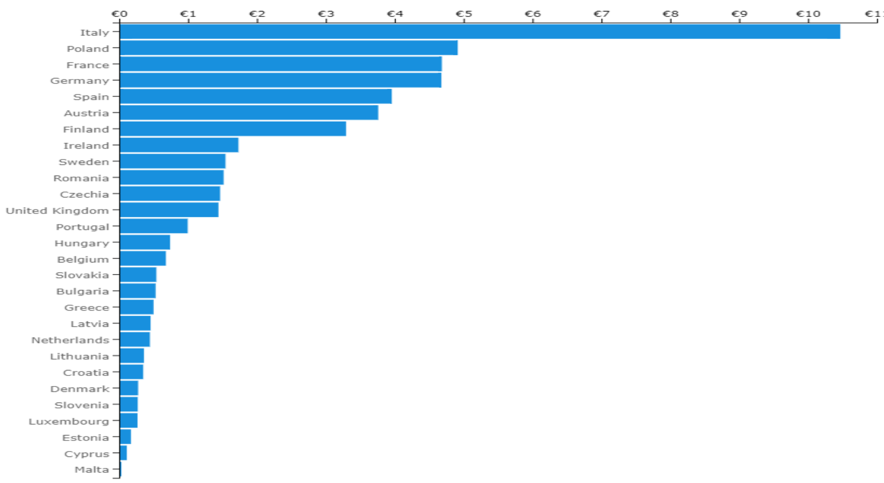


Figure 4. European Agricultural Fund for Rural Development budget by countries, EUR billion
Source: European Union, 2020

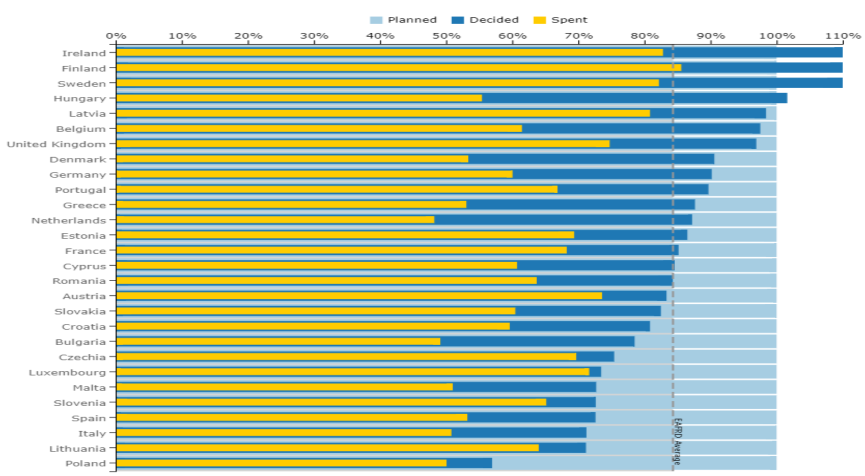


Figure 5. European funds for Agriculture and Rural Development (2014 – 2020)
Source: European Union, 2020

The data in Figures 4 and 5 show the funds for agriculture allocated by countries in the agriculture financing program for the period 2014-2020, as well as the stage of project implementation. Eastern European countries, although they have benefited, according to EU cohesion policy, of financial allocations higher than their contribution to the EU budget, are in a relatively low stage of spending allocated funds and implementing projects.

Another aspect that still weighs heavily in the healthy economic development, especially of the CEE states admitted to the EU in the last waves of accession, is, according to Marinescu and Jora (2013), the major impact of cumbersome legislation and bureaucracy in the process of registering SMEs. which can also lead to reduced efficiency and productivity of SMEs through additional costs that increase the operational costs of companies and limit their competitiveness in the market. The authors also refer to the "tense relationship" that still exists in Romania between the business environment, legal, political and administrative environment, a relationship very often harmful to the market economy, a relationship that, unfortunately, still tolerates perverse practices, unfair competition, to capture the relevant political decision, while emphasizing the relationship between the phenomenon of corruption and the economic performance of our country. Stamate (2011) strongly states that economic justifications should be the only acceptable aspects governing competition laws in a free market.

This situation can be generated partly by the non-correlation of the national legislation with the European legislation, also by bureaucracy and by the unjustified postponement of the reorganization of the public institutions, or in some cases, even by local political interests different from the general purpose of the European funds, which is a constant and sustained growth of the standard of living, growth that will be reflected into general economic development of a nation on a real and sustainable base.

We must not forget the major impact of alternating cycles of economic growth with periods of crisis. Economic cycles will affect the ability of Member States to absorb EU funds. Tatulescu and Patruti (2014) show a paradox, which consists in the attempt of the state governments to use the structural funds to speed up the exit from the periods of economic depression. However, macroeconomic and financial capacity, administrative efficiency and public confidence in EU financial assistance programs are severely affected in bad economic times, GDP declines, corruption and bureaucracy will increase, while people's confidence in the EU funding system will generally deteriorate and Member States ability to absorb the financial resources available will be greatly reduced, on the one hand because local market entrepreneurs will be very skeptical about EU financial assistance or they are in precarious economic situations, which do not allow them to support co-financing for EU funds. At the same time, the state and the efficiency of the state apparatus will be seriously affected by corruption and bureaucracy, by the lack of regulations that would speed up the exit from the economic depression, to speed up and facilitate the obtaining and implementation of projects financed from European funds.

6. Conclusions

Europe's post-industrial societies are becoming increasingly complex. Thus, although the standard of living of European citizens has not stopped rising, significant differences between rich and poor still persist. These differences can be exacerbated by factors such as the economic recession, industrial relocation, an aging population and the problems facing public finances. Therefore, the cooperation of Member States is crucial to address these issues.

European funds are of major importance in the development of the Member States, especially those entered with the extensions to CEE and help reduce the gap between developed and least developed economies, but the ongoing reform of the EU and funding directions is important. Therefore, the main goals of the EU will have to be adapted to the current realities in order not to reach stagnation and negative stimulation of national economies.

The EU's mission for the future is complex and will have to focus on several main lines of action, among which the creation of the necessary framework for practical cooperation between European countries has a major importance, pursuing the establishment of common objectives, with the subsequent adaptation of objectives, through clear instruments, defined, to the specific needs of each Member State, and the emphasis will be on performance and results. This will give more freedom to Member States in deciding how to achieve common goals, while responding to the specific needs of their business environment, local communities and the society at large.

It is also necessary to recognize the importance of protecting the common single market, maintaining a level playing field for all participants in the Union's common market, ensuring security and safety for EU citizens and promoting economic and social solidarity, and in the increasingly current and acute context of globalization. The EU's role will be to preserve and promote European identity, values and diversity.

The European Union needs to take tougher measures to ensure that Member States manage their budgets responsibly and provide mutual financial support. This is the only way in which the euro can maintain its credibility as a single currency and allow Member States to face the economic vicissitudes of globalization together. Both the Commission and the European Parliament emphasize the importance of coordinating national, economic and social policies, given that, in the long run, the common European currency is not viable in the absence of a form of common economic governance.

The European Union has emerged to be put at the service of Europeans, and its future must be shaped by the active involvement of citizens from all walks of life. EU founders were too familiar with this. "We do not unite states, we unite people," said Jean Monnet in 1952.

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