

THE INFLUENCE OF COMMUNITY FINANCIAL INSTRUMENTS ON THE ECONOMIC GROWTH

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Abstract

The absorption of structural and cohesion funds for the period 2007-2013 was relatively low, several reasons were identified by the European Union and the European Commission and had several gaps in legislative terms and in terms of management. Financial and economic crisis that started in 2008, dramatically altered the socio-economic context for cohesion policy programs. The economic downturn also triggered a sharp deterioration in the business climate and consumer confidence, investment (gross fixed capital formation) decreased from 21% of GDP in 2008 to 18% in 2012, exports of goods and services and investment direct foreign having the same negative trend. Absorption capacity non-reimbursable financial resources is a variable with a direct and very strong link in ensuring economic and social cohesion with resources available from European funds.

Keywords: Cohesion policy, absorption capacity, rate of absorption, , economic growth, econometric model, GDP, economic crisis.

Classification JEL: E22, E60, F43, F36, O11, R11, H12, H83.

1.Introduction and context

Community financial instruments each contribute in an appropriate way towards achieving the following three general objectives of the European Union: the Convergence objective, the Regional competitiveness and employment, European territorial cooperation objective. European Union seeks to ensure union economy more dynamic and competitive, this goal being attainable by developing new financial instruments to support economic growth and reduce disparities between regions, such as structural funds (Common Strategic Framework (CSF), namely Cohesion Fund (CF), the European Development Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), European Maritime Affairs and Fisheries Fund (EMFF)) and cohesion policy. These general objectives, major, are achieved through the intervention of each Fund, which supports usually, particular objectives, specific, highly regulated, but subordinated to the three generals.

European Regional Development Fund support: investment aimed at creating jobs (for priority sector of SMEs), infrastructure (transport, environment, communications, education, health, social, cultural and Energy) development of local potential (support and services for businesses, networking, cooperation and exchange of experience) and technical support. The Cohesion Fund helps Member States with a gross national income (GNI) per capita of less than 90% of the Community average, to reduce differences in the economic and social development and to stabilize their economies. The Fund supports actions within the "Convergence" objective and is subject to the same rules of programming, management and monitoring as the ESF and ERDF

Cohesion policy aims at reducing the economic, social and territorial cohesion between EU regions. Its implementation through the Structural Funds is one of the main axes of EU action in the Europe 2020 Strategy for economic growth and labor places. With over 348 billion euros allocated to multiannual financial framework 2007-2013, it is the second largest item in the EU budget after the Common Agricultural Policy. Cohesion policy has been a topic of great interest due to potential opportunities that could be offered by boosting accessing European funds, especially amid the current financial and economic crisis. Employment in the EU decreased significantly from the beginning of the crisis, registering an alarming increase in unemployment and a major difference between Member States in terms of employment in the labor market (for example, in January 2013 Austria had a unemployment rate of 4.9%, while in Greece it stood at 27.1% value). The economic downturn also triggered a sharp deterioration in the business climate and consumer confidence, investment (gross fixed capital formation) decreased from 21% of GDP in 2008 to 18% in 2012, exports of goods and services and direct foreign investments having the same negative trend.

In April 2013 the European Commission reported that, starting with 2007, there were created almost 400 000 jobs, over 53,000 start-ups received support, 2.6 million people were served by projects of water supply and 5.7 million

people were served by wastewater projects. However, the contribution of cohesion policy to convergence, economic growth and job creation remains an open question.

In this study we will focus on EU financial instruments and short-term effects of absorption capacity on economic growth.

2. The absorption of structural and cohesion funds in 2007-2013

For achieving the priorities objectives of European Union, Community funds do not intervene in a singular way, but in a mix of measures, together with national measures, including actions at regional and local level. The European Commission, the EU executive and member states ensure coherence of funds intervention with the measures, policies and priorities of the European Union and complementary to other financial instruments. Consistency and complementarity are indicated in particular in the strategic guidelines for cohesion, in national strategic reference framework and in operational programs. In order to achieve the overall objectives listed above, assistance from Community funds, depending on their nature, takes into account, on the one hand, the economic and social peculiarities, on the other hand, the territorial particularities.

EU cohesion policy is guided on four principles. The first of these refers to "concentration", which means that the funds are concentrated on the least developed regions. The second principle is "partnership", which is the involvement of local and regional authorities during the stages of planning, implementation and monitoring. The third principle is "programming" as a priority set for multi-annual period. The last principle is "additionality", which means that funding through the Structural Funds is not intended to replace, but to complement national investments in these areas. [1]

Financial and economic crisis that started in 2008 revised the framework of cohesion policy programs. However, as regards the absorption of EU structural funds, the overall picture is diverse in the member countries. Absorption is higher in Germany, Greece, Spain, Ireland, Latvia, Lithuania, Luxembourg, the Netherlands, Austria, Poland, Portugal, Slovenia, Finland, Sweden, countries which recorded a 60% absorption rate. Lower absorption rates were registered in Croatia and Romania below 40%, cases in which has been lost a significant amount of European funds available and the objectives set were not met. Financial implementation of the Structural Funds for the programming period 2007-2013 recorded a rate of 60.11%.

In order to counteract the negative effects induced by economic and financial crisis, about 36 billion - or 11% of total funds - were rescheduled from one thematic area to another by the end of 2012 to support the most pressing needs and to strengthen certain interventions from this sum more than 30 billion being allocated for the European Regional Development Fund and the Cohesion Fund and about 5.5 billion euros to the European Social Fund. These financial reprogramming materialized into increases in research-development-innovation, business support, sustainable energy, cultural and social infrastructure, roads and employment. The cuts have affected ICT services, environmental measures, railway and other forms of transport, training and education. The planned expenditure for the European Social Fund for 2007-2013 have amounted to 116.0 billion euros, of which 76.7 billion euro of the European Commission funding, 35.6 billion co-financing from national public authorities and 3.7 billion of national private sources. By the end of December 2012, nearly 55 billion of expenses were certified by the Member States, representing approximately 47.4% of allocated funds.

The absorption of structural and cohesion funds for the period 2007-2013 was relatively low, the factors that negatively affected the absorption capacity being, from my point of view, the economic and financial crisis, insufficient administrative capacity of Member States, numerous changes in the structure of governments at national / regional / local, frequent legislative changes in the field of accessing and implementing European funded projects, shortage of staff specializing in European funds, inadequate communication between the Managing Authorities and the beneficiaries of projects with European funding, insufficient financial resources necessary to ensure cofinancing assumed by both the governments of the Member States and the beneficiaries of projects with European funding.

Regarding the economic impact of EU funds in the studied empirical literature (Boldrin and Canova, 2001; Checherita et al, 2009; Ederveen et al, 2006; Santos, 2008) are highlighted different results. Boldrin and Canova (2001) believe that the structural and cohesion funds are on average inefficient. Checherita et al (2009) show that structural and cohesion funds help reduce income disparities at regional level, but are incapable of promoting the production increase. Other authors (Ederveen et al, 2006; Santos, 2008) considers that the implementation of projects financed by European funds is effective if is provided an appropriate institutional framework (eg quality of the institutional environment, lack of corruption etc.).

An introspection of the relevant literature regarding the absorption of EU structural funds reveals the absence of a proper conceptual framework, while the subject of good practice in the management of these funds is less discussed. I think that the explanation may not be the lack of interest in studying this problem, the reasons being essentially related to the relative novelty of this topic, the difficulties in assessing the impact of structural funds on the convergence of EU countries on long-term, construction of appropriate indicators, including indicators for measuring the absorption capacity.

The performance, or how have been used structural and cohesion funds is considered a variable output, being possibly to be assessed ex-post at the end of the programming period, or more precisely at the end of implementation of all projects financed from European funds. For new member entered a pre-theoretical performance evaluation it is possible, depending on the results obtained during pre-accession funds are used. To create premises of an effective and efficient management of Structural and Cohesion Funds, as an input, attention should be given to programming activities (structure, respective fields and priority axes, human resources, systems and tools for implementation) this depending on the requirements arising from the Community rules in this segment (Boeckhout S., L. Boot, etc, 2002).

Other important determinants of absorption capacity and institutional construction refers to the degree of development of administrative capacity in the pre-accession period. According to European Commission recommendations and best practices in EU countries, a golden rule has become evident, namely, the more reduced the number of institutions involved in various levels of management and programs (sectoral and regional) in the new member countries, there is a tendency to increase the absorption rates of structural and cohesion funds (A. Horvath, 2004). Absorption capacity is generally defined as "low-income countries' ability to absorb a large volume of productive foreign aid", the central issue being giving appropriate priority to grants received (Bourguignon and Sundberg, 2006).

The analysis of Boot et al (2001) is the first that systematically presented the concept of absorption capacity. In this paper, the absorption capacity has been defined as "the extent to which a Member State is able to consume in an effective and efficient way financial resources allocated through the Structural Funds" (Boot, the Veet, Feeks, 2001). Based on this work, Wostner (2008) established three specific factors that influence the absorption capacity: Macroeconomic absorption capacity, management - administrative absorption capacity and financial absorption capacity.

In this chapter we will focus on short-term effects of the absorption capacity on economic growth. Usually, the paper of convergence analyzes the effects on long-term of European grant funding, analyzing the impact of the allocation of European funds (in particular Structural Funds) on GDP per capita. Indeed, the impact of investment on economic convergence may not be easily identified, the effects being generated in a long time.

However in the case of new European member states, European funds are considered as an attractive alternative source for financing investments, enabling economic recovery. Thus, it is useful to assess the impact of European funds on growth in the short term and, therefore, the absorption capacity is, in my point of view, an important indicator to assess this effect. Structural and Cohesion Funds should have a greater impact on economic growth in the new Member States of the European Union compared to the old European structure, the absorption capacity playing an important role in this direction.

Goyeau and Albulescu analyzes the impact of absorption rates on economic growth rate, applicable on the Cohesion Fund for growth and employment rate and the Rural Development Fund for the financial programming period 2007-2013. The authors tested for each category of fund absorption rates impact on economic growth, using as variable cause, besides absorption rates, also economic sentiment index.[2]

To test the impact absorption rates of the cohesion funds in explaining economic growth, the authors have developed three different econometric models, the first model including the entire data set, namely the 27 EU member countries, and for the second and the third model, the authors divided the sample into two groups: EU Member States old and new. In relation to the results obtained from the econometric analysis carried out by the two authors, two observations can be issued. First, the influence of absorption rates of EU funds on economic growth of the absorption rate in the short term is not as important as expected. Secondly, there is no evidence that the impact of absorption rates on growth is greater in the new Member States of the European Union, compared with the old.

Following the recent concerns on effects of structural and cohesion funds' absorption, we have developed three econometric models applicable to Romania for the period 2007-2013 models aimed at the European Social Fund and the European Sustainable Development. Empirical data used for processing model can be found in Annex no. I.

For building econometric models, highlighting the effects of structural and cohesion funds absorption on growth, we considered the following variables:

- GDP (GDP, RgrowGDP), in nominal and percentage;
- ERDF absorption rate (RabsERDF), calculated as the ratio between payments made and the initial allocations approved;
- ESF absorption rate (RabsESF);
- The revenue volume (Rev) expressed in nominal value (mil. Euros);
- Payments made by the two funds (PaymERDF, Payments ESF), expressed in thousand euro.

Econometric models proposed to describe the relationship between the above variables have the form:

$$\text{PaymERDF} = a_0 + a_1 \text{ Rev} + a_2 \text{ GDP} + u_i$$

$$\text{Payments ESF} = a_0 + a_1 \text{ Rev} + a_2 \text{ GDP} + u_i$$

$$\text{RgrowGDP} = a_0 + a_1 \text{ RabsERDF} + a_2 \text{ RabsESF} + u_i$$

where,

a_0 - free parameter

a_1, a_2, a_3 and a_4 - regression parameters

ui - residual variable.

The variable "Rev" should have a positive relationship with the payments on the two funds because, theoretically, the growth of budget revenues provides increased capacity payment for the state to honor the financial obligations assumed as co-financing. Also, GDP variable should have a positive influence on the two dependent variables.

The econometric analysis performed using SPSS for first econometric model highlights the following:

- from Correlations (table no. 1) we can see that the value of the partial correlation coefficients on the diagonal is 1, which means that each variable correlates perfectly with itself. Also positive sign of the parametric correlation coefficient Pearson indicates a direct link between the independent variables and the dependent variable. Pearson correlation coefficient has values in the range [-1,1] values close to the maximum limits of the range indicating a strong correlation between variables. It can be seen that between GDP and the value of payments made on the ERDF there is a weak link, Pearson coefficient is 0,245. The value of Pearson coefficient of 0,907 demonstrates a strong link between the amount of budget revenues and GDP, the value being close to 1, the maximum range. Also, the coefficient is significant for a significance level of 0,01.

Table no.1 Correlations

		GDP	Rev	PaymERDF
GDP	Pearson Correlation	1	,907**	,245
	Sig. (2-tailed)		,005	,596
	N	7	7	7
Rev	Pearson Correlation	,907**	1	,086
	Sig. (2-tailed)	,005		,855
	N	7	7	7
PaymERDF	Pearson Correlation	,245	,086	1
	Sig. (2-tailed)	,596	,855	
	N	7	7	7

** . Correlation is significant at the 0.01 level (2-tailed).

- Whereas it is noted that the dependent variable considered in the first model, PaymERDF is not influenced by independent variables Rev and GDP, the proposed model can not be used in the analysis.

Testing econometric model 2 is the following form:

Table no.2 Correlations

		GDP	Payments ESF	Rev
GDP	Pearson Correlation	1	,497	,907****
	Sig. (2-tailed)		,256	,005
	N	7	7	7
Payme nts ESF	Pearson Correlation	,497	1	,120
	Sig. (2-tailed)	,256		,798
	N	7	7	7
Rev	Pearson Correlation	,917****	,120	1
	Sig. (2-tailed)	,005	,798	
	N	7	7	7

** . Correlation is significant at the 0.01 level (2-tailed).

- from Correlations (table no. 2) we can see that the value of the partial correlation coefficients on the diagonal is 1, which means that each variable correlates perfectly with itself. It can be seen that between the variable GDP and the payments made by the ESF are linked rather weak, Pearson coefficient being 0,497, not significant for a significance level of 0,01. The value of Pearson coefficient of 0,917 demonstrates a strong link between the amount of revenues and GDP, the value being closer to 1, the maximum range.

- Whereas it is noted that the dependent variable considered in the first model, Payments ESF is not influenced by independent variables and GDP budget revenues, the proposed model can not be used in the analysis.

The econometric analysis performed using SPSS for the last econometric model highlights the following:

- from Correlations (table no. 3) we can see that the value of the partial correlation coefficients on the diagonal is 1, which means that each variable correlates perfectly with itself. It can be seen that between the variable rate of GDP growth and ERDF funds rate absorption there is a relatively intense connection, Pearson coefficient being 0,576. The value of Pearson coefficient of 0,764 demonstrates a strong link between the ERDF funds rate absorption and absorption rate of financial funds allocated by the European Social Fund.

Table no.3 Correlations

		RabsERDF	RabsESF	RgrowGDP
RabsERDF	Pearson Correlation	1	,764*	,576
	Sig. (2-tailed)		,046	,176
	N	7	7	7
RabsESF	Pearson Correlation	,764*	1	,301
	Sig. (2-tailed)	,046		,512
	N	7	7	7
RgrowGDP	Pearson Correlation	,576	,301	1
	Sig. (2-tailed)	,176	,512	
	N	7	7	7

*. Correlation is significant at the 0.05 level (2-tailed).

- according to the estimated values of the parameters calculated in Table Coefficients(table no.4), multifactor econometric model proposed will be a single factor model, whereas GDP growth rate is not correlated with the rate of absorption of the ESF, with the following equation:

$$RgrowGDP = -4,376 + 3605 \text{ RabsERDF} + u_i$$

Table no.4 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4,376	4,311		-1,015	,368
	RabsERDF	3,605	17,325	,832	1,362	,005

a. Dependent Variable: RgrowGDP

These estimates can be interpreted as follows:

- positive value of the estimator a1 (3,605) indicates a direct link between the funds allocated by ERDF absorption rate and economic growth. This means that an increasing of one percentage ERDF funds absorption rate, the economic growth rate will have a positive trend, increasing by 3,605 percentage points.
- the model is valid, t having a value less than 0.50.

Based on the econometric model proposed by Daniela Florescu for econometric analysis of the Operational Programmes, we developed an econometric model to test the significance of addition and measuring the link between the amounts allocated, the value of projects submitted, approved projects, of those contracted and absorptive capacity, under the Sectoral Operational Programme Increase of Economic Competitiveness in January 2008 - April 2013 as:
ValPayments= a₀ + a₁ Allocated + a₂ Valsubmitted + a₃ Valapproved + a₄ ValContracted + u_i

The data used for analysis based on the econometric model are presented in Annex no. II.

Table no. 5 Regression Statics

Multiple R	0,9599
R Square	0,921408
Adjusted R Square	0,91472
Standard Error	1180604
Observations	52

Table no.6 Coefficients

(Constant)	1341779	340516.6	3.94042 1	0.000629	656747.8	2026810
Allocated	0.015	0.006743	2.29656 7	0.026147	0.001921	0.029053
Valsubmitted	-0.006	0.001664	- 395145	0.000259	-0.00992	-0.00323
Valapproved	0.008	0.002926	2.76515 4	0.008104	0.002204	0.013977
ValContracted	0.022	0.003877	5.67849 4	8.23E +07	0.014215	0.029813
a. Dependent Variable: ValPayments						

The model will have the next form:

$ValPayments = 1341779 + 0,015 Allocated - 0,006 Valsubmitted + 0,008 Valapproved + 0,022 ValContracted + u_i$

Analyzing of these data(table no.5 and table no.6) shows the following:

- Multiple correlation coefficient, has a value of 0.9599, which indicates a direct link and very strong between the variable value of payments, dependent, and independent variables of the model;
- Positive value of the estimator a1 (0,015) shows that an increase in the amounts allocated with 1 RON, the payments will increase by 0,015 RON.
- Negative value of the estimator a2 (-0,006) shows that an increase of 1 RON of amounts required by the projects submitted, the payments will decrease with 0,006 RON.
- Positive value of the estimator a3 (0,008) shows that an increase of 1 RON in the amounts of approved projects, the payments will increase by 0,008 lei.
- Positive value of the estimator a4 (0,022) shows that an increase of 1 RON value of contracted projects, the amount of payments will increase by 0,022 RON.

Sectorial operational programme increase of Economic Competitiveness is one of the operational programs under which there were submitted a large number of projects being required to pay sums 3,58 times higher than the allocations. Also, according to data from the Ministry of European Funds there were approved for 1,39 times as many projects than the amounts allocated to. However, the absorption capacity is low, being only about 18,81%.

3. Conclusions

EU cohesion policy was and it is financed by two structural instruments: the Structural Funds (ESF European-ESF and the European Regional Development Fund - ERDF) and the Cohesion Fund. ESF supports investment in human capital development and training of human resources in line with the revised European Employment Strategy. It should be noted that financial resources allocated to cohesion policy support for the financial programming period 2007-2013 have been set, after tough negotiations, at a percentage of 0,45% of unional GDP.

In this context, Spain, Portugal, Greece, and many of the new European Member States requested an increase in spending over this limit, considering insufficient financial resources compared to the needs of achieving the objectives of cohesion policy, but encountered resistance from countries net contributors (Germany, UK, Sweden, Austria, the Netherlands).

Also, through allocation methodology, was introduced the concept of 'absorption capacity', a concept which limits the transfer of EU funds to a maximum of 4% of a country's GDP . A side effect of the allocation methodology, through conditioning the absorption capacity, was low intensity per capita aid for the poorest countries, unlike philosophy allocation methodology, namely to support these priority. In compensation, to facilitate absorption of European funds by new Member States, the maximum rate of cofinancing at structural funds increased from 80% to 85% and funding rule "n + 2" became the "n + 3" from 2007 by 2010, being relaxed also certain eligibility criteria.

The absorption of structural and cohesion funds for the period 2007-2013 was relatively low, limited and had several gaps in legislative terms and in terms of management.

European Commission reported the following concrete achievements, aggregated at Union level, reported on funding programs:

- there were created 400,000 jobs, of which 190 000 from 2010, including more than 15,600 jobs in research and more than 167,000 jobs in SMEs. The largest number of newly created jobs were reported in the UK, Italy, Spain, Poland and Hungary;

- Financial support was provided to a number of 53 240 research and development projects and 16 000 cooperation projects between enterprises and research institutions;

- 53,160 start-ups were financially supported;

- About 1.9 million people have broadband access;

- There were produced 1,222 megawatts additional capacity for generating electricity from renewable energy sources;

- 2.6 million people are now served by water supply projects and 5.7 million people by wastewater projects;

- were launched over 5,000 transport infrastructure projects results being in service of 460 km of roads TEN-T (Trans-European Transport Networks) and 334 km of railway TEN-T;

- About 3.4 million people have access to improved urban transport;

- There were financially supported over 19,000 educational infrastructure projects;

According to data from the European Commission, European Social Fund generated substantial achievements in terms of volume of activity co-financed as follows:

- target group by the funding programs was solid funded with over 68 million individual participations;

- in terms of results by categories of target group, women were involved in a large number, over 35.2 million. (52% of participants), young participants were approximately 2.1 million. (31%), the unemployed participated in a number of 2.2 million. (32%) and those with a low education level (primary or lower secondary) were numbered 26.7 million (39%).

- results were also impressive in terms of creating new jobs and qualifications (over 5.7 million jobs and 8.6 million of qualifications were acquired).

- regarding interventions in the field of social inclusion, the results are difficult to quantify because these developments are directly influenced by the results of the measures implemented to securing jobs.

The ratio between absorption capacity of structural funds and regional economic situation is a paradoxical one, the practice demonstrating that the most disadvantaged regions are also faced with the greatest difficulties in absorbing these funds. At the same time, these are the regions that require, theoretical and practical, the largest financial support for restructuring the economy. The main explanation for this paradox is based, on the one hand, on the difficulties faced by national authorities due to lack of experience and qualified personnel, plus the problems arising from the slow bureaucratic procedures and decision-making process.

In the European context, the decisions of allocation of structural and cohesion funds may be affected the fact that the recipient countries, knowing the eligibility criteria and conditions for the allocation of funds received from the EU budget in the medium term (during the multiannual financial plan), prefer to delay the implementation of structural adjustments; for example, the eligibility criteria of Objective 1 (regions with a GDP / capita below 75% of the EU average) may reduce the motivation of the authorities to accelerate economic growth, in order to benefit from structural funds for a longer period of time.

European funds should be regarded as an important source of financing that can lead to Romania's modernization and project management, as a tool that can make this progress possible. An important role in this process has the state's ability to channel effectively and efficiently to users funds and appropriate investment that would lead to growth expected.

These European funds can now bring an important contribution to Romania's growth strategy. In this uncertain economic context, projects financed from European funds are an important engine of economic growth. It thus appears the imperative of improving the absorption rate of European funds and where there will be financial, administrative bottlenecks or of a technical nature at local and regional level, careful monitoring of the financial allocation by region and providing additional technical assistance to regions that might otherwise be excluded from funding.

In order to improve the implementation of cohesion policy in Romania for the period 2014-2020, especially given the low level of absorption for 2007-2013, methodological guidelines started from the premise of needing a new programmatic approach, with the following main features:

- particular emphasis, at an early stage of the programming process on the system and on the rules of programs implementation;

- concentration on a relatively small number of priorities / objectives thematic and key areas of intervention / investment priorities in order to maximize the impact of funds and ensure increased efficiency in the management process;

- a partnership consultation process well managed;

- ensure adequate administrative capacity of the structures designated for management operational programs;
- establishing mechanisms to eliminate administrative and legislative obstacles hindering the smooth and timely completion of projects implementation;
- developing a robust portfolio of mature projects and financial schemes of various types and values, covering at least the first three years of implementation.

In operational terms, methodological guidelines regard on creating conditions for a sufficient number of projects approved and a significant increase of the funds absorbed from the first year of implementation. This is a primary goal of the planning process for 2014-2020 period, on which were taken into account both European and national regulations in the field and other programmatic and specific strategic documents at European and national level.

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