The Accomplishment of the European Social Fund Added Value in Romania in the Context of the Economic Crisis

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Abstract: This paper undertakes the assessment of the ESF added value within the framework of the global economic crisis. For the study case we selected an entrepreneurship training programme financed from 2007-2013 SOP HRD, PA 3, KAI 3.1, undertaking the intermediate assessment of the added value represented as the percentage of the training courses beneficiaries that start a new or develop the existent business and the influence of the economic crisis. The research method is an opinion survey. The conclusion certifies that the economic crisis represents a deterrent for the establishment of new SMEs, thus affecting the training programmes’ added value.

Key-Words: ESF added value, economic crisis, entrepreneurship, SME’s

1. Introduction
With overall objectives such as employment, improvement of the competencies and support to the reintegration of the persons having lost their jobs due to globalization and the economic and financial crisis, the European Social Fund (ESF) represents the oldest structural instrument available to the EU. It has been established in 1957, through the Roma Treaty but it originates in ECSC Fund for professional reconversion and relocation of workers (1951). In the ESF’s early beginning, the issue of assessing the impact of its usage as financial instrument in the Member States economies represented a secondary matter. Along with accession to the European Union of Spain, Portugal, Ireland and Greece in the years ’80, and the establishment of the Single European Act (1986), a new concept was introduced, under the name "social and political cohesion" with clearly defined objectives that demanded the assessment of the cohesion policy’s performance and, by default, the ESF’s. Thus, the added value of the structural funds became one of central issues of debate on the topic of the cohesion policy reform, reform that was going to influence the financial programming periods of 2000-2006 and 2007-2013. Defined by Bachtler and Taylor (2003) [1] as "something which has been enabled or which would not have been done without Community assistance", the concept of European or Community added value has been highlighted for the first time in 2001, in the second report on cohesion of the European Commission. However, although it is frequently called forth by policies’ decision makers of European institutions to justify the Community’s actions, there is not a clear definition of the Community added value, agreed to by Member States, fact recognised by the European Commission [4]. Moreover, in response to the substantiated scepticism of the international academic community - represented by Boldrin and Canova (2003)[2], Ederveen, De Groot, Nahuis, (2002)[3], Wostner and Šlander (2009) [13] – with regard to whether there is any such as added value of the structural funds the European Commission specified in the Conclusions of the Fifth Report Regarding Economic, Social and Territorial Cohesion (2010) [5] that "it cannot bring all the evidence on the performance of the cohesion policy" and that "with the change of priorities within the European Union, the form and the meaning of the structural funds added-value change constantly".
Regardless, however, of the conceptual design and the attempts to theorize the added value enclosed within the structural funds, one thing remains certain. For a Member State to represent successfully its interests in the negotiations of the new European financial framework 2014-2020, it shall have to prove that the structural funds allocated during the previous programming from the budget of the European Union were spent on relevant, efficient and effective projects, harmonized with general policies at the European level. Such step becomes a complex and difficult task for all the Member States, in the absence of a common methodology for assessing the added value of the structural funds, and all the more so for the newest member states, as Romania is. In the case of the latter, the challenge of the mission is strengthen by unavoidable blunders characteristic for the beginning of programming periods also caused by structural macroeconomic imbalances, political and institutional instability and ultimately, the deficit of the trained human resources. The global economic crisis may further complicate the problem’s data, radically changing the economic and social context for implementing the projects financed from funds and sometimes raising questions over the forecasted performance indicators.

Our approach undertakes an intermediate analysis of added value of the ESF to the financing component of the Sectoral Operational Program Human Resources Development 2007-2013 (SOP HRD) [10], in the context of global economic crisis’ challenges. In the three sections of the study, we shall take stock of the risks that may have undermined the achievement of the ESF added value pre-existing to the economic crisis, the changes of context and of the related priorities, as well as the danger of imbalance between the financed projects and the actual needs, undergoing a complete change of the labour market and of the human resources training. In order to substantiate the existence of such danger, we shall use the case study of a training project aimed to establish the entrepreneurship as a career option for everybody.

2. Analysis of data

We will continue by analysing the systemic vulnerabilities affecting the implementation of the ESF funded projects prior to the economic crisis and then we will point out the impact of the latter over the SOP HRD illustrating with a specific case study.

2.1. Analysis of data regarding the pre-existing systemic vulnerabilities

The assessment of the SOP HRD implementation during the period January 2007 – March 2012 carried out by the Management Authority for SOP HRD [7] shows a series of factors already existing at the start of the economic crisis that were undermining the programmes implementation process and delayed the readjustment of the SOP HRD priorities to the structural changes within the Romanian economy. The foremost important issue is the matter of a deficiency of the policies for the development of human resources such as the absence of a clear perspective view of the position that Romania shall occupy in the EU as a result of the ESF’s financed investments and of the resources within the SOP HRD internal programs. There is more focus of the internal political discourse on the objectives prevalent quantitative (commitments related to used/paid amounts and the number of approved and funded projects) at the expense of the qualitative ones, important in assessing added value projects. In this way we may explain the bare convergence and complementarity of the SOP HRD financed projects with the major development objectives established in the National Development Plan and the National Strategic Reference Framework [11, 12]. To that end, a report drafted by the Institute for Public Policy (2011) [6] shows that „SOP HRD is – or should be – the programme generating added value to the economy’s sustainable development by investing in the human resources, an investment that (…) eventually shall mean more jobs, increase level of performance of the employees’ activity, continuous professional training, as required by the labour market. Unfortunately, however, most of the times the extremely low levels of indicators established in the Beneficiary’s guidelines don’t increase the beneficiaries’ awareness beyond the bare quantitative issue of the number of trained people over whether such training shall entail an increase of the employment rate or better paid jobs for the employees”.

A second issue may be the delayed start/beginning of the projects’ effective implementation (the first payments to the beneficiaries having started only in 2009), caused both by internal and external factors. The EC’s bureaucratic procedures have given a certain sluggishness to the start, whilst internally, the accelerated politicization process of the central and local public administration actually meant a reduction if not a complete loss of the specialised expertise in the field of structural funds’ management. The civil servants with theoretical and
practical expertise acquired during the pre-accession period within the bodies specialised in the management of the PHARE, ISPA and SAPARD financings were replaced with politically acceptable personnel that have not benefited from specialised training programmes. A report issued by the Resources Centre for Public Participation (2010) [9] shows that "the accelerated loss of expertise related to the human resources within the SOP HRD Managing Authority and the national and regional Intermediate Bodies, the demotivating system for organising the activity, the excessive workload, the fear of decision making, the failure to undertake responsibilities and the frequent changes of management and vision brought up tensions in the relationships with the beneficiaries of the Community support". All ended up in April 2010, with the suspension by the European Commission of some payments amounting to € 8 million. Although, according to the official statements, the beneficiaries could still submit reimbursement requests, the direct consequence of the payments’ suspension by the EC was, in some cases, the halting of the projects implementation, thus undermining their finalization. A third issue capable of affecting the sound implementation of the ESF’s financed projects related to the increased instability of the legislative framework. Ever since the beginning of the process, the latter displayed a lack of predictability with consequences such as institutional deadlocks and delays in the projects’ evaluation processes, expenditure reimbursement and effective communication with the beneficiaries. And last but not in the least, we should mention the low absorption capacity of the ESF resources that influenced the achievement of the added value. The ESF allocation for SOP HRD is of € 3,476 million. This amount stands for 85% of the Programme’s total value, the rest of the funding, € 613 million, being the Romanian co-financing. When drafting the 2007-2013 SOP HRD, the financial allocation within the three priority axis was made following the issues identified from the assessment of the human resources on national level and from the SWOT analysis, and the performance indicators were established by considering the existence of a full absorption capacity. The ESF’s real absorption rate falls below the expectations: since August 2010 until now, there has been an increase of the payment rate of 5.4%, Romania being able to use only 18.6% of the total allocated amount. Therefore a series of indicators shall not be achieved, due to the fact that the projects that may contribute to the achievement of the targets set for 2015 are unlikely to be financed.

2.2 Analysis of data regarding the impact of economic crisis over the Operational Programmes

The impact the global crisis had over the internal social and economic environment has significantly changed a series of ideas and tendencies underlying the 2007-2013 SOP HRD. Upon a brief enlisting, the environment changes relate to the sudden fall of the economic growth, to the proliferation of unemployment rate, taxes’ increase, decrease of the population and of the business operators’ incomes, worsening of the business environment, credits’ contraction, downfalls in consumption, downfall of the main export markets, devaluation of the national currency, bankruptcies, public administration’s restructuring etc. These negative developments overlapped with the previously presented issues which, from the start, might have interfered with the achievement of the ESF added value relating to the SOP HRD projects. The first intermediate assessment of the programme, performed by SOP HRD MA in June 2011, recommended the revision of SOP HRD in accordance with the new requirements incurred following the recent changes in economy and labour market. An extremely difficult process, if we consider its due time (the middle of the programming period), the budgetary austerity imposed by the crisis’ agreements closed with the International Monetary Fund and the European Commission, and the major deficiencies of the SOP HRD management and control system.

2.3 Case study

2.3.1. Project’s description

The project "Development of Entrepreneurial Competences by means of a Trans-national Transference of Good Practices and by the Professional Training of Entrepreneurs in Romania” is financed by ESF, 2007-2013 SOP HRD, Priority Axis 3 „Increase the adaptability of workers and enterprises”, Key Area of Intervention 3.1 „Promoting entrepreneurial culture”. The project’s overall objective is to develop the entrepreneur and manager skills of the persons wanting to start a business or to enlarge their business and to assist/counselling them in implementing their business ideas, in relation with the market demands. The specific objectives regard: developing entrepreneurial and managerial skills for a number of minimum 960 entrepreneurs through specialised training programmes adapted to the target group at national level; promoting the entrepreneurship
culture and development opportunities by organizing seminars for a number of minim 960 entrepreneurs at national level; supplying at least 672 hours of assistance/counseling in view of launching or developing the business ideas. The target group is composed of: people willing to start an independent activity or a business: students, employees, unemployed people, etc.; people already having a business which they wish to develop further; people wishing to improve their entrepreneurial and managerial skills: entrepreneurs, managers.

In the target group of the above mentioned categories the percentages are the following: 32.25% employees, 16.48% entrepreneurs, 15.62% people wishing to start a business, 35.65% management personnel within enterprises (namely directors, managers etc.).

The project aims at answering the needs for employment identified at the level of the target group, within the priorities established through the strategic documents, both at European and national levels, trying to establish the entrepreneurship as a career option for everybody. This might be an important solution for counteracting the negative effects of the structural adjustment process and of the overall restructuring of the economy. The professional training programme proposed in the project aims both at the urban environment, as well as the countryside, within all the development regions, in order to answer the training needs identified at the level of the target group in the whole country.

### 2.3.2. Changing in the economic context between the time of the project’s drafting and its implementation

The project was drafted in 2009, its effective implementation starting in December 2010, and the first cycle of entrepreneurship courses taking place between 15.10.2011-20.11.2011. Between the timestamp T₀, of the project’s drafting and the timestamp T₁ of the performance of the first cycle of entrepreneurship courses, the national economy evolution experienced a downfall, ending up in recession. The optimistic government forecasts related to an economic growth were not confirmed by the reality. The GDP’s real evolution varied from -4.7% in 2009 to 0.6% in 2010 and 1.2% in 2011 against de initial unrealistic prediction of 6.6% (2009), 6.5% (2010) and 6.5% (2010).

In this respect, it should be noted that, although in March 2009 the situational surveys conducted by the National Bank of Romania already indicated a worsening of how the business operators perceived the development of the key sectors of the economy the politicians were still to publicly acknowledge the economic crisis. The consequence of this embellishment of reality was, in case of SOP HRD, that the SOP HRD Managing Authority assessed as eligible for financing projects whose implementation and sustainability are at risk, considering the current state of play. Referring only to the projects funded through the Priority axis 3 "Increasing adaptability of workers and enterprises", the Key Area of Intervention 3.1 "Promoting entrepreneurial culture", we have studied during the given period the approval and the implementation of programmes aimed at developing entrepreneurial and managerial skills of people who want to be self-employed, to start or to expand their businesses taking into account the profound deterioration of the business environment. The phenomenon is mirrored by an accelerated decrease in the number of newly established SMEs, while there is an increasing number of companies cancelling, suspending or dissolving their activity (Table 1).

| Table 1: Evolution of the companies’ registering and termination (2008-2010) |
|-----------------------------|-----------------|-----------------|
|                            | 2008            | 2009            | 2010            |
| Recordings                 | 144239          | 116022          | 102170          |
| Terminations (suspended +dissolved +cancelled) | 33457          | 195743          | 231767          |
| Difference between recordings-terminations | 110782       | -79721          | -129597         |

Source: Data Processing from the Trade Register

An investigation into the current state of play and the prospects of Romanian entrepreneurship reveals that the overall economic situation is considered by most of the private entrepreneurs of small and medium businesses as an unfavourable one for businesses (Table 2).
The psychological impact of the economic crisis is inversely proportional to the size of companies, the largest percentages of private entrepreneurs who feel stressed and very affected by the economic downturn is the category of micro and medium enterprises (Table 3), precisely the type of organization they are prepared and recommended for participants to the entrepreneurship training program analysed in this section.

2.3.3 Research methodology and results
The added value of the reviewed project is an increase in the overall rate of employment by supporting self-employment and creating new jobs through opening small enterprises or developing existing business (adding new areas of activity, NACE codes). The desired result indicator "The percentage of training beneficiaries initiating new business or expanding their existing ones" is set at 25% of the students trained in entrepreneurship courses organized within the project.

The overall objective of the research is to temporarily assess the added value of the project. The specific objectives are:
- Evaluation of the value added indicator, defined by the number of participants in entrepreneurship training courses that, following graduation, start their own business or, if already entrepreneurs, they expand their existing business by adding new NACE codes.
- Assessing the influence of economic crisis on the added value of entrepreneurship training program.

The chosen research method is the opinion survey based on closed questions and multiple choice answers questionnaires. The interviewing questionnaires were applied to the studied sample, at the end of each of the two training courses cycles organized to the date. The selected sample is composed of 461 participants to the entrepreneurship courses organized during the two training sessions that have taken place at the end of 2011 and beginning of 2012.

Following the processing of the interview questionnaires applied to the sample, we have obtained the following results:
- 380 trainees (93.22% of the studied sample) estimated that the specific knowledge acquired during the entrepreneurship courses improved their professional skills in the area.
- Nevertheless, only 80 of the trainees (17%) intent to start a business in the next future (the following two years) or to develop the existing one (as the case may be), most of the participants of the survey, 381 people, stating to not having such intent (82%).
- The main two reasons stated by those who have no intention in starting businesses during the

Table 2: Psychological impact of the economic crisis (%)

<table>
<thead>
<tr>
<th>Overall state of play of the current economic environment</th>
<th>Size of the companies</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Micro</td>
<td>Small</td>
</tr>
<tr>
<td>Favourable for businesses</td>
<td>6.31</td>
<td>9.80</td>
</tr>
<tr>
<td>Neutral</td>
<td>23.10</td>
<td>23.63</td>
</tr>
<tr>
<td>Blocking the development of businesses</td>
<td>70.59</td>
<td>66.57</td>
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Table 3: The psychological impact of the economic crisis (%)

<table>
<thead>
<tr>
<th>Psychological impact of the crisis over the entrepreneurs</th>
<th>Size of the companies</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro</td>
<td>Small</td>
</tr>
<tr>
<td>Extremely high</td>
<td>15.76</td>
<td>9.18</td>
</tr>
<tr>
<td>High</td>
<td>15.67</td>
<td>18.35</td>
</tr>
<tr>
<td>High enough</td>
<td>41.28</td>
<td>46.52</td>
</tr>
<tr>
<td>Reduced or extremely mitigated</td>
<td>22.46</td>
<td>23.10</td>
</tr>
</tbody>
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No impact 4.83 2.85 4.17

following two years are: the economic crisis (70%) and the lack of financial resources (68%). Concerning the achievement of the indicator „The percentage of training courses for beneficiaries which are starting a new business” by the people graduating the entrepreneurship courses, during the period since the end of the two professional training cycles, 21 new SMEs have been established. Therefore an achievement rate of 18% was obtained, compared to the 25% defined within the project.

3. Conclusions

Ever since the negotiating stage of the Accession Treaty, the structural funds have been considered incentives for modernizing the Romanian economy and for mitigating the development gaps as compared to the older member states of the EU. Without challenging their importance, we need to underline that their value as growth’s funding resource was above of its own national effort of development, and the priorities specific for a country in transition, such as Romania, have been gradually replaced by priorities difficult to implement as serious economic deficiencies and imbalances continued to linger. This, combined with a series of factors relating to the quality of the administrative capacity and the hesitations and decisions’ inconsistency in the area of development policies, resulted into a poor performance of the structural funding when the economic crises started. This low performance was already among the risks related to the achievement of the structural funds added value. Further on, the full development of the human resources development programmes of the Romanian economy financed by SOP HRD was achieved during a high economic downfall and a significant change of the ideas used for building many of the current ongoing projects. Considering the training programmes in the area of entrepreneurship, we need to state the deterioration of the business environment, caused both by fiscal government decisions drawn by the need to limit the internal consumption (introducing the lump sum tax, VAT increase, etc.), as well as extremely restrictive credit requirements in the economy. The victims of this austerity programmes negotiated by Romania with IMF and EC are above all the SMEs. The achievement of the added value of the entrepreneurship training programmes aims at establishing and developing the small and middle businesses as a viable choice for employment, such an objective being hard to reach within a toxic environment for the small private initiative. The case study shows that, although the training programmes are duly appreciated by the beneficiaries as being useful for developing new professional abilities, in lack of more favourable economic factors, the objective of strengthening the business environment shall be hard to achieve.

Acknowledgment: This paper is supported by SOPHRD 2007-2013 financed from ESF and by the Romanian Government under the contract SOPHRD/89/1.5/S/62988.

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