

The Role of Pre-accession Funds in the Romanian Economy

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Abstract

In the process of European integration, the financial aid granted to Romania by European Union plays an important role through the three pre-accession instruments: PHARE, ISPA and SAPARD, not only because of the effective value of the financial aid, but also because of its positive impact upon the institutional and administrative capacity.

Key words: *pre-accession funds, role, European integration, economic development*

The process of Romania's accession is in line with the fundamental aims of the European project to make Europe a haven of peace and prosperity and to overcome the divisions of the past. In this light, Romania's accession process contributes at the securing of democracy, stability and economic development in Europe.

In order to assist the countries of Central and Eastern Europe in their preparations for joining the European Union, EU created three pre-accession instruments: PHARE, ISPA and SAPARD.

Theoretical Aspects

The PHARE programme (Pologne et Hongrie - Aide á Restructuration Economique) is one of the three pre-accession instruments financed by the European Union to assist the applicant countries of Central and Eastern Europe in their preparations for joining the European Union.

Originally created in 1989 to assist Poland and Hungary, the PHARE programme had covered 10 countries: the 8 new Member States (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia), as well as Bulgaria and Romania, assisting them in a period of massive economic restructuring and political change. Given that 8 out of the 10 countries, which previously were eligible for the Phare programme, are new Member States of the European Union since May 2004 (Romania and Bulgaria remain candidate countries), substantial changes are being made to the scope of the Phare programme (2003 was the final programming year for the new Member States).

Until 2000 the countries of the Western Balkans (Albania, Bosnia-Herzegovina and The Former Yugoslav Republic of Macedonia) were also beneficiaries of Phare. However, as of 2001 the CARDS programme (Community Assistance for Reconstruction, Development and Stability in the Balkans) has provided financial assistance to these countries.

Following the 1993 Copenhagen Council's invitation to Central and Eastern European countries to apply for membership, Phare support was reoriented to this aim, including a marked expansion of support for infrastructure investment. Phare's total pre-accession focus was made effective in 1997, in response to the Luxembourg Council's launching of the present enlargement process. Phare funds focus entirely on the pre-accession priorities highlighted in the Road Maps and the Accession Partnerships, which establish the overall priorities the country must address to prepare for accession and the resources available to help them do so. It estimates the timing and cost of the steps needed to prepare the country for membership and the implications for staff and financial resources.

Starting with 2000 the Phare budget was raised to 1.6 billion euros per year, focused on the following objectives:

- strengthening public administrations and institutions to function effectively inside the European Union (30%);
- promoting convergence with the European Union's extensive legislation (the *acquis communautaire*) and reduce the need for transition periods (35%);
- promoting economic and social cohesion (35%).

These orientations were further refined in 1999 with the creation of SAPARD and ISPA, which took over rural and agricultural development (SAPARD) and infrastructure projects in the environmental and transport fields (ISPA) allowing Phare to focus on its key priorities that were not covered by these fields.

The SAPARD programme (Special Accession Program for Agriculture and Rural Development) was established by Council Regulation 1268/1999 in June 1999, on the basis of a Commission proposal as part of the Agenda 2000 programme for increased pre-accession assistance in the period 2000 – 2006, with a budget of over 1 billion euros per year.

The aim of SAPARD is to help the beneficiary countries of Central and Eastern Europe deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in the implementation of the *acquis communautaire* concerning the CAP (Common Agricultural Policy) and related legislation. It is designed to address priorities identified in the Accession Partnerships.

The ISPA programme (Instrument for Structural Policies for Pre-Accession) was established by Council Regulation No. 1267/1999 in June 1999 on the basis of a Commission proposal in Agenda 2000 to enhance economic and social cohesion in the applicant countries of Central & Eastern Europe for the period 2000-2006.

Like the Phare programme, the ISPA programme has the aim of Economic & Social Cohesion. ISPA's exclusive focus on environmental and transport infrastructure measures has subsequently allowed the Phare programme to focus on other aspects of Economic & Social Cohesion, which avoids over-lapping of responsibilities in this field. So, ISPA only finances major environmental and transport infrastructure projects.

Currently, the beneficiaries of ISPA funds are Romania, Bulgaria and Croatia (starting with January 2005).

Between 2004 and 2006 the amounts allocated totalized around 1.530 million euros, with 1.028 million euros granted to Romania (tab. 1).

Table 1. The amounts allocated by ISPA 2004-2006 (mil. euro)

	2004	2005	2006	Total
Bulgaria	135,5	146,8	158,2	440,5
Romania	316,5	342,6	368,8	1 027,9
Croatia	-	25	35	60
Total	452	514,4	562	1 528,4

Source: www.europa.eu.int

The above amounts were distributed between the beneficiary countries according to the following criteria: population, GDP (gross domestic product) per capita and total used area. These amounts are designated to finance major environmental and transport infrastructure projects.

The Analysis of Pre-accession Funds Allocated to Romania

The *PHARE programme* allocated to Romania between 1997 and 2003 a total amount of 1.6 billion of euros (tab. 2).

Table 2. The amounts allocated by PHARE programme 1997-2003 (mil. euro)

Total	1997	1998	1999	2000	2001	2002	2003
1.561,71	100,00	158,00	200,50	255,02	286,69	278,50	283,00

Source: www.mie.ro

This financial aid was designated, mainly, to the following objectives: development of legislative and administrative structures; promoting and strengthening the democracy; development of civil society; protection of human rights; investments in infrastructure; trans-frontally cooperation; promotion of economic and social cohesion.

In 1997 the Phare allocation for Romania was 100 million euros, focused mainly on the following priorities: education and culture, statistics, agriculture, judicial system, public administration, regional development, small and medium-sized enterprises, public health and taxation.

Phare allocation for year 1998 was 158 million euros distributed for Phare National Programme – 117 million euros, Recuperation Facility – 16 million euros and Large Size Infrastructure Facility (LSIF) – 25 million euros. The main domains of assistance financed by Phare National Programme were: to strengthen democracy, protection of human rights, public administration reform, custom system, finance, agriculture, environmental protection and economic and social cohesion.

For year 1999 there have been allocated to Romania Phare funds totalizing 200.5 million euros. This amount was distributed for RICOP programme – 100 million euros, Phare National Programme – 55.2 million euros, Recuperation Facility – 21 million euros, Large Size Infrastructure Facility (LSIF) – 14.3 million euros and cross-border cooperation programmes – 10 million euros. The main objectives of Phare National Programme were: protection of human rights, public administration reform, child protection and preparation for European market integration.

In 2000, the total financial aid for Romania was 255.02 million euros. This amount was distributed for Phare National Programme – 215.02 million euros, trans-frontalier cooperation – 13 million euros and communautaire programmes – 27 million euros. In the Phare National Programme the amount was distributed as follows:

- political criteria – 13 million euros;
- economic criteria – 40.9 million euros;
- implementation of *acquis communautaire* – 73.12 million euros;
- economic and social cohesion – 88 million euros.

For year 2001 have been allocated to Romania Phare funds totalizing 286.69 million euros. This amount was distributed for Phare National Programme – 248.89 million euros, cross-border cooperation – 13 million euros and supplementary investment facility – 24.8 million euros. In the Phare National Programme the amount was distributed as follows:

- political criteria – 27 million euros;

- economic criteria – 5.6 million euros;
- implementation of *acquis communautaire* – 67.6 million euros;
- criteria regarding the strengthening of public administrations capabilities – 18 million euros;
- economic and social cohesion – 109.25 million euros.

Phare allocation for year 2002 was 278.5 million euros, from which 36.5 million euros have been allocated for supplementary actions for strengthening public administration capacities.

In 2003, the total financial aid for Romania was 283 million euros, from which 112 million euros has been allocated for economic and social cohesion sub-programme.

The volume of pre-accession assistance granted to Romania by *SAPARD programme* between 2000 and 2006 covers 150 million euros per year. Until 2004, Romania used to be the second biggest beneficiary, after Poland.. These funds are designated to rural and agricultural development.

With respect to this goal (rural and agricultural development) Romania has identified the following priority measures financed by *SAPARD programme*: improvement of manufacturing and commercialization activities; development and improvement of rural infrastructure; investments in agriculture companies; development and diversification of economic activities that will generate alternative incomes; development of human resources (improvement of training activities) and technical assistance.

In the period 2000-2003 Romania has received around 1.44 billion euros representing ISPA funds. This amount had covered 75% of the total amounts used for development of transportation infrastructure and environmental protection during this period of time.

The 38 projects finalized with ISPA co-financing between 2000 and 2003 have had the following objectives: environmental protection (objective nr. 1); technical assistance (objective nr. 2); transportation infrastructure (objective nr. 3).

Table 3. The amounts allocated by ISPA programme 2000-2003 (mil. euro)

Year	Objective	Number of projects	Total value	ISPA co-financing
2000	1	11	489,52	363,63
	2	2	3,31	2,49
	3	4	587,40	434,63
Total 2000		17	1.080,23	800,75
2001	1	5	108,26	79,88
	2	3	4,91	3,83
	3	2	274,54	205,9
Total 2001		10	387,70	289,61
2002	1	6	211,78	154,07
	2	1	2	1,5
	3	-	-	-
Total 2002		7	213,78	155,57
2003	1	1	41,75	31,31
	2	2	19,75	16,94
	3	1	199,49	149,61
Total 2003		4	260,99	197,86
TOTAL		38	1.942,70	1.443,79

Source: www.europa.eu.int

We have to point out the fact that all the 38 projects carried out with ISPA co-financing aimed major objectives regarding transportation infrastructure and environmental protection.

The National Plan of Development (NPD)

The National Plan of Development for three years (2004-2006) has been adopted by the Romanian Government in december 2003. Its main objective is the economic and social cohesion with European Union member states.

The financial aid granted by European Union (through the 3 pre-accession instruments) for the National Plan of Development covers 1,958.98 million euros out of 17.119,79 million (the total amount allocated for NPD).

The most part of the financial resources comes from state budget (10,731.34 million euros) and the difference is covered from private funds – 1,594.45 million euros and loans from international financial institutions – 2,835.02 million euros.

Table 4. EU funds allocated for NPD (mil. euro)

Priorities/Types of measures	PHARE	SAPARD	ISPA	Total
1. Productivity improvement	2	0	0	2
1.1. Small and medium-sized enterprises	0	0	0	0
1.2. Business infrastructure	0	0	0	0
1.3. Tourism	0	0	0	0
1.4. Sustaining of research, innovation and technological development	0	0	0	0
1.5. Information Society	0	0	0	0
1.6. . Technical assistance/Institutional constructions	2	0	0	2
2. Improvement and development of transportation and energetic infrastructure and insurance of environmental protection	2	0	1.012,70	1.014,70
2.1. Transportation infrastructure	0	0	506,35	506,35
2.2. Energy infrastructure	0	0	0	0
2.3. Environmental and complementary public utilities	0	0	506,35	506,35
2.4. Technical assistance/Institutional constructions	2	0	0	2
3. Development of human resources	65	0	0	65
3.1. Improvement of access and participation to primary education	8	0	0	8
3.2. Increasing of employment rate	43	0	0	43
3.3. Technical assistance/Institutional constructions	14	0	0	14
4. Sustaining of rural and agriculture development	0	482,26	0	482,26
4.1. Increasing of productivity in agriculture and forestry	0	70,97	0	70,97
4.2. Integration of agricultural products	0	101,64	0	101,64
4.3. Diversification of rural economy	0	299,15	0	299,15
4.4. Technical assistance/Institutional constructions	0	10,50	0	10,50
5. Development of regional and local potential	395	0	0	395
5.1. Regional infrastructure for sustaining economic development	126	0	0	126
5.2. Improvement of training and development of social services and infrastructure	57	0	0	57
5.3. Development of productive sector – financial aid granted to small and medium-sized enterprises	32	0	0	32
5.4. Environmental protection	168	0	0	168
5.5. Technical assistance/Institutional constructions	12	0	0	12
Total	464	482,26	1.012,70	1.958,98

Source:www.mie.ro

The funds allocated for National Plan of Development are distributed for the following priorities:

- productivity improvement – 288.65 million euros;
- improvement and development of transportation and energy infrastructure and insurance of environmental protection – 14,615.29 million euros;

- development of human resources – 236.03 million euros;
- sustaining of rural and agriculture development – 1,146.71 million euros;
- development of regional and local potential – 833.11 million euros.

The European financial aid has been allocated with priority to the regions that registered a reduced development index, as follows (tab. 5).

Table 5. Allocation of regional funds 2004 - 2006

Nr.	Regions	%
1	North – East	21,57
2	South – East	13,92
3	South – Muntenia	16,07
4	South – West Oltenia	11,99
5	West	8,84
6	North – West	11,57
7	Centre	11,03
8	Bucharest	5,01
Total	Romania	100

Conclusions

In the last years, Romania has made significant progress in aligning its legislation with the European Union legal frame, in order to be able to assume the obligations of memberships.

In this process, an important role has been played by the financial aid granted to Romania by European Union, through the three pre-accession instruments (PHARE, ISPA and SAPARD).

The importance of pre-accession funds is given not only by the effective value of the financial aid, but also by its role in reinforcing the institutional and administrative capacity. The UE financial aid is one of the main factors of strategic plans concerning the national strategies of economic and regional development.

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Rezumat

În procesul integrării europene, un rol important revine ajutorului financiar acordat României de către Uniunea Europeană, prin cele trei instrumente de pre-aderare: PHARE, SAPARD și ISPA, nu numai datorită valorii efective a sumelor alocate, dar și ca urmare a impactului pe care acestea îl au asupra îmbunătățirii capacității instituționale și administrative.