STRUCTURAL AND COHESION FUNDS - WAY TO INCREASE COMPETITIVENESS AT ENTERPRISE LEVEL

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ABSTRACT
This article focuses on the importance of Structural Funds as a way to increase competitiveness at enterprise level. The objective of this article is to provide the basic vocabulary for understanding the Structural Funds and how they operate and the main advantages and disadvantages of these financial instruments. In first part we presented the basic concepts about Structural Funds, the structure of allocating European Funds and the goals that are financing by them. To understand the purpose of structural and cohesion funds we analyze them in relation to small and medium enterprises and the way how influences their evolution. Finally the result of this work could be used as a potential future research directions of the field.

KEYWORDS: *Structural and Cohesion Funds, Absorption rate, Competitiveness, Structural, Indicators*

JEL CLASSIFICATION: *M16*

1. INTRODUCTION

Priority objectives of the Structural Funds for 2007-2013 were convergence, regional competitiveness and employment rate. In order to increase regional competitiveness and employment European Union has a set of financial instruments. UE funding is an attractive source of financing investments for enterprises. In the case of the SME sector, enterprises have limited financial assets and they need support and fund to evolve and to grow faster.

In general in the case of the SME sector, investments involve higher risks resulting from limited resources, like human and especially financial. Moreover, these enterprises face significant problems with obtaining financial means from external sources, so they turn to structural funds in order to increase competitiveness.

2. WHAT ARE STRUCTURAL AND COHESION FUNDS

The Lisbon summit in 2000 brings the European Union in the moment that she set the goal to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion (Steven Keuning & Marleen Verbruggen, 2010).

The main goal of the EU's regional policy is to reduce structural disparities between EU member states and regions. The balanced development throughout the EU can promote real equal opportunities for all. (Vásáry et al., 2013)

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Commission's proposals for reforming Cohesion policy in 2007-2013 (CEC, 2004), subsequently agreed by the Council and Parliament, shifted the focus of Structural Funds towards supporting the relaunched 'Lisbon agenda' to promote faster growth and more employment. It established a new strategic framework for cohesion based on 'Community strategic guidelines' drawn up at EU level, and 'national strategic reference frameworks' prepared by each Member State (John Bachtler & Grzegorz Gorzelak, 2007)

The goals for the period 2007-2013 were established on the basis of regional disparities identified:

- 10% of EU27 population living in the most prosperous regions (19% of total EU-27 GDP)
- 1.5% of GDP for the 10% of population living in the least wealthy regions
- Convergence regions: 12.5% total share in EU27 GDP with 35% population share
- several regions in Romania and Bulgaria with GDP per head below 25% of the EU average GDP

In order to achieve the goals that were established like cohesion, competitiveness and cooperation was established a policy to help in special the underdeveloped territories. Structural and Cohesion Funds are for regions with low income, high rates of unemployment, socio-economic structural problems.

Structural and Cohesion Funds (CSF) or Structural Instruments are financial instruments that the European Union acts to eliminate economic and social disparities between regions in order to achieve economic and social cohesion. (Vásáry et al., 2013)

So general rules Structural and Cohesion Funds are established by EU Council Regulation no. 1083/2006 of July 2006 (http://eufinantare.info/regulamente/1828_en.html) which defines the rules on the European Regional Development Fund, European Social Fund and the Cohesion Fund .The policy is based on the concept of solidarity and social cohesion and economic conditions. It achieves this through a variety of financing operations, principally through the Structural Funds and Cohesion. Regulations for each Fund:

-European Regional Development Fund supports Regulation number 1080/2006,
-European Social Fund (ESF) is Regulation number 1081/2006 and
-Cohesion Fund Regulation is number 1084/2006.

Priority objectives of the Structural Funds for 2007-2013 are: convergence, regional competitiveness and employment and European territorial cooperation.

Legal basis:

1. Article 2 EC TREATY " promote economic and social progress as well as a high level of employment, and to achieve balanced and sustainable development" (http://www.legislationline.org/documents/action/popup/id/8606)
2. Art. 158 of the Treaty: "in particular, the Community aims to reduce the disparities between the levels of development of the different regions and the backwardness of the least favoured regions or islands, including rural areas" (http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/p31_en.htm)

Financial instruments that the European Union acts to eliminate economic disparities:

European Regional Development Fund supports (ERDF): through this financial instrument investments are made in create jobs (for priority sector SMEs), infrastructure (transport, environment, communications, education, health, social, cultural and energy), development local potential (support and services for businesses, networking, cooperation and exchange of experience), technical assistance.

Goals: infrastructure; investment; research and development; SMEs

European Social Fund (ESF) the mail goals is to :

- The importance of adaptation of workers and enterprises; systems lifelong based on learning, design and dissemination of innovative forms of work organization;

- Persons that are looking for a job by improving them access to employment, inactive people, women and immigrants;
- Social integration for disadvantaged people and combating all forms of discrimination in the labor market;
- Implementing reforms to education and networking activities of schools for strengthening human capital.

Goals: training; employment; Institutional capacity and administrative efficiency.

Cohesion Fund (CF) through this financial instrument is promoting sustainable development through trans-European transport networks; environmental protection (energy efficiency, transport, ecological public transport etc.)

Goals: environment and transport infrastructure; energy

European Agricultural Fund for Rural Development (EAFRD) – this financial instrument contributes to the objectives of increasing the competitiveness of agriculture and forestry, it is designed to support only the rural areas, agricultural management and the environment, his goal is to improve the quality of life and diversification of activities economic perimeters ranging from rural areas with low population rural areas in decline under pressure from urban centers.

Goals: increasing the competitiveness of agriculture and forestry, rural areas

European Fisheries Fund (EFF) - this financial instrument focuses on the continuity of fisheries and rational exploitation and protection of fishery resources, the development of viable enterprises in the fisheries sector, developing and improving quality of life in fisheries dependent areas.

Goals: development of fisheries sector, protection of fishery resources

Tabel 1. Objectives, Structural Funds and instruments *2007-2013*

Objectives	Structural Funds and instruments
Convergence	ERDF + ESF + Cohesion Fund
Regional Competitiveness and Employment	ERDF + ESF
European territorial Cooperation	ERDF

Source: adapted from http://eufinantare.info/Instrumente_structurale_UE.html

Allocating financial means from the structural funds has a complex structure. The principles are as follows (HEIJMAN, 2001):

1. Concentration;
2. Partnership;
3. Programming;
4. Additionality

The concentration principle means that funding should be related objects of the European structural policy.

The partner principle means that the structural policy need to be in close cooperation with national, regional and local authorities.

The programming principle means that the program should be based on individual projects.

The additionality principle means that programs that are funded by EU structural funds should co-financed by member countries.

In order to identity the disparity of the regions the European Union it was established as a unit of measure the gross domestic product (GDP) per capita. “Yet, GDP per capita does not offer a particularly sharp measurement of cohesion, and leads to a considerable policy bias GDP measures the total value of all market and public sector goods and services that those who work in a particular area produce(Stefaan De Rynck & Paul McAleavey, 2011).

Stefaan De Rynck and Paul McAleavey (2011) claim that GDP per capita can increase for various reasons. First, it is influenced by cultural patterns related to the definition of work, gender roles and the role of the non-active population Second, GDP figures sometimes measure the creation of wealth owing to illegal activities and can therefore increase with criminal profits that are channeled into the regular economy. Third, GDP per capita can shift owing to migration.
GDP per head is influenced by the differences in productivity and employment rate. It’s important to see that the GDP per head refers to geographical unit of analysis not in economic entities. So the disparities are analyzed in terms of geographical unit not in economic entities.
Eva Palinko, Agnes Svoob and Marta Szabo (2013) sustain that allocation process reflects the so-called bureaucratic coordination that does not directly consider efficiency criteria defined as a starting point. The first step lays out:

- the objective of the development funds, the stand-alone thematic objective of the funds reflecting their special features and aspects of investment priorities and, furthermore,
- the method to allocate community funds among countries.

Expenditure heading	€ millions	Share (%)
1. Sustainable growth	379 739	44.03
1A. Competitiveness	(72 120)	(8.36)
1B. Cohesion	(307 619)	(35.67)
Convergence	*(251 330)*	*(29.14)*
Regional competitiveness and employment	*(48 789)*	*(5.66)*
Territorial cooperation	*(7500)*	*(0.87)*
2. Natural resources	371 244	43.05
of which: agriculture	(293 105)	(33.99)
3. Citizenship, freedom, security, justice	10 270	1.19
4. European Union as a global partner	50 010	5.80
5. Administration	50 300	5.83
6. Compensations	800	0.09
Total	862 363	100.00

Figure 1. European Union financial perspective, 2007-2013 commitment appropriations (provisional)

Source: Robert Leonardi (2006) Cohesion in the European Union, Regional Studies, 40:02, 155-166,

In order the see structural fund as a way to increase competitiveness at enterprise level we need to see the absorption capacity of this fund.
Absorption capacity of the EU It could be taken as trying to represent the sum of several more objective and precise phenomena, such as (Emerson et al., 2006):

- Capacity of the goods and service markets to absorb new member states
- Capacity of the labour market to absorb new member states
- Capacity of the EU’s budget to absorb new member states

- Capacity of the EU institutions to function with new member states
- Capacity of society to absorb new member states
- Capacity of the EU to assure its strategic security

Duchek Stephanie (2013) says that absorptive capacity is defined as the ability of a firm to recognize the value of new external information, assimilate it, and apply it to commercial ends. It is regarded as an important factor in both corporate innovation and general competitive advantage.

Zahra and George (2002) have define absorptive capacity as "a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability".

Quantitative Measures Various studies use indicators as proxies for measuring absorptive capacity. These indicators are either input or output oriented.

In the same time structural indicators are politically important socio-economic indicators, because they cover the policy domain like employment, innovation, economic reform and social cohesion that are related with objective of structural funds.

Indicators Related to the Evaluation of the Structural Funds

Paul Ekins and James Medhurst (2006) identified the following kinds of indicators as relevant to an evaluation of the SFs:

- Input indicators: The budget allocated to each level of assistance. These indicators are readily available but give little information about the effectiveness of the SFs.
- Output indicators: These relate to the activity engaged in through the application of the SFs and may be physical (e.g. length of road constructed) or financial (e.g. number of firms supported).
- Result indicators: The direct and immediate effects of a program. Such indicators can be of a physical (reduction in journey times, number of successful trainees, number of roads accidents, etc.) or financial (leverage of private sector resources, decrease in transportation cost) nature.
- Impact indicators: These refer to the program’s consequences beyond its immediate results. Specific impacts are those effects occurring after some time but which can be directly linked to the action taken.

The impacts of an program in order to establish it is necessary to define in advance in the first place the context and baseline indicators that are relevant to the objectives of the program and to its wanted impacts. The actual impacts of the program will need to be estimated it is against these baseline indicators.

3. STRUCTURAL FUNDS AS A WAY TO INCREASE COMPETITIVENESS AT ENTERPRISE LEVEL

EU Cohesion policy is widely considered to have an important impact on how regional development policies are managed and implemented (Leonardi, 2007)

Because the priority objectives of the Structural Funds for 2007-2013 were convergence, regional competitiveness and employment European Union funding is an attractive source of financing investments for enterprises.

For the development of the regions in which income per inhabitant does not exceed 75% of the EU average, the European Union allocated means from the following four structural funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agriculture Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG).(Spoz 2014)

Singh, Rajesh K; Garg, Suresh K; Deshmukh, S G (2008) claimed that Small and medium enterprises are considered backbone of economic growth in all countries. They contribute in providing job opportunities, act as supplier of goods and services to large organizations. SMEs are

defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology
Nicola Thompson and Neil Ward, (2005) sustain that competitiveness for a firm, is the ability to produce the right goods and services of the right quality, at the right price, at the right time. It means meeting customers' needs more efficiently and more effectively than other firms do.
The pursuit of competitiveness has been elevated to primary strategic importance in the Lisbon strategy of the European Union (EU) which explicitly states its aim as being 'to make the EU the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion. (Gilian Bristow, 2010)
In the case of the SME sector, investment are so important and enterprises have limited financial assets so they need support and fund to evolve and to grow faster. That's way in general competitiveness of enterprises is determined by the size of an implemented investment projects and the range. The investments in order to achieve their goals need to involve necessary resources ant to be correctly implemented and in time.
For an Small and medium-sized enterprises it's important the evolution that's why they knows the importance of investments which have become elements of their future strategies.
In general in the case of the SME sector, investments could involve higher risks resulting from limited resources consisting in human and financial resources. In SME sector enterprises turn to structural fund because they face significant problems with obtaining financial means from external sources. Obtaining financial from credit institutions incurs additional expenses connected with credit management.
The European Union funds provide to SME sector enterprises an opportunity to receive financial means for their projects. So Small and medium-sized enterprises appreciate the importance of investments which have become established elements of their strategies.
In practice the European Union funds that financing SMEs investments is still small and they have many advantages and disadvantages and face many barriers to using this form of support. Major disadvantages are: in general an excessive bureaucracy specific to each region, strict procedures comply with regulations, unprepared office workers, verification of payment applications, and delays in payments to beneficiaries.
In general small and medium-sized entrepreneurs unfortunately, face am complex process and many obstacles on their way to achieved funding and the correct implementation of their project. All these obstacles are reflected in the evolution of the entity that could stop her to develop or make it bigger.

4. ADVANTAGES TO USING STRUCTURAL FUND AT REGIONS LEVEL

Ruggero Schleicher & Tappeser & Filippo Strati (Schleicher & Tappeser & Strati, 2004) have recently shown in many cases Structural Fund requirements have led to changes that have been highly innovative for these regions including:
- the questioning of traditional administrative procedures and practices;
- the review of decision-making procedures at regional level and even the establishment of new structures at the regional level which must adapt;
- the introduction of a systematic programming process, including the formulation of development objectives;
- the introduction at regions level of an systematic monitoring and evaluation process;
- increased transparency at regions level in relation to the programming process, the budgets, the funding decisions, and the results to achieve the goals;
- increased autonomy of local actors and local regional governments by providing new sources of funding and which requires them to develop their own strategies to be more or less independent from national governments;

- the consideration of general objectives decided at the European level that are important but that are not discussed at the local level (e.g. gender equity, energy conservation, sustainable development);
- the consideration of organizational and procedural principles that has to be implemented at regions level (e.g. transparency, subsidiarity, partnership, participation, equal opportunities, etc.)
- strong influence of these innovations on national and regional policies because of the requirement of co-financing.

5. BARRIERS TO USING EU FUNDS BY ENTERPRISES FROM THE SME SECTOR

- substantive criteria which do not match the realities of running a business
- low credibility of appeal measures, as the applications were re-examined by the same institutions whose previous evaluation was protested or appealed against by the applicant
- limited opportunities for rational planning of investment (due to the necessity to stick to the competition schedule it is not possible to plan a project well in advance or to prepare and submit an application at convenient time)
- announced deadlines were exceeding
- scattered information about available instruments of support for entrepreneurs
- poor quality of information for applicants - entrepreneurs (unclear structure of websites, no updates, incomplete or limited information, lack of quick replies to questions)
- lack of professional training offer for beneficiaries of the regional operational program at the level of implementing institutions.
- limited influence of beneficiaries on the form of program and procedures of their implementation

6. ADVANTAGES TO USING EU FUNDS BY ENTERPRISES FROM THE SME SECTOR

Spoz, A. (2014) identify the advantages to using EU funds and presented them the low cost of gaining money for investment

- Obtaining the same amount of money in the form of credit or loan from financial institutions would entail additional costs connected with credit management, commission for arrangement of loan, commission for application processing, insurance, etc. the opportunity for implementation or extension of an investment
- A decisive factor in its implementation is the opportunity for investment co-financing is frequently. Sometimes, additional financial means enhancement of its quality or enable extension of the planned scope of investment increasing the rate of investment
- Prolonged implementation can weaken the effects or can make the aims outdated because investment plans of companies are prepared for a specific period of time.

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7. CONCLUSIONS

This work established the framework and the Priority objectives of the Structural Funds for 2007-2013. In the same time provide the basic vocabulary for understanding the Structural Funds and how they operate and we give examples of main advantages and disadvantages of thes financial instruments. For an overview we analyzed them in relation to small and medium enterprises and the way how influences their evolution by theoretical concepts.

We contributed with this work to prior literatures about structural funds by creating a new theoretical framework that showed us which are, the most and the less researched topics on this, we also identified the most relevant future research topics in the field.

With this article we contributed by basic concepts study for understanding the basic of Structural Funds the legal framework governing it and the final result after the implementation structural funds.

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