

FINANCING ENVIRONMENTAL PROJECTS IN ROMANIA. NEW PERSPECTIVES IN THE FRAME OF THE 2014-2020 PROGRAMMING PERIOD

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ABSTRACT. In its efforts to faces the challenges of emerging from the crisis, the EU tries to put the European economies on a sustainable growth path through the 2014-2020 Common Strategic Framework (CSF), sought as an instrument for implementing the Europe 2020 Strategy. According to the CSF thematic objectives, the European Commission proposed for 2014-2020 a new Multiannual Financial Framework, through which thematic concentration and performance incentives are expected to result in more effective spending. The CSF Funds will provide an important source of public investments not only in growth and jobs but in areas supporting them, such as environment protection or resource efficiency.

The paper offers a insight of the financing of environmental projects in Romania in the frame of the new Programming period and according to the EU Cohesion Policy objectives for 2014-2020. According to the learned lesson from the previous programming period, for a successful implementation of CSF Funds, with an optimal impact, an appropriate policy and a legal and administrative framework in place are needed.

Key words: environmental projects, financing, EU Cohesion Policy, environmental policy.

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1. Introduction

Romania has valuable natural assets, but environmental and biodiversity are not appropriately protected through investments targeted to preserve them and to enhance their benefits for people living standards. Rational management of natural resources represents critical environmental, health and competitiveness challenges for Romania, being an important potential for growth and job creation. Environmental protection needs to be enhanced and environmental infrastructure has to be improved in respect of quantity and quality. Biological diversity, natural habitats, wild fauna and flora species have to be conserved and protected areas, including Natura2000, effectively managed.

Accordingly, investments have to be oriented to environmental infrastructure, ecological restoration, Natura2000 plans, biodiversity protection and conservation.

The present paper explores the challenges for Romania in the next EU financial planning period regarding the environmental protection and resources efficiency. It is organised as follows: after a short introduction, latest studies on funding environmental project in Romania and the EU are presented. In the third section, the EU financing policies are exposed: the EU resource efficiency agenda, the 2014-2020 EU Cohesion including the EU Environmental Policy. Issues related to the environment projects funding in Romania are described in the section 4, including environmental priorities for Romania and the financial instruments available to cover them in the next period. The final section is dedicated to Discussion and conclusions.

2. Studies on funding environmental projects in Romania and the EU

The topic of financing environmental projects in Romania was treated by Melnic (2013) through a comparative analysis of the main financial and economic instruments for available for in Romania in the period of 2007-2013. SOP Environment was mentioned as one of the most important programs in terms of operational and financial allocation and represents the most important source of funding for the environment, as well as LIFE+ program of the Environment Fund or Global Environment Facility. The author developed a case study of the

Neamt County Water Serv Company which highlighted the features of the environmental projects for water field and the variety of sources for funding them.

A group of researchers from the Romanian Academy (Piciu et al, 2012) dealt with the risks of financing the investment projects for environment protection, revealing the interdependency and interaction between the flows and circuits financing the environmental projects and showing the necessity for punctual, and distributive, correlative and multiplicative financing of the environmental protection, related to the funding from European Union.

A team of researchers from the Centre of European Policy Studies (CEPS) and from the Institute from European Environment Policy (IEEP) (2012) carried out a study in order to analyze the proposed expansion of innovative financial instruments in the EU Multiannual Financial Framework for the 2014–2020 period. The authors presented the economic rationale, governance principles and criteria that these instruments should follow and compares these with proposals from the European Commission. Based on this assessment, they made recommendations for the proposed instruments.

The way in which the European Union allows the access of Member States to financing instruments for the environmental policies for the period 2007-2013, in the frame of the Sixth Community Environment Action Programme (6th EAP), taking into consideration various criteria (such as: the size and density of each member state's population, the importance of certain communitarian surfaces) was analyzed by Bruciu et al (2010). The financing instruments (Cohesion Fund, European Regional Development Fund, and European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, LIFE Programme) were viewed as essential in maintaining the environment policy's sustainability, as well as in sending a clear signal to the investors and consumers.

A great debate on the priority given to environment at the EU level, including to the "greening" of EU budget was started with the agreeing process on the post-2013 Multiannual Financial Framework (MFF), related the size of the budget, directions of expenses, precise source of funds (Baldock et al, 2011). The most pressing worry for heads of states and governments was how Europe will get out of the economic crisis.

For a sustainable economic recovery and consequent action to promote competitive industries, innovative technologies and stable jobs, a key priority for the next Multiannual Financial Framework (MFF) was to achieve a shift in the European economy so that it is greener measured both by carbon efficiency and by overall environmental performance and is also creating new skills, jobs and investment towards recovery. Therefore, the environment, including the climate dimension, is an integral part of the 2020 agenda and the 2014-2020 MFF is more important for the environment and the sustainability of the European economy than any of its predecessors (Baldock et al, 2011).

3. The EU environmental policy: financing issues

3.1. The EU resource efficiency agenda

The EU launched in 2011 a resource efficiency roadmap, which is placed alongside to other EU strategies, such as that for climate change to 2050 and within broader strategies as Europe 2020, which is responding to the economic crisis. This was not the first attempt to conceive a strategy for in this policy area, because in 2005 a Natural Resources Thematic Strategy identified the main problems but it was not focused on concrete actions on resource use, and in 2008 a Sustainable Consumption and Production and Sustainable Industrial Policy Action Plan stressed the need for better information and benchmarking, but not clear political targets. Due to this state of facts, a roadmap of resources efficiency was conceived to set up targets for specific resources as well as for the overall efficiency of resources use in different economic sectors (Farmer, 2011).

At the heart of the EU's resource efficiency agenda is the principle of 'true costing', and this requires that the costs/prices of resources and products better reflect their negative environmental and social impacts as well as their benefits. Economic and fiscal tools such as national budgets, market-based instruments (MBIs), environmentally harmful subsidies (EHS), and state aid are among the instruments available to governments to take this agenda forward (Fedrigo-Fazio et al, 2013).

The economic and financial crisis in Europe has demanded closer attention from national governments to their handling of public debt, and the more considered allocation of limited public funds

together with stringent application of more coordinated EU fiscal management rules through the Stability and Growth Pact. A range of market-based instruments (MBIs) including environmental taxes are applied in Member States across different sectors, especially the energy and transport sectors. Direct and indirect environmentally harmful subsidies (EHS) remain an issue in all EU Member States and occur across various sectors (Fedrigo-Fazio et al, 2013).

Given the complexity of state aids and the numbers of cases available for detailing, the study provides only a course comparison of some examples of recent cases, focusing particularly on the area of climate change, for both renewable energy (positive state aid) and for fossil fuels (negative state aid). This climate change focus supports efforts led by the G20 on phasing out EHS to fossil fuels, and state aid can constitute a type of EHS (Fedrigo-Fazio et al, 2013).

3.2. The EU Cohesion Policy for 2014-2020

The new EU programming framework for 2014-2020: main lines

On 29 June 2011, the European Commission adopted a proposal for the next multi-annual financial framework: A Budget for Europe 2020 (European Commission, 2011a).

The assessment of the previous period (2007-2013) highlighted the need for: (i) improving the capacity of the policies to deliver European added value, (ii) increasing the performance of the policies and (iii) simplification – reducing administrative costs and minimizing the risk error (European Commission 2011 c).

Accordingly, the European Commission proposed a number of important changes, such as:

- concentrating on the Europe 2020 Strategy's priorities of smart, sustainable and inclusive growth;
- rewarding performance;
- supporting integrated programming;
- focusing on results – monitoring progress towards agreed objectives;
- reinforcing territorial cohesion;
- simplifying delivery.

The multi-annual budget for 2014-2020 aims to fund the objectives of the Europe 2020 strategy for a smart, sustainable and inclusive growth. This strategy sets objectives in the following five

areas: employment, research and development, climate change and environment, education, poverty and social exclusion.

Meeting the objective of simplicity, the proposals for the 2014-2020 programming include the following major trends:

- A decrease in the number of separate programs through a grouping of the 2007-2013 programmes: Erasmus for All programme will include all branches of the 2007-2013 Lifelong Learning Programme (Erasmus, Comenius, Leonardo, Grundtvigt) and the Youth in Action Programme; the 2007-2013 Culture and Media programmes will be grouped together in the 2014-2020 Creative Europe Programme. Horizon 2020 will be the big new 2014-2020 programme dedicated to research and innovation (former FP7);
- The simplification of procedures and the application of common principles for funding;
- The decentralization of the management of funds, with an increased role given to executive agencies;
- The system of Structural Funds (ERDF, ESF, EAFRD) remains almost unchanged for the next programming period 2014-2020. The new legislative architecture for Cohesion Policy comprises:
 - an overarching regulation setting out common rules for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), and further general rules for the ERDF, ESF and Cohesion Fund;
 - three specific regulations for the ERDF, the ESF and the Cohesion Fund;
 - two regulations on the European territorial cooperation goal and the European Grouping of Territorial Cooperation (EGTC).

Following the Cohesion Policy proposals of October 2011, the European Commission presented in March 2012 the Common Strategic Framework (CSF), setting up strategic directions for the next financial planning period 2014-2020 in Member States.

Strategic objectives and budget of Cohesion Policy

The objective of Cohesion Policy is to reduce disparities between the levels of development of the various regions, in particular for rural areas, areas affected by industrial transition, and regions which suffer

from severe and permanent natural or demographic handicaps and to contribute to achieving the targets set out in the Europe 2020 strategy of smart, sustainable and inclusive growth, and in particular towards the achievement of quantitative headline targets identified in that strategy (EC 2011, c).

Comparatively with the previous period, the 2014 Cohesion Policy architecture is simpler, as objectives and financial funds allocation (Table 1).

Table 1 - Cohesion Policy Architecture

Objectives	Funds	Goals	Regions	Funds
Convergence	ERDF ESF	Investments in economic growth and employment	Less developed regions	ERDF ESF
Convergence phasing out				
Regional competitiveness and employment phasing in			Regions in transitions	
	Cohesion Fund			Cohesion Fund
Regional competitiveness and employment	ERDF ESF		More developed regions	ERDF ESF
Territorial economic development	ERDF	Territorial economic development		ERDF

Source: EC, 2011 a

The Commission's proposal for a multi-annual financial framework foresees an amount of EUR 376 billion for economic, social and territorial cohesion for the period 2014-2020.

Table 2 - The 2014-2020 Cohesion Policy budget

Proposed budget 2014-2020	EUR billion (in constant 2011 prices)
Less developed regions	162,6
Transitions regions	39,0
More developed regions	53,1
Territorial cooperation	11,7
Cohesion Fund	68,7
Extra allocation for outermost and sparsely populated regions	0,9
Connecting Europe Facility for transport, energy and ICT	40,0

Source: EC, 2011 c

3.3. The EU 2014-2020 environmental policy: objective and instruments

The European Union's environmental policy contributes to the Europe 2020 objectives of smart, sustainable and inclusive growth. Investments in environmental protection are thought as investments in the modernization of the European society and will help to transform Europe into a knowledge-based, resource-efficient economy. They are indispensable for protecting and improving the quality of the environment (European Commission, 2011 c).

The main areas of the EU's environmental policy are: reducing environmental costs, protecting biodiversity and strengthening the resilience of ecosystems, restoration of ecosystems, climate change challenges mitigation and adaptation.

In the next period, environmental policy priorities will be 'mainstreamed' into all the major EU funding instruments, including *cohesion, agriculture, maritime and fisheries, research and innovation*, as well as into *external aid programs* (European Commission, 2011 c).

Environmental policy is seen as a component of *cohesion policy*. The Europe 2020 priorities, including making the EU a more resource efficient, green and competitive economy will be achieved by environmental policy objectives. These objectives include *promoting the implementation of the environmental acquis (water, waste, marine, nitrates, Industrial Emissions Directive, air quality, flood legislation) and funding the related environmental infrastructure; protecting and restoring biodiversity and ecosystem services, including through the development of green infrastructures and reducing and preventing desertification*.

Greening of direct payments to farmers is a major objective of the reform of the *Common Agricultural Policy*. 30% of direct payments will be made conditional on respect for a range of environmental best practices. In addition, *rural development* under the CAP will be refocused on delivering public goods, including through agroenvironment measures.

Environmental sustainability will be at the heart of the future *maritime and fisheries policy*, through reducing overfishing and overcapacity and reducing direct impacts, as well as supporting marine-protected areas.

Through the new Common Strategic Framework for *Research and Innovation* will continue the financial support for *eco-innovation*

and innovation partnerships, helping to deliver smart and sustainable growth, with a direct impact on resource efficiency (water, ecosystems, raw materials) and smart cities.

In *external action*, the Pre-Accession Instrument will help candidates to finance the environmental infrastructure and capacity building needed to respect the EU acquis.

The main financial instrument for the implementation of the EU' 2014-2020 environmental policy remains the LIFE+Programme, with the concern to align it more closely to Europe 2020 objectives. This instrument will work under the Environment sub-programme and will support two types of LIFE projects: *Integrated Projects* and *Traditional projects*.

LIFE Integrated Projects are designed to demonstrate the sustainable implementation of environmental action plans relating to major EU environmental directives, such as the Habitats Directive or the Water Framework Directive.

The traditional projects financed under the Environment sub-program are grouped according to the following priorities (European Commission, 2011 c):

(a) *LIFE Biodiversity*, while still focusing on Natura2000 and on the development and sharing of best practices in relation to biodiversity, will also target wider biodiversity challenges in line with the Europe 2020 biodiversity strategy target to maintain and restore ecosystems and their services;

(b) *LIFE Environment* will focus on supporting the implementation of EU environmental policy by the public and private sectors and in particular the implementation of environmental legislation relevant to the Europe 2020 resource efficiency objectives (such as the Water Framework Directive or the Waste Framework Directive);

(c) *LIFE Governance* will support the creation of platforms for the exchange of best practices for improved compliance with EU environmental policy priorities and enforcement, policy development and knowledge-based decision-making (e.g., wide dissemination of project results), with an emphasis on good governance.

The proposed budget allocation for 2020 is 2,4 billions Euro for LIFE+ Programme (under the Environment-subprogramme).

4. Environmental projects funding in Romania

4.1. Environments problems in Romania

Romania is faced with critical environmental challenges and problems, as follows:

- important difficulties regard the implementation of the Drinking Water Directive (DWD) and Urban Waste Water Treatment Directive (UWWTD): outdated and insufficient laboratory equipment for monitoring the drinking water quality at the level of the regional and county level public health institutions; a low performance in waste management, comparatively with other Member States;
- delays in assessing and approving the management plans of Natura 2000 sites, due to the capacity of the environment authority;
- the need to promote a green infrastructure in order to inverse the trend of biodiversity loss (green bridges, corridors and eco-ducts to re-connect natural areas that have been artificially divided, restoration of degraded natural areas) to create a new space for plants, animals and leisure activities and prevent disasters;
- in the forest sector, the difficulty to access compensation funds by forest owners for the lost income due to restrictions imposed in protected areas due to the lack of management plans; need for encouraging natural afforestation of grasslands and unused agricultural land; the need for measures for integrated management of mountain forests and watercourses;
- the need for biodiversity preservation: developing the fishing sector with minimal environment impact, preserving the aquatic habitat and ecosystems and measures for a sustainable environment protection;
- the challenges related to stringent objectives of the new emissions targets and the new approach of Directive 2008/50/EC on ambient air quality and Air Quality Directive -2008/50/EC;
- need for measures to address soil degradation and to ensure the implementation of standards related to Nitrate Directive and other relevant water and soil protection regulations and certain agro-environment measures.

4.2. Priorities of Romania for the next period

The Romanian global objective in the field of environment for 2020 is to maximize the benefits of the Union's environment legislation by improving implementation of the EU acquis regarding specific environmental protection legislation and enhancing the sustainability of the Romania's cities, as well as to ensure the integration of environmental protection aspects and requirements in all other relevant policies and policy initiatives.

The development needs in relation with the thematic objective (6) "Protecting the environment and promoting resources efficiency", of *2014-2020 Common Strategic Framework (CSF)*, as they are mentioned in the first draft of the Romanian Partnership Agreement for 2014-2020 Programming Period are:

- Extend public access to water and wastewater services, in the context of the Water Framework;
- Directive and its River Basin Management Plans Facilitate transition of waste management to a market-led system based upon the waste hierarchy in the context of the Waste Framework Directive;
- Protecting, conservation, restoration and sensitively exploitation of Romania's cultural heritage and natural assets, including landscape, farmland, forests, inland and coastal waters, protected areas, biodiversity;
- Development and improvement of the air quality assessment;
- Addressing the legacy of derelict and polluted sites and to manage current sources of pollution;
- Exploiting public investment in environmental protection to create new markets potentially available to SMEs and social enterprises, particularly in Romania's less developed regions and in rural areas;
- Decrease abandonment of agricultural activities.

According to these needs, Romania will focus the investment priorities for 2014-2020 on the following areas:

- extension and modernization of the water and wastewater infrastructure;
- measures to improve the water quality;

- developing waste management system;
- restoring and conservation biodiversity, including green infrastructure measures;
- restoration and conservation of marine and inland water biodiversity within sustainable fishing, aquaculture and data collection and control activities;
- development and improvement of the National Air Quality Assessment optimization and development of the National Environmental Radioactivity Surveillance Network;
- measures for rehabilitation of polluted sites, including decontamination and reintroducing the sites into the socio-economic circuit.

4.3. Financial instruments for funding environmental projects in Romania in the next period

The main financial instruments available for supporting environmental projects in Romania in the next Programming Period are: *Cohesion Fund, European Regional Development Fund, European Agricultural Fund for Rural Development Fund, European Maritime and Fisheries Fund and LIFE+ Programme* (under the Environment sub-programme). These will cover the identified environment priorities as it is shown in Table 3.

Table 3 - Environment priorities and their financial coverage

Priority	Fund
Extension and modernization of the water and wastewater infrastructure	CF
Measures to improve the water quality	ERDF
Developing waste management system	ERDF
Restoring and conservation biodiversity, including green infrastructure measures	CF, ERDF, EAFRD, LIFE+
Restoration and conservation of marine and inland water biodiversity	ESF, EAFRD, EMFF
Development and improvement of the National Air Quality Assessment optimization and development of the National Environmental Radioactivity Surveillance Network	CF, ERDF
Measures for rehabilitation of polluted sites, including decontamination and reintroducing the sites into the socio-economic circuit	EAFRD, ERDF

Source: adaptation from Ministry of European Funds, *Romanian Partnership Agreement for the 2014-2020 Programming Period*, First Draft, p.116

5. Discussion and conclusions

It has to be mentioned that the main problems identified in projects implementation during 2007-2013 can be reiterated in the next period, if no appropriate measures will be taken the Romanian relevant National Authorities.

Some examples identified by the Environment Managing Authority in financing projects through the Environment Sectorial Operational Programme:

- lack of skilled personnel for large projects;
- lack of knowledge of beneficiaries regarding the public procurement procedures;
- delays in public procurement procedures;
- inconsistency between public procurement documentation and feasibility studies;
- unrealistic cost-benefits analysis;
- over-estimated investment unit costs;
- difficulties with property or administration rights of land assigned for investment.

The absorption rate was only of 6,14% for Environment Sectorial Operational Programme at 30.06.2012. The minister of European Fund declared in October 2013, that an amount of 441 millions of Euro were reimbursed for Environment Sectorial Operational Programme from the European Commission between first of January and October 2013 and the general absorption rate increased to almost 24%, comparatively with 21% of August 2013.

In this situation, it is hard to believe that in the next period the absorption rate could attain a level close to 100%.

At this moment, a critical issue to be solved by the Romanian Authorities is the setting up of the Operational Programmes under which there will be financed the projects contributing to the above mentioned priorities and their Managing Authorities. One of the breaking learned lessons from the 2007-2013 period is not only the limited capacity of Romania to absorb the European financial support due to multiple causes: fraud, corruption, bureaucracy, legislative incoherence, but the lack of efficiency and effectiveness, as well. For avoiding these shortcomings and for a successful implementation of CSF Funds, with an optimal impact, an appropriate policy and a legal and administrative framework in place are needed.

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