

EU FUNDS TO SUPPORT HUMAN CAPITAL DEVELOPMENT IN ROMANIA

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ABSTRACT

European Union is investing substantial resources for development and competitiveness, addressing the faster development needs of the regions lagging development under cohesion policy. The EU cohesion policy emphasizes the role of the urban areas to reduce disparities in economic while the rural development pillar under Common Agricultural Policy (CAP) focuses on promoting competitiveness and developed development of rural areas. The paper is based on the assumptions that investments in human capital are considered drivers underpinning competitiveness and development in both urban and rural areas (Marinas, 2015). The paper aims to explore the contribution that EU funds under cohesion and CAP policies had on human capital development in Romania during the 2007-2013 programming period.

KEYWORDS: *human capital development, absorption capacity, European Social Fund, Romania*

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HUMAN CAPITAL DEVELOPMENT – KEY DRIVER TO SUPPORT DEVELOPMENT

There are various factors affecting positively the development of regions and areas. There is an extensive literature identifying the endogenous growth drivers impacting the economic development of regions and territories, such as: (a) human capital (Lucas, 1988), (b) social capital (Putnam 1993) (c) public capital (De Haan, 2007). The human capital consists of available skills, competences and education of the labour force and represents a key driver for development since it contributes to regional knowledge base and supports innovation processes (Krugman, 1991, quoted in Marinas L, 2015), entrepreneurship and productivity (Gennaioli et al., 2013 quoted in Marinas, 2015).

In our globalized digitalized economy, all development processes are dependent on the capacity of any territory or business to support learning and innovation, which are also key processes for enhanced competitiveness and employment (Marinas, 2015). To this end, investments in human capital become essential: it is the human capital which may generate innovation and it is also the human capital which is responsible for assimilating the innovation produced elsewhere and for integrating new methods in the economic activities and business management to foster sustainable development (Marinas, 2015, Zassada et al., 2015). Investments in human capital may consist of a wide diversity of actions aimed to support skills and knowledge acquisition through education and training (Zasada et al., 2015, Marinas, 2015).

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The assumption that human capital is a major contributor to development, underpinning EU development policies and EU funded program is supported by various studies (OECD, 2007; Bollman, 1999; Crezcenzi R, Giua M, 2014). Most studies on regional development show consensus on the idea that the effect of total expenditure under EU development policies (in particular cohesion and rural development policies) is positive if investments are targeting education and human development areas (Dall'erba, Guillain and Le Gallo, 2007, Crescenzi and Giua, 2014, Rodríguez-Pose and Fratesi, 2004): 'education and human capital' investments are the key drivers for sustainable economic development and growth since they have actually sustained medium term growth, while support for 'infrastructure' and 'business' was less effective. The benefits of investing in human capital, in particular through education and training, measured in terms of contribution to economic development "are only effective when the region is endowed with human capital, while their impact in regions not endowed is not positive" (Fratesi and Peruca, 2014).

Universities remain key repositories of new knowledge and human capital (Uyara, 2010), at the very heart of knowledge creation and development, underpinning European Union economic growth and competitiveness (Marinas and Prioteasa, 2015). University remains the main contributor to the development of human capital in building the skills and qualification regional stock and in attracting external talent and workforce (students and also academic and research staff) (European Commission, 2011). Technological developments led to new skills and knowledge requirements and are transforming labour market needs (Marinas and Prioteasa, 2015) raising challenges for university to improve learning outcomes and students learning experience (European Commission 2014) as part of the human development aims. The global challenges (e.g. global health, energy, ageing of the population energy security etc.) together with the limited financial resources available induced increased difficulties for EU governments to match the rising costs of science and providing quality education (Kuhlmann and Rip, 2014) to support human development. For effectively addressing these challenges, universities need to increase the quality of education activities and their responsiveness to business and society needs. To this end, universities require additional funding and pressures to attract additional funding increase since EU universities, largely dependent on public funding, are competing with health, social protection, energy, security sectors for funding quality and relevant education (ESMU, 2010).

EU funded programs (such as Framework Programs for Research, Horizon 2020, Erasmus, European Structural and Investments Funds etc.), as part of the development and competitiveness supporting policies, provide significant financial resources for university education and research activities (Kuhlmann and Rip, 2014). EU funding programs, in particular European Structural and Investments Funds (ESI funds) are used by governments as tools for supporting universities capabilities to deliver relevant skills and knowledge and to contribute to the human development as part of the regional development and competitiveness. The human capital development related aims of the universities strategies become increasingly market driven, in the sense that educational objectives and learning content are defined by reference to society and business needs. All EU funding programs for universities are expecting *value for the money* invested, accountability and increased relevance of the project activities and outcomes to development related goals.

In the European Union, there are two main policies supporting development goals: the cohesion policy and the second pillar "rural development" under Common Agriculture Policy (CAP) (Tigu et al., 2015). Important funding for human capital development goals development and related priorities is allocated under both EU policies, based on the assumption that the human capital is a valuable territorial asset for the development of any region or community (European Commission, 2014; Marinas and Prioteasa, 2015b, Marinaş, 2015), for both urban and rural areas.

The EU cohesion policy is designed as "a set of specific funds and Community initiatives redistributing financial resources partly collected from the member states and partly gained from the Union's so-called traditional own resources through the EU budget" (Eiselt, 2006) of which

instruments basically consisted in financial transfers (through EU budget) from more affluent member states to economically weaker member states to reduce disparities in economic development, employment and opportunities between the most advanced and the most disadvantaged areas of the Union (Marinas and Prioteasa, 2015b; Marinas and Prioteasa, 2016). To avoid increased intraregional disparities between urban and rural areas, the rural development pillar under CAP is addressing the particular development needs of rural areas, so that to compensate the adverse effects of the urban centred development strategy developed under the EU cohesion policy. Thus, starting with 1990, the rural development policy was extended to non-agricultural, territorially oriented, activities, which were clearly linked to the economic and social development of rural areas and enabled farmers to diversify into other activities; at present, the rural development policy is aiming to ensure economic and social progress in rural areas while providing support for the supply of reasonably-priced food to EU consumers (Marinas, 2015; Tigu et al., 2015).

Despite their different territorial drivers, under both the cohesion policy (focusing on urban areas) and the common agriculture policy (focusing on rural areas), investments in human capital are considered major contributors to local development, based on the assumption that the quality of the labour force has a major effect on productivity and so on economic development (Tigu et al., 2015). High levels of human capital mean that workers are more efficient and more innovative; also, high levels of human capital can increase the flexibility and adaptability of the labour force (European Commission, 2014).

EU FUNDS TO SUPPORT HUMAN CAPITAL DEVELOPMENT IN ROMANIA. MAIN RESULTS

Under cohesion policy the human capital development objective is supported by the European Social Fund (ESF) interventions. The ESF remains a "soft fund", used for human resources development, training, educational activities and social inclusion (Marinas and Prioteasa, 2015b). Empirical evidences and studies provide grounds for increasing investments in human capital, in particular through ESF funded programs; this is translated into the EU conditionality for 2014-2020 that ESF funded programs should account for at least 20% of the total structural funds allocations. Consequently, ESF remains the European Union's main financial instrument, aiming at improving human capital through better education and training, better employment, more effective social inclusion measures and better governance (Marinas and Prioteasa, 2015b; Tigu et al., 2015). ESF interventions are addressing also the specific human capital formation and development needs both in urban and in rural areas, in particular related to: (a) increased access to quality education and higher educational attainment for students, (b) acquisition of key competences and provision of relevant skills and knowledge, (c) job creation and workforce adaptability, (d) social inclusion and support for disadvantaged population.

During 2007-2013, the European Social Fund (ESF) represented an important financial tool to support human capital development, in particular through better education and training. ESF provided funding for two Operational Programs (OPs) under the Convergence Objective, namely the Human Resources Development OP (HRD OP) and Administrative Capacity Development (ACD OP). The ESF allocations of over 3.476 billion EUR for HRD OP represent almost 1/5 of the allocations under Convergence objective, reflecting the importance of the human capital and good governance factors to support economic competitiveness and cohesion. HRD - OP was an important tool supporting investments in human capital of which general objective targeted the development and increased competitiveness of the human capital, by linking education and lifelong learning with the labor market and ensuring increased opportunities for future participation on a modern, flexible and inclusive labor market for 1,650,000 persons. Specific objectives of the HRD OP consisted of: (a) promotion of quality initial and continuous education and training, including higher education and research; (b) promotion of entrepreneurial culture and increased adaptability of workers and

enterprises; (c) facilitation of the integration of young people, and the long-term unemployed into the labor market; (d) development of flexible, inclusive and modern labor market; (e) promotion of (re)insertion on the market work inactive persons, including in rural areas; (f) improvement of public employment services; (g) facilitating access to education and to the labor market of the vulnerable groups. The ESF allocation for HRD OP represented over 18.2% of the total EU funds allocations under Convergence objective.

Under HRD OP there were selected for funding 5445 projects with an EU allocation of 20.046 bill lei, out of a total of 20,724 projects approved (with an EU allocation of 111.162 bill lei) under Convergence objective; this indicates that projects selected under HRD OP represented about 26% of the projects selected and counted for 24.33% of the EU budgets of the selected projects (<http://www.fonduri-ue.ro/images/files/implementare-absorbtiie/SIT.2015.VAR.5.pdf>, www.fonduri-ue.ro, Lista proiectelor contractate), at 31 December 2015, there were contracted 4098 projects with an ESF allocation of 19,753,696,371 lei; the total non-reimbursable assistance (ESF and Romanian government contribution) for contracted projects had a value of 23,295,645,576 lei. By number of project contracted under the Convergence objective, HRD OP ranks the second after Increased Economic Competitiveness (IEC) OP under which there contracted 5690 projects. By reference to the EU allocation contracted, HRD OP ranks the third (32.5% of the EU allocation contracted under Convergence objective), after Environment OP (with an EU allocation contracted of 22.884 bill lei) and Regional OP (with an EU allocation contracted of 20.505 bill. Lei). This figures also indicate a very good capacity of HRD OP beneficiaries to prepare eligible project and to attract EU funding as compared to other OP.

Under HRD OP, the payments disbursed by European Commission to the project beneficiaries (EU allocation), at 31 August 2016 (www.fonduri-ue.ro, Stadiul absorbției la 31 august 2016) were of 2.696 bill EUR (including advance payments), representing 77.56% of the EU allocation, HRD OP performing the worst (together with OP Transport) from this perspective. Official data at 31 August 2016 indicate the worst positioning of the HRD OP with a final absorption rate (payments disbursed by European Commission, except advance payments, as compared to EU allocation) of 64.55% as compared to an overall absorption rate of 74.21% for all OPs under Convergence objective. It is important to rank the HRD OP absorption rate performance based on the assumption that the higher the absorption rate, the higher the injected financial resources to support human capital development and the higher the impact of additional funding upon the achievement of human capital development targets.

Under HRD OP, a EUR 0.992 bills ESF allocation was aimed to fund investments in initial education and training to support human capital development under priority Axis 1 "Initial education and training to support knowledge based economy". Under this priority axis 1, training and support measures addressed specific needs of 8,190 school managers, 2,320 school counsellors, 105,000 pupils, 72,870 bachelor and master students, 55,942 school teachers, 6,705 doctoral students and 2,547 post-doctoral researchers. A EUR 0.991 bills ESF allocation was aimed to fund human capital development projects under priority Axis 2 "Linking lifelong learning and labor market"; this priority axis addressed the needs to reduce early school leaving, to improve students' transition from school to active life and supported increased participation of adults to lifelong learning. The main beneficiaries of EU funding under this priority axis were: 56,165 pupils, 62,570 bachelor and master students, 82,590 pupils at risk of early school leaving and 42,600 parents of children at risk, 93,239 employees qualified, 1,076 business managers. To increase workforce adaptability and entrepreneurship, there were allocated 0.519 bill EUR under priority axis 3 "Increasing adaptability of workforce and business". The ESF support targeted training and retraining of the employees to increase adaptability, development of human resource strategies, entrepreneurship (support through training and aid schemes). The main beneficiaries of ESF interventions were 303,044 persons, out of which 117,152 persons were trained to develop entrepreneurship. Under HRD OP, a EUR 0.543 bills ESF allocation was aimed to fund human

capital development projects under priority Axis 5 "Promoting active employment measures", the key area of intervention (KAI) 5.1. "Promoting active employment measures" and KAI 5.2. "Promoting long term sustainability in rural areas for human resource development and employment". Under this priority axis 5, training and support measures addressed needs 383,600 persons, out of which 218,551 unemployed and 165,049 unemployed from rural areas. Specific projects under KAI 5.2 addressed the entrepreneurship and training needs of the rural population for non-agricultural occupations; for 86,624 persons employed in subsistence agriculture and 21,160 managers and employees in rural economy (HRD OP Annual Implementation Report, 2015). Additionally to this, 97,062 persons in rural areas benefit also for integrated support programs under active employment measures funded under KAI 5.1. "Promoting active employment measures", under priority axis 5 of HRD OP (KAI5.1 had a ESF allocation of EUR 0.258 bill).

Under the rural development pillar of CAP, the human capital development is supported by European Agricultural Fund for Rural Development (EAFRD) interventions. EAFRD human capital development related interventions are spatially targeted (Crescenzi and Giua, 2014, Marinas, 2015) to rural areas and rural population, focusing on the provision of the specific skills and competences required for the management and development of all business (both agriculture based and non-agricultural activities) and for promoting sustainable development in rural areas. (Tigu et al, 2015). The measures under priority axis 1 of NPRD 2007-2013 aimed at further modernization of production by improving human potential, while the measures under priority axis 3 addressed the aim to improve the quality of living in rural areas, through improved access to basic services, contributing to generating new employment opportunities, particularly for young people and women, as well as facilitating the access to up-to-date information and communication technologies. Allocations for priority axis 1 was of EUR 3.2 billion (43.95% of NPRD budget), while allocations for priority axis 3 were EUR 2 billion (27.4% of NPRD allocations). Under NPRD 2007-2013, the measures funded by EAFRD aimed to improve the competences and skills for agricultural activities and related, including farm and entrepreneurial skills and management. Investments for human capital development in rural areas were funded, in particular under priority axis 1 – measures 111 "Professional training, information and knowledge transfer". The indicative allocation for improving the skills and management capacity of farmers and other persons involved in the agri-food and forestry sectors through support for vocational training and the provision of farm advisory and extension services represented only 2.8% the total allocations under NPRD. Under this measure, by 31st December 2014, there were trained 30,700 farmers, in particular young farmers and from subsistence farms (of a total target of 115,000 persons) of which 30,698 also certifies for more modern and effective farm management (NPRD Annual Report, 2015). Also, under measure 112 "Installation of young farmers" encouraged entrepreneurship in agriculture and provided support and assistance for 12,979 young farmers (against a NPRD target of 13,631 young farmers) to open and manage agricultural exploitation (NPRD Annul Report, 2015). Under measure 143 "Counseling and consultancy services for farmers", 15,715 farmers (against a target of 50,000 farmers) received counseling and expertise for sustainable farm management, of which 60% were young farmers (age group 30-39 year) with low educational attainment (over 63% of the beneficiaries had lower or upper secondary education) (NPRD Annul Report, 2015); low educational attainment and low entrepreneurial skills reduced the effectiveness of the projects funded under measure 143; the negative impact could be measured by the 50% rate of refuse of the beneficiaries to continue the farming activities after the project completion.

CONCLUSIONS

Most studies show consensus on the idea that education and human capital investments are the key drivers for sustainable economic development and growth since they have actually *sustained medium term growth* in the European Union. The EU cohesion and rural development policies are

underpinned by the assumption that *the quality of the human capital has a major effect on productivity and so on economic development*; consequently, the cohesion and rural policies should invest more effectively in human capital development (Tigu et al. 2015). European structural and investment funds remain an important resource support investments in human capital in both urban and rural areas. To this end, during 2007-2013 and 2014-2020 programming period, interventions funded under EARDF for rural development are coordinated with interventions funded under cohesion policy, in particular with ESF operations so that to ensure human capital development, promotion of social inclusion poverty reduction and economic development of rural areas (Tigu et al., 2015).

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