CONSIDERATIONS ON THE IMPORTANCE OF INTELLIGENT SPECIALIZATION FOR ATTRACTION OF EUROPEAN POST 2020 FUNDS IN ROMANIA

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Abstract:

In the future post-2020 EU financial framework, European funding for regional development will focus on the areas identified as the most competitive in each region and country, that is the areas of smart specialization. Specializarea Inteligentă a adus o îmbunătățire reală în modul în care regiunile Europene își elaborează strategiile inovative, creând sau consolidând cooperarea la toate nivelurile, în special cu sferele de afaceri locale. Intelligent specialization has brought a real improvement in the way in which European regions develop their innovative strategies, creating or strengthening cooperation at all levels, especially with local business spheres.

At the heart of the new policy for the European Regional Development Fund will be smart specialization, and regions will have to develop investment plans for the sectors that are most competitive. Theoretically, nuclei of technological and scientific excellence have already been created, the challenge of post-2020 now being their transposition into innovation modalities in enterprises, in order to generate jobs and economic growth.

In this context, the purpose of the paper is to present and analyze the basic fields for the intelligent specialization in Romania. Romania now has two national strategies that mention five basic areas for smart specialization, but in addition, each of the 8 development regions has its own strategy with its own list of identified areas. All of this needs to be analyzed and combined to achieve consistent directions.

Key words: *economic growth, financial framework European Union post 2020, inteligent specialization, innovation, competitiveness*

JEL Classification : O40, O52, O51

1. The role of smart specialization in Europe - EU Post 2020 Financial Framework

Intelligent specialization has brought real improvement in the way in which European regions develop their innovative strategies, creating or strengthening cooperation at all levels, especially with local business spheres.

Smart specialization is the standard of European industrial policy. Reduced to essence, smart specialization aims to concentrate financial resources and other support mechanisms in a limited number of priority areas where regions can successfully compete on international markets.

At the basis of the intelligent specialization process is the "entrepreneurial discovery" - a process based on evidence (evidence-based), participatory and iterative (repeated periodically) identifying, at regional level, the key areas of competitiveness. They are to be financially supported in particular through innovation support schemes. At the European level, the funding for smart specializations for the 2014-2020 cycle was about 120 billion euros, making this policy the largest industrial policy experiment in history

Entrepreneurial discovery has, besides the results of the public policy plan, important process benefits: local innovative actors are stimulated to explore strategic options and collaborative solutions. Too often, smart specialization is understood as being primarily or even exclusively associated with a list of priorities in public funding through structural funds.

In the next EU long-term budget for 2021-2027, the Commission proposes to modernize cohesion policy, the EU's main investment policy. Investments in regional development will focus mainly on objectives 1 and 2. These priorities will be allocated 65% - 85% of ERDF and Cohesion Fund resources, depending on the relative prosperity of the Member States.

- A smarter Europe, through innovation, digitization, economic transformation and supporting small and medium-sized enterprises

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- A greener Europe with no carbon emissions, implementation of the Paris Agreement and investments in energy transition, energy from renewable sources and combating climate change
- A connected Europe, with strategic transport and digital networks
- A more social Europe, in order to achieve the European pillar of social rights and to support the quality of jobs, education, skills, social inclusion and equal access to the health system.
- An Europe closer to its citizens, by supporting locally driven development strategies and sustainable urban development in the EU.

Cohesion policy continues investments in all regions, based on 3 categories (less developed, in transition, more developed). The method of allocating funds is still largely based on GDP per capita. New criteria are introduced (youth unemployment, low level of education, climate change and the reception and integration of migrants), to better reflect the reality on the ground. Cohesion policy continues to support locally led development strategies and to empower local authorities to manage funds. The urban dimension of cohesion policy also increases, by allocating 6% of the ERDF to sustainable urban development and through a new network collaboration and capacity building program dedicated to urban authorities, under the name European Urban Initiative.

According to the European Commission, for businesses and entrepreneurs benefiting from EU support, the new framework offers less bureaucracy and simpler ways to request payments, using simplified cost options. To facilitate synergies, a single regulatory framework currently covers 7 EU funds implemented in partnership with Member States ("shared management"). The Commission also proposes more relaxed controls on programs with a good track record, greater confidence in national systems and the extension of the "single audit" principle, in order to avoid duplication of checks.

The new framework brings together the stability necessary for investment planning with the appropriate level of budgetary flexibility, to cope with unforeseen events. A mid-term evaluation will determine whether there is a need to modify the programs for the last two years of the funding period, based on emerging priorities, the execution of the programs and the latest country-specific recommendations.

Within certain limits, transfers of resources will be allowed within the programs without the official approval of the Commission. A specific provision facilitates the mobilization of EU funds from day one, in the event of a natural disaster.

A closer connection with the European Semester and the economic governance of the Union

Cohesion policy supports reforms to create an investment-friendly environment where businesses can thrive. Full complementarity and coordination with the Reform Support Program will be ensured, in its new and consolidated form.

During the budgetary period, the country-specific recommendations (RTDs) made in the context of the European semester will be considered twice: first, for designing programs under cohesion policy, and then in the mid-term evaluation. In order to establish the conditions conducive to economic growth and job creation, the new favorable conditions will contribute to removing the obstacles to investment. Their implementation will be monitored throughout the financial period

The single regulatory framework covering cohesion policy funds and the Asylum and Migration Fund will facilitate the creation of strategies for integrating migrants at local level supported by EU resources used in synergy. The Asylum and Migration Fund will focus on the short-term needs of migrants upon arrival, while cohesion policy will support their social and professional integration. In addition to the single regulatory framework, synergies will be facilitated with other EU instruments, such as the common agricultural policy, Horizon Europe, LIFE or Erasmus +.

Interreg: eliminating cross-border barriers and supporting interregional innovation projects

Interregional and cross-border cooperation will be facilitated by the new possibility for a region to use parts of its own allocation to finance projects in other parts of Europe, together with other regions.

The new generation of interregional and cross-border cooperation programs ('Interreg') will help Member States overcome cross-border obstacles and develop common services. The Commission proposes a new instrument for border regions and countries keen to harmonize their legal frameworks, called the European Cross-Border Mechanism.

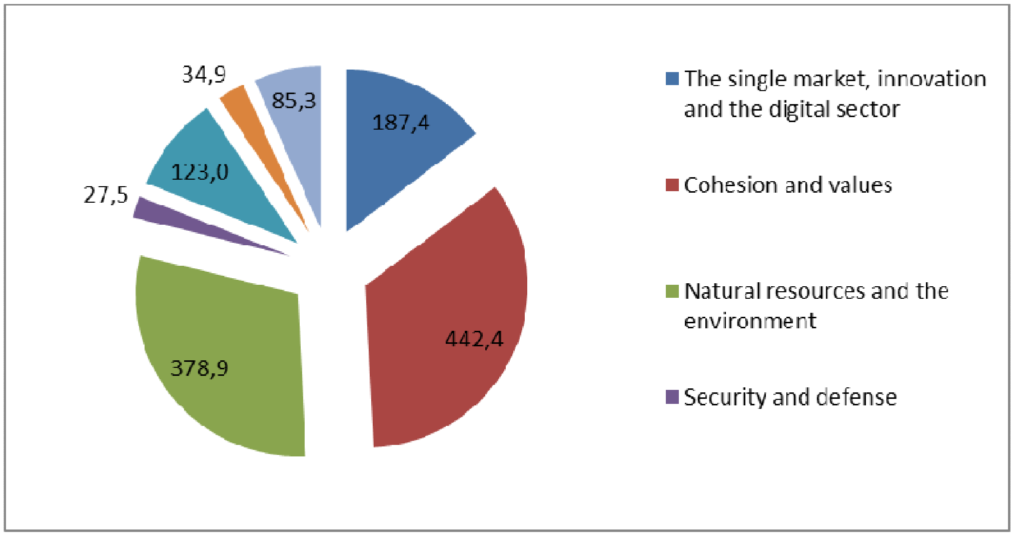

Fig. no.1. The New Multiannual Financial Framework 2021-2027 (EUR billion - current prices)

Starting from the success of the pilot action from 2014-2020, the Commission proposes to create interregional investments for innovation. Regions with appropriate "smart specialization" assets will be further supported to build pan-European clusters in priority sectors such as big data, circular economy, advanced manufacturing systems or cyber security.

All programs will maintain their performance framework with quantifiable goals (number of jobs created or additional access to broadband networks). The new framework establishes an annual performance balance, in the form of a political dialogue between the program authorities and the Commission. The performance of the programs will be evaluated also during the mid-term evaluation. For the sake of transparency and for citizens to be able to track progress, Member States will have to report all implementation data every two months, and the open cohesion data platform will be updated automatically.

According to the European Commission, grants can be effectively supplemented by financial instruments, which have a potentiating effect and are closer to the market. Voluntarily, Member States will be able to transfer some of their cohesion policy resources to the new centrally-managed InvestEU fund to access the guarantee provided by the EU budget. It will be easier to combine grants and financial instruments. The new framework also includes special provisions to attract more private capital.

2. The evolution of the economic development in Romania and the proposals for the future operational programs for 2021-2027 period

In the European Commission's proposal for the budget 2021-2027, Romania has allocated 30.6 billion euros through cohesion policy, which means 8% more than the current period.

The proposals of the Ministry of European Funds for the following financial year were:

- Operational Program for Sustainable Development (PODD)
- Transport Operational Program (POT)
- Intelligent Growth and Digitization Operational Program (POCID)
- National Health Program (multifund) (PNS)
- Human Capital Operational Program (POCU)
- Operational Program Helping Disadvantaged People (POAD)
- Operational Program for Integrated Territorial Development (multifund) (PODTI)
- Regional Operational Programs - implemented at the regional level (8 ROPs)
- Technical Assistance Operational Program (Multifund) (POAT))

The current Big Infrastructure Operational Program (which has the largest financial allocation in 2014-2020) will return to the structure from 2007 - 2013, the interventions in the Environment field to be taken over by the Operational Program Sustainable Development, and those in the Transport field to be passed under a Management Authority within the Ministry of Transport.

For the first time, the European Social Fund will no longer finance a Program dedicated to increasing administrative capacity, this intervention being found according to the Ministry among the directions of the future Human Capital Operational Program.

A National Health Program will be created that would finance the infrastructure for 3 regional hospitals (phase 2), the construction and endowment of the National Institute of Hematology, construction and endowment for a National Reference Laboratory, as well as other interventions in the medical field.

MADR will continue to manage the financing through the Common Agricultural Policy and the Fisheries Policy. The Ministry of Internal Affairs will manage the funds related to the field of internal affairs (the Asylum, Migration and Integration Fund, the Internal Security Fund, the Border Management and Visa Instrument).

The Ministry of European Funds has priorities like:

- Development of an entrepreneurial ecosystem that favors the emergence and maturation of innovative start-up / spin-off
- Facilitating investments in new technologies - regional interventions
- Support for internationalization - regional interventions
- Supporting the adoption of IT&C technologies by SMEs - regional interventions
- Supporting clusters in order to integrate them into European value chains - regional interventions
- Supporting the implementation of the mechanisms of the circular economy within the Romanian enterprises - regional interventions
- Promoting the entrepreneurial spirit, supporting the entrepreneurial initiatives and the social economy

For companies, they will be able to access grants / financial instruments over the next financial period through several programs:

- Regional operational programs will focus on "smart specialization", technology transfer, innovation, SME support and digitization
- The Smart Growth and Digitization Operational Program will provide financial instruments

- The Operational Program for Integrated Territorial Development will finance interventions in the field of tourism, culture and cultural heritage.

These proposals were made in the context in which the economic growth has slowed, but remains solid. Real GDP increased by 4.1% in 2018, down from the peak value of 7% recorded in 2017 (*Table no. 1*). The slowdown was mainly due to the decrease in private consumption, as a result of high inflation, fueled by energy prices, as well as by the diminishing effects of public policies aimed at increasing disposable income. However, private consumption continued to be the main driver of growth. Investments remained broadly stable, and net exports registered a higher negative value, as exports continued to decline faster than imports, being affected by rising prices and slowing foreign demand.

It is estimated that, in the medium term, growth will remain generally stable. Real GDP is expected to be 5.5% in 2019 and 2020. Private consumption will continue to be the main driver of economic activity, although slower wage increases and tightening lending conditions may limit its evolution. According to estimates, the contribution of the foreign sector to economic growth will remain negative, but will improve as exports growth remains broadly stable, while import growth will decrease as a result of reduced consumption. Estimates show that investments will grow slightly more than in 2018.

Tabel no.1: The Gross Domestic Product (percentage changes from the previous year)

Region	***2017***	***2018***	***2019***	***2020***
North East Region	7.6	4.3	6.0	6.1
South East Region	7.2	4.4	5.4	5.6
South Muntenia Region	6.8	6.8	5.2	5.8
South-West Oltenia	8.4	5.8	5.5	5.8
West Region	7.1	2.8	5.3	5.7
North-West Region	7.1	4.3	5.6	5.9
Center Region	7.5	4.9	5.8	6.0
Bucharest Ilfov	6.1	3.0	5.2	5.2
Total economy	7.0	4.1	5.5	5.7

Source: National Commission for Strategy and Forecast (2019), Projection of the main economic-social indicators in territorial profile until 2022/ Comisia Națională de Strategie și Prognoză (2019), *Proiecția principalilor indicatori economico-sociali in profil teritorial pana in 2022/ Projection of the main economic-social indicators in territorial profile until 2022*, http://www.cnp.ro/ro/prognoze

Despite the convergence to the EU average, the disparities between the regions of the country are still significant. In Romania, GDP per capita increased from just over 40% at the time of EU accession in 2007 to over 60% of the EU average in 2017. The differences between the regions are substantial. In 2016, the Bucharest-Ilfov Region recorded a GDP per capita, measured according to the purchasing power standard (SPC), of 40,400 EUR, 1.4 times higher than the EU average and almost 4 times higher than the Northeast region, the poorest region of the country. With the exception of the capital region, GDP per capita is half the EU average. Also, in Bucharest-Ilfov investments as a percentage of GDP are two times higher than the EU average and 1.5 times higher than the national average. When all EU regions are taken into account, the regions of Romania with initially lower levels of GDP per capita have experienced comparatively higher growth rates after accession to the European Union.

The differences are also felt in the labor market. In 2016, differences between regions in terms of labor productivity were among the highest in the EU. The Bucharest-Ilfov region has the highest productivity (22% above the EU average), while in the North-East region the productivity is only one third of the EU average. Average productivity for all regions, except the capital, represents only half of the EU average.

The unemployment rate at the regional level has changed significantly in 2018, from 1.8% in the West Region to 5.9% in South-West Oltenia, despite of the reduction of the gap between regions, from 6.9% in 2016 at 5.9% in 2017. The regional socio-economic indicators show that there is a major gap between the growing capital, which mainly attracts skilled labor in the higher value-added sectors, and the rest of the country, where employment is concentrated in the lower value-added sectors. , in the context of emigration.

Tabel no.2 Evolution of unemployment rate (%)

Region	***2017***	***2018***	***2019***	***2020***
North East Region	5.6	4.8	4.7	4.4
South East Region	5.6	4.6	4.4	4.2
South Muntenia Region	5.0	4.0	3.8	3.6
South-West Oltenia	7.3	5.9	5.7	5.4
West Region	2.2	1.8	1.7	1.6
North-West Region	2.8	2.3	2.2	2.0
Center Region	3.5	2.9	2.7	2.5
Bucharest Ilfov	1.4	1.2	1.1	1.1
Total economy	4.0	3.3	3.2	3.0

Source: National Commission for Strategy and Forecast (2019), Projection of the main economic-social indicators in territorial profile until 2022/ Comisia Națională de Strategie și Prognoză (2019), *Proiecția principalilor indicatori economico-sociali in profil teritorial pana in 2022/ Projection of the main economic-social indicators in territorial profile until 2022*, http://www.cnp.ro/ro/prognoze

Romania is still among the EU countries with the highest investment rates. In 2017, total investments represented 22.6% of GDP, exceeding the average of the EU and neighboring countries, by 20.1% and 20.2%, respectively. It is estimated that private investments, which reached 20% of GDP in 2017, have increased to some extent, despite concerns about instability and fiscal-budgetary and legislative unpredictability. In contrast, public investment remains modest, partly as a result of the slow recourse to projects within the EU funding period. In 2017, public investments fell to 2.6% of GDP, the lowest level since the EU accession period, being slightly above the EU average, but lower than in the neighboring countries.

3. Conclusions and perspectives

The socio-economic analysis made in the perspective of the elaboration of the programming documents for the period 2021-2027 highlighted significant differences at the level of regions, the relevant statistical indicators in areas such as the labor market, macroeconomic indicators.

The gaps between regions are influenced by the characteristics of each one: population, location, number of component counties, business environment, etc. The socio-economic disparities can be mitigated by appropriate measures and investments in the economy, infrastructure, research-development and innovation, education, competitiveness, the business environment business support structures, accessibility, telecommunications.

One of the recommendations can be aimed at strengthening the dynamics and growth of investments in the regions, in particular by supporting SMEs. In this sense, the directions of action could be:

- Developing SMEs and increasing the attractiveness of the region for investors

- Improvement of the conditions for the implementation of the intelligent specialization strategy
- Intelligent qualification of the labor force in fields demanded by the labor market and adaptation of the training programs to the demands of the market, as well as to the innovative fields
- Programs to support SMEs by local and regional public authorities

The regional development should be a sustainable and integrated one, having as main objective to reduce the disparities between the counties of the region, between the urban and rural environment, to increase the attractiveness of the region for both residents and investors. From this perspective, for the programming period 2021-2027 the following objectives could be considered:

- Accelerating the absorption of European funds at the level of the regions, but also of the counties with a low degree of development
- Orientation of the granting financing towards competitiveness targets, which will lead to the qualitative improvement of the economic growth, in the medium and long term.
- Encouraging research and development projects, so that new jobs are created, attracting researchers in the region, vocational training of young people in the field and development of the R&D infrastructure, innovation.
- Attracting foreign investments in the region. The manufacturing industry, tourism, agriculture are areas with potential for attracting foreign investments. Also, supporting the areas that include a high level of technology: the auto industry, IT services, medical, smart fields, creative industries, can lead to an increase of added

Another recommendation could be to boost the clusters, both of those created, as well as to encourage the establishment of new ones, so as to make a contribution to the economy of the region, materialized in jobs, turnover, active enterprises, exports, added value, infrastructure, equipment and investments, and last but not least, attracting financing in the region. Stimulating the creation of clusters of SMEs encourages the attraction of investments based on technological transfer and high added value.

The next recommendation could be to promote and support the adoption of a pro-active attitude of the regional institutions and actors, of the public-private partnership, so that the regions become attractive for both local and foreign investors.

The Industrial Policy Document of Romania focuses on smart and sustainable economic growth through innovation in the industry. In this sense, innovation should be oriented, as a key element of competitiveness, through measures to encourage cooperation between the scientific and business environment, in order to remove obstacles and barriers to market research results and to put in place specific incentives, including for marketing the innovation. One of the recommendations of the framework document is the adoption of digital technologies and the development of clusters in services for the modernization of the Romanian industry and the development of new emerging industries.

The European Union envisages a highly digitized post-2020 area, as an objective for increasing the competitiveness of the European economy through solutions such as: artificial intelligence, cyber security, high performance computing, digital technology, etc.

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