



**THE ROLE AND INVOLVEMENT OF BUSINESS  
AND INSTITUTIONAL OPERATORS IN PROMOTING LOCAL  
INVESTMENT AND ECONOMIC GROWTH BY ACCESSING  
AND USING GRANTS. MEASURES  
AND COURSES OF ACTION**

**Janina GABROVEANU (VLĂDOD)<sup>1</sup>, Alexandru ȘTEFĂNESCU<sup>2</sup>**

<sup>1</sup> *The Bucharest University of Economic Studies, 6 Piata Romana, 1<sup>st</sup> district,  
Bucharest, 010374, Romania, Tel.: +40744348028,*

*Email: janina\_vladoi@yahoo.com*

<sup>2</sup> *The Bucharest University of Economic Studies, 6 Piata Romana, 1<sup>st</sup> district,  
Bucharest, 010374, Romania, Tel.: +40743111000,*

*Email: dr.alexstefanescu@gmail.com*

**Abstract**

*Starting from the premise that sustainable development is an overall objective of EU Member States that can be achieved through international cooperation that aims at economic growth, social development and environmental protection, the European Commission analysed the socio-economic and investment context of the member states, identified risks and opportunities and made some recommendations.*

*This paper presents the best practices of the European funding system to improve the accountability of business or institutional operators accessing European funds and the measures taken by some Member States for good governance.*

*We emphasize the need to know the socio-economic and investment context by all stakeholders and initiate concrete measures of action to ensure real and sustainable economic growth by identifying feasible and lasting solutions; what is the role of business or institutional operators at local and regional level and how it could ensure good governance at local and regional level by applying for grants.*

**Keywords:** *sustainable development; good governance; business operators or institutional grants.*

**JEL Classification:** O<sub>10</sub>, G<sub>30</sub>

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### Introduction

Starting from the premise that sustainable development is an overall goal of EU member states that can be achieved through international cooperation that aims at economic growth, social development and environmental protection, the European Commission examined the socio-economic and investment context of the member states in order to ensure long-term European economy. In this regard, the risks have been identified and there have been formulated recommendations for the member states to adopt the necessary measures for their removal, a part of them being presented as follows:

### Risks

Local, regional, national factors lack the initiative for identifying financial mechanisms to support financing of long-term investments, given the fact that investors generally prefer short-term investments. They should also take into account the local and regional particularities of long-term investments.

### Recommendations

For a sustainable economic growth, the local and regional authorities should identify funding sources to facilitate and encourage long-term investment according to local and regional particularities and considering the challenges faced by business or institutional operators.

In this regard, the national and multilateral investment banks might have an important role and they should (a) support the investments of strategic importance, especially in infrastructure and (b) pursue a countercyclical financial policy, i.e. to retain the capital during economic growth and significantly increase investments especially in a time of deep economic crisis.

On the other hand, the long-term investment at local and regional level could be supported by adopting procedures that enable reducing bureaucracy and the substantial speeding up of the decision-making process.

### Risks

❖ A fast increase has been found in the international competition for foreign capital. In order to ensure the necessary funding to pay the accumulated debts, some indebted countries have opted for foreign capital to finance income-generating investments, the attention being funnelled more on loans and less or not at all on other sources of capital.



❖ It has been observed that cities and regions act differently on the financial markets, making long-term investments differently depending on the existing socio-economic context and industrial policy of the area. Cities and regions themselves come to represent investments on the financial markets.

❖ It has been found that the public sector acts differently on financial markets and with other objectives than the private sector. In this respect, the need to recover investments, the horizon to make investment and the risk tolerance are different priorities for public and private investors.

### **Recommendations**

❖ The capital market financing of long-term investments can be enhanced by supporting local and regional financial institutions and by ensuring effective protection of investors.

❖ There is also an urgent need to increase the labour productivity. It must continually be adapted to a constantly changing economic environment. In such an environment it can be useful for workers to be able to fulfil the role of shareholders and/or investors in order to make long term investment in the company where they work; in case of investments at the local level, in particular in energy and environment sector, it is necessary to create investment structures in which the local and regional community can be not just a financial actor, but also consumer.

### **Risk**

It has been noticed that SMEs access to financing is more difficult than for large enterprises, to this adding the fact that in some member states the activity of SMEs is hampered by discriminatory legislation in many respects.

### **Recommendations**

❖ An increased share of the loan market outside the financial sector and the facilitation of the market access of the loans for SMEs would allow greater involvement of microenterprises and SMEs.

❖ It is desirable to consider a European approach to setting lower tax rates for capital investments or a differentiation in tax rates and exemption of long-term savings;

❖ On the other hand, local and regional authorities, economic interest groups, competent organizations in the field of public health and organizations of the capital market could establish local and regional cooperatives to ensure alternative sources of funds for long-term finance at local and regional level.



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❖ It is believed that such a network of small financial institutions may be the solution for many local and regional issues and SMEs should be guaranteed the obtaining of a guaranteed share of risk capital. It should also be considered a more widely used support for credits.

❖ The development of an EU regulatory framework concerning alternative non-bank sources of financing for SMEs would certainly be useful, in certain circumstances, for the local and regional development, because the current legal framework rather limits than favours SMEs.

### I. Examples of good practice identified in other EU Member States

a. *Examples of support schemes for enterprises (Good practice in supporting the enterprises)*

**Greece:** There have been granted funds for app. one thousand three hundreds (1,300) small and medium enterprises through JEREMIE financial instrument, mainly lending, allowing them to face the restrictions imposed by the financial markets.

**Portugal:** By the second half of 2013, app. nine thousand four hundred and fifty eight (9,458) enterprises benefited by assistance from the support schemes co-financed through ERDF, and nine hundred fifty two (952) new enterprises received financial help at start up, four hundred forty eight (448) from them in high technology or knowledge-based sectors.

**Belgium:** At the end of 2012, the financial instruments such as risk capital, loan warranties, micro credits and “mixt” products, co-financed from ERDF, helped five hundred seventy one (571) new enterprises at start up and six hundred seventy one (671) to develop their activity, ten times more than the number of enterprises that benefits from subsidies for investments.

**Bulgaria:** At the end of 2012, through JEREMIE financial instrument, approximately one thousand three hundred eighty eight (1,388) small and medium enterprises received loans with low interest to allow them to face the crisis of lending from the financial market.

The JEREMIE scheme in **Romania** has been implemented by SOP ECI – the total maximum estimated sum allocated to the minimis aid in the form of loans with grant partial interest by the JEREMIE Holding Fund (JHF) was more than 150 million euros (RON equivalent) to support around 1,000 SMEs.

b. *Aalborg Charter of European Cities & Towns towards Sustainability, that respects the principles of Agenda 21 and has the objective of creating the framework for sustainable development of urban areas.*

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In order to reduce the existing regional and social disparities, develop a sustainable society and solve the environmental problems and social inequalities, it was found that cities can play an essential role. From analysis it was observed that for a sustainable economy, they can start in cities that can ensure a sustainable economy based on sustainable attitude of every person by providing them an appropriate framework for the deployment of sustainable economic activities. Among the many actions that a city can initiate, we highlight: encouraging sustainable business, promoting of culture and traditions, urban planning to ensure moderate air density and quality, efficient public transport system that can replace personal cars, integrating disadvantaged people and stimulating people with much potential, etc.

In support of those mentioned above we can refer to the agreement signed in 1994 by several European cities, namely **Aalborg Charter of European Cities & Towns towards Sustainability**, which aimed at creating a framework for sustainable development of urban areas.

Under the agreement they have taken ten commitments to respect the principles of Agenda 21 as follows:

**Table no. 1. Commitments and actions taken**

Point of interest	Actions
<p><b>GOVERNANCE</b>            Cities reform their decision-making process by developing participatory democracy following the next points of interest:</p>	<ul style="list-style-type: none"> <li>• Adopting a long-term strategy in terms of a sustainable city.</li> <li>• Informing the local community on the sustainable development.</li> <li>• Ensuring the participation of all sectors of local society in decision-making process.</li> <li>• Ensuring transparency in the decision-making process.</li> <li>• Ensuring effective collaboration with other municipalities, towns and villages nearby.</li> </ul>



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### LOCAL MANAGEMENT FOR SUSTAINABLE DEVELOPMENT

Cities are more responsible with regard to the implementation of an efficient management irrespective of the training, implementation or evaluation process.

The specific objectives are:

- Promoting Agenda 21 priorities and other government programs.
- Developing an integrated management system for sustainable development, consistent with the principles of the EU strategy for urban development.
- Setting objectives and deadlines for achieving activities set out in Aalborg Commitments and developing a mechanism to monitor their implementation.
- Urban decision-making process will focus on sustainability principles and will allocate resources on sustainable criteria.
- Collaborating with their network to monitor and evaluate progress as far as the Sustainable European Cities & Towns project is concerned.

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### ENVIRONMENT

Responsibility to protect, preserve and ensure equitable access to natural common goods through:

- Reducing electricity consumption and boosting renewable energy use.
- Using water efficiently and improving water quality.
- Extending green areas, promoting sustainable forest exploitation, as well as promoting and developing biodiversity.
- Promoting agriculture by improving soil quality, increasing its productivity. Improving air quality.

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### RESPONSIBLE CONSUMPTION

The cities will start to adopt and facilitate optimal use of available resources by ensuring the responsible consumption. For it, the following actions will be taken:

- Increased reuse and recycling of products; avoiding and reducing the volume of garbage.
- Managing garbage in accordance with best practices in the field.
- Improving energy efficiency and avoiding unnecessary consumption of electricity.
- Ensuring a sustainable purchasing process.
- Stimulating sustainable production and consumption, especially through the use of eco-labels, organic product promotion and fair trade.

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### PLANNING AND MODELLING

The cities will start to make an urban planning on medium and long term that takes into account the social and economic context, the inhabitants' health and traditions, the environment. In this regard, the following actions will be taken:

- Providing the infrastructure to repopulate abandoned areas.
- Avoiding urban congestion and prioritizing the use for economic development of former industrial sites before identifying new areas.
- Ensuring an optimal balance between the use of office buildings and the household; priority will be given to housing in central areas.
- Identifying solutions to ensure the preservation, renovation and reuse of existing favourable cultural heritage in



urban areas.

- In terms of construction activity, the cities will have an approach by encouraging the use of architecture and building materials of high quality to ensure sustainable construction.

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### **BETTER MOBILITY, LESS TRAFFIC**

Due to the interdependence of transport, health and environment, cities will start to promote sustainable transport options by taking the following actions:

- Creating public transport alternatives accessible to everybody to reduce the need for private motorized transport, thereby stimulating the increased number of trips made by public transport, on foot or by bicycle.
- Promoting the use of low emission vehicles.
- Developing an integrated and sustainable urban transport.
- Decreasing the effects motorized transport has on the environment and health.

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### **LOCAL ACTIONS FOR HEALTH**

The cities will start to promote good health of citizens. For it, the following actions will be undertaken:

- Promoting actions to improve environmental conditions and awareness about its effects.
- Building strategic partnerships in health field to promote a sustainable urban health system.
- Approaching concrete measures and actions to reduce health system inequalities and fighting poverty.
- Paying more attention to health and encouraging quality of life by analysing the activity sectors and their impact on health.
- Imposing compulsory integration of health objectives in planning and strategic initiatives developed by urban planners.

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### **LOCAL ECONOMIC DYNAMIC AND SUSTAINABLE SYSTEMS**

The cities will start to provide a dynamic and local economy that allows jobs regarding the environmental protection. For it, the following measures will be taken:

- Taking measures to stimulate and support the local economy and also to create the conditions necessary for the establishment of local start-ups.
- Stimulating the cooperation with local economic operators in order to promote and implement the best practices.
- Identifying some sustainable principles for businesses location.
- Stimulating the consumption of high quality products, local or regional, by encouraging internal consume markets.
- Promoting sustainable tourism.

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### **EQUALITY AND SOCIAL JUSTICE**

It is intended to increase the safety and security of communities by taking the following actions:

- Initiating and supporting programs for elimination and prevention of poverty.
- Facilitating the widest categories to have access to public services, education, training, information and cultural activities and also creating employment opportunities.



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### FROM LOCAL TO GLOBAL LEVEL

Cities will assume responsibility for peace, justice, equity, sustainable development and environmental protection. For it, the following actions will be initiated:

- Promoting social inclusion and gender equality.
  - Ensuring safety in the community.
  - Providing housing quality and better living conditions.
  - Promoting an integrated strategy to prevent the causes and mitigate the impact of climate change and the high emissions of greenhouse gases; reducing the impact on the environment and promoting the principle of justice.
  - Promulgating policies for climate protection by initiating programs that are related to electricity, transportation, purchasing, trash, agriculture and afforestation.
  - Strengthening international cooperation with other cities and municipalities to develop a group of local response to global challenges.
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Source: <http://sustainabledevelopment.un.org/content/documents/Agenda21.pdf>

To identify the impact that the implemented actions taken by cities had as a result of their commitments made in 2010, research was conducted to quantify the results. In this respect, the results were encouraging and showed that the signatory cities have been very good in the direction of more sustainable prospects. The article was written based on the report Indicators for Sustainability – How cities are monitoring and evaluating their success published by the Sustainable Cities organization and the information available on websites <http://sustainable-development.un.org/content/documents/Agenda21.pdf> and [http://ec.europa.eu/environment/urban/pdf/aalborg\\_charter.pdf](http://ec.europa.eu/environment/urban/pdf/aalborg_charter.pdf).

## II. Directions for action in the new programming period

The new programming period marks a reorientation of the financing priorities compared with 2007-2013 period, reflecting the close connection between the cohesion policy and Europe 2020 Strategy.

Approximately 124 billion Euros are allocated to research, development and innovation, IT&C, SMEs, with 22% more than in the 2007-2013 period and 98 billion Euros will be invested in measures for occupation, social inclusion and education and training, while almost 4.3 billion Euros are allocated to good governance (consolidation of the institutional capacity and efficacy of the public administration), with 7.2% more than the previous programming period.

Allocation of funds was based on the current economic environment and future trends are crucial to implementing the measures undertaken in order to



ensure economic growth to meet the challenges for development in the medium and long term and allowing reducing the regional and social disparities existing in Romania.

According to an article published on the website of the European Commission (<http://ec.europa.eu/eurostat/statisticsexplained/index.php?title=Archive:GDP>) with data since December 2011 on the relative size of the GDP per capita in the 27 Member States, members of the Economic and Free Trade Association – EFTA (Iceland, Norway and Switzerland) and four countries aspiring to EU membership (Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Turkey) and three potential candidate countries of the Western Balkans (Albania, Bosnia and Herzegovina and Serbia) it has been found that Romania ranks the 32<sup>nd</sup> with a GDP per capita below 50% of the EU-27 average.

As we can see, Luxembourg is positioned on the first place with a GDP per capita two and a half times higher than the EU-27 average, the Netherlands rank the second with a GDP 33% higher than EU-27 average (being overtaken by Norway and Switzerland, members of the Economic and Free Trade Association – EFTA), then follow the countries with the GDP 20% over the EU, namely Denmark, Austria and Sweden, Belgium and Germany were about the same level, followed by Finland and the United Kingdom.

Countries which have the GDP below the EU-27 are:

- Cyprus has the GDP little below the EU average;
- Slovenia, Malta, Portugal and the Czech Republic with the GDPs placed about 20% below the EU-27 average;
- Slovakia, Hungary, Estonia, Poland and Croatia with the GDPs placed at a level of about 40% below the EU-27 average;
- Romania and Bulgaria with the GDPs per capita slightly below 50% of the EU-27 average;
- Five countries have a GDP per capita of at least 60% below the EU-27 average, namely Montenegro and the Former Yugoslav Republic of Macedonia, Serbia, Bosnia and Herzegovina and Albania<sup>1</sup>.

**In Romania**, analysing the GDP/capita in the North-East, South-East, South-West Oltenia, South-Muntenia, Centre, West, North-West, and Bucharest-Ilfov according to figures presented by INS in the table below, it was observed that **the real disparities are intra-regional**.

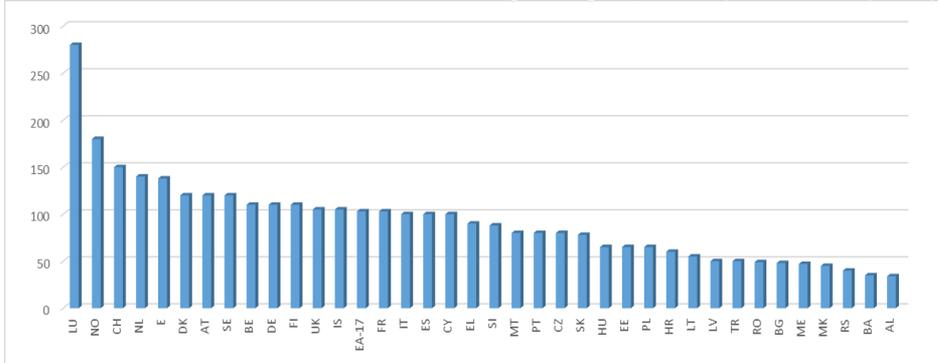
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<sup>1</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:GDP\\_per\\_capita,\\_consumption\\_per\\_capita\\_and\\_price\\_level\\_indices/ro&oldid=113078#Volumele\\_relativale\\_PIB-ului\\_pe\\_cap\\_de\\_locuitor](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:GDP_per_capita,_consumption_per_capita_and_price_level_indices/ro&oldid=113078#Volumele_relativale_PIB-ului_pe_cap_de_locuitor)



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**Chart no. 1: Volume indices of the GDP per capita, 2010 (EU-27=100) 100)**



Source: Eurostat (tec00114)

**Table no. 2. Disparities in the level of GDP/capita (national average 100%)**

Regions Year	a	2012	2013	2014	2015	2016	2017
North-East		62.7	62.3	62.2	62.2	62.2	62.2
South-East		81.9	80.9	80.8	81.0	81.1	81.1
South Muntenia		82.4	83.6	83.8	83.8	84.0	84.1
South-West Oltenia		78.4	80.7	81.0	81.3	81.5	81.7
West		114.2	114.4	114.3	114.1	114.0	114.0
North-West		83.9	83.9	83.7	83.7	83.6	83.6
Centre		97.3	98.2	98.1	97.9	97.8	97.8
Bucharest-Ilfov		238.8	234.9	234.5	233.8	233.0	232.1

Source: NIS – version of December 13<sup>th</sup>, 2012



In this regard, according to the cues of disparity in the GDP/capita in the period 2012-2015, considering the national average of 100%, it is observed that the region with the lowest level of development is the North-East with a value of 62.2%, which will continue until 2017. This is followed by the South-East region (81.1%) and South-West Oltenia (81.7%), which will remain slightly above four-fifths of the national average of 2017.

The regions of South Muntenia, North-West, Centre will be situated slightly above the threshold of 85% of the GDP/capita registered in Romania.

We mention that these six regions have a GDP below 50% of the EU average.

Only two regions will be above average with Bucharest-Ilfov far away from the rest of the country and Western region with a seventh above the national level. However, only Bucharest-Ilfov region is already and remains slightly above the EU average.

### Conclusion

Starting from the general objective of the European Union, that of reducing the disparities between EU Member States and taking into account the socio-economic context of Romania, the different level of development in the regions and resolving the identified needs in the medium and long term leading to raising the living standards, the European Commission has allocated Romania, according to the partnership agreement, five European structural and investment funds (ESIF) namely: the European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

The allocation of these ESI funds will directly contribute to the promotion of Romania's ability to meet the key objectives proposed for national and community development, as follows:

- meeting the objectives proposed by the **Europe 2020 Strategy** – to meet the request of the EU, Romania has proposed that by the end of 2020 to meet a number of objectives in the following key areas: employment, research and development, energy/climate, education, social inclusion and poverty reduction.

In this regard:

- over € 1 billion has been allocated for research and development (R&D) and innovation to meet the thematic objective 1 (TO1);

- € 3.9 billion have been allocated for a more efficient economy in terms of energy by switching to a low-carbon emissions economy (TO4) including the creation of infrastructure for the use of renewable energies;



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➤ € 3.4 billion have been allocated for combating and preventing social phenomena Romania is facing and poverty reduction concerning the objective of reducing with 580,000 the number of people at risk of poverty or exclusion (compared with 2008);

➤ € 2.2 billion have been allocated for increasing employability in the labour market (TO8), Romania assuming a 70% employment jobs nationwide focusing particularly on young people;

➤ € 1.65 billion has been allocated for reducing to 11.3% the early school leavers and increasing to 26.7% the rate of participation in tertiary education (TO10).

- fulfilling the Obligations under the Treaty of Accession – there has been allocated over € 3 billion in TO6 for continuing to provide services for water and wastewater in accordance with standards agglomerations of over 10,000 inhabitants and also leading to the modernization of congestion higher than 2,000 inhabitants;

- boosting national competitiveness:

- allocation of funding through TO2 and LEADER for appropriate measures (training, e-services, e-government) in all priorities, especially in rural areas to ensure the continuing development of the national network of broadband services and the next generation access (NGA), with a minimum rate of 30 Mbps, jointly approaching the issues of low subscription rate;

- fostering the participation of young farmers and fishermen to increase productivity and added value of agricultural, fisheries and aquaculture;

- launching financial engineering schemes and providing direct support to enhance the competitiveness of economic operators and the survival rates of young SMEs (TO3);

- 20% of the ESI funds have been allocated under the TO7 for facilities consolidation and reliability of the transportation network in order to increase the accessibility of the regions and the attractiveness of industrial investment;

- € 800 million have been allocated for the implementation of systemic reforms in the governance and administration to resolve the administrative weaknesses.

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