Romania's Regional Policy between the Current Realities and the Challenges of the 2014-2020 Programme Period

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Abstract: When it comes to its results, the 2007-2013 cohesion policy has already faced a serious criticism: the experts consider that the actual functioning of this policy takes up a lot of resources whereas a good set of other policies could produce the conditions for healthier growth. Possible improvements are discussed in relation to the increase in competitiveness, with the industrial structure, human resources, accessibility, innovation, environmental quality as the main drivers. They are expressed by the "Europe 2020" agenda, which envisages as thematic priorities the smart, sustainable and inclusive growth, connected to the headline targets translated into the national ones. However, voices especially from the lagging behind countries express worries about the chances offered to these countries by the new cohesion policy architecture to support their current priorities, predicted to manifest after 2013 as well. One of the possible responses consists in the contribution of various national and sub-national economic policies to economic, social and territorial cohesion combined with the assessment of the relative importance of the EU cohesion policy in the design and implementation of national economic policies meant to promote cohesion (e.g. EPRC, 2010). Based on these overall considerations, this paper proposes a discussion on the challenges to the Romania's regional policy in the next programme period, aiming at revealing how the new objectives can be reached given the existing economic and institutional framework on the one hand and the drawbacks of the previous financial exercise on the other hand: in other words, it examines whether the facts of the past and present can serve as useful lessons about "do's" and "don'ts " in the 2014-2020 period.

Keywords: regional policy; Europe 2020; Romania, targets; solutions

JEL Classification: R13; R28; R38; R58

1. Introduction

For Romania the 2007-2013 programme period represents the beginning of its new status, that of EU member state. The year 2007 found Romania in a period of consolidation, after nearly 20 year-long transition – from one of the most authoritarian regimes in Europe to a democratic society and market-based economy (ESI, 2009). At the end of 2007 Romania recorded a 6% GDP/capita rate and 10400 Euros per capita at PPS in absolute terms (that is 41.6% of the EU average),

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one-digit inflation rate (6.57%), a 6.4% unemployment rate, and over 50 billion euro FDI stock. Though, a reversal of fortune happened in the last quarter of 2008, when the international economic crisis hit many East European countries (Goschin & Constantin, 2012).

In order to cope with the crisis effects many hopes have been connected to the potential contribution of the EU financial assistance via Structural Funds. Indeed, for 2007-2013 Romania has been allocated 19.7 billion Euro Structural Funds, of which 98% for seven Operational Programmes under the "Convergence" objective. 4.4 billion Euros go to the Regional Operational Programme (ROP), aiming at diminishing the economic and social development gaps at regional level by improving business environment and infrastructure for economic growth. The other OPs are also expected to contribute –directly or indirectly – to regional development.

Nevertheless, in the very middle of the current EU financial exercise serious questions and even doubts started being raised with regard to Romania's capacity to use the allocated post-accession funds. Thus, in the Strategic Report of the EC of March, 2010 on the implementation of the 2007-2013 cohesion policy programmes Romania was subject of "name and shame" in the country-by-country comparisons, with its second-to-bottom absorption rate (EurActiv, 2010). Since then, no significant improvement has been noticed: according to Brussels' statistics the absorption rate for Romania at the end of November 2012 was 20.70% of the Structural and Cohesion Funds. Compared to the absorption rate at EU level – of 45.15%, Romania is far lagging behind. For a broader image and comparison, on the same date Poland recorded 51.30%, Slovenia – 47.60%, Hungary – 43%, Czech Republic – 37%. Even Greece and Bulgaria, which had been in the same "7% club" with Romania in the first part of 2012, speeded up to 46.30" and 28%, respectively (Insideurope, 2013).

Starting from the overall situation described, this paper aims to examine the significance of the 2007-2013 programme period in regional policy terms, considering the relevance of the territorial dimension for the current EU's cohesion policy. Romania represents a case study of high interest in this respect, based on the important dynamism of some of its regions (first of all – Bucharest, the capital region) on the one hand and the deepening of the regional disparities on the other hand. Accordingly, the nature of the regional problem in Romania is addressed in relation to the regional policy responses in terms of programming instruments, spatial coverage of the policy measures and specific levers activated for problem regions, followed by a brief assessment of the implementation stage.

2. Nature of Regional Problem in Romania. Crisis Effects

By the accession time the GDP per capita of the most developed Romanian NUTS 2 region, Bucharest-Ilfov was 83.8% of the EU average, while in the least developed - North-East (which also ranked the last among all EU's NUTS 2 regions) it was only 24.7%, which determined a 3.39:1 development gap at the end of 2006. It was mirrored by the following key aspects of regional disparities: a major imbalance between Bucharest-Ilfov and the other regions; important imbalance between East and West of Romania; severe underdevelopment of North-East (at the border with the Republic of Moldova) and South areas (alongside of Danube river); intra- regional imbalances more important than the interregional ones (big variations between counties within the same region); the economic decline recorded by small and medium size towns; severe negative impact of economic restructuring upon mono-industrial areas (Government of Romania, 2007a). Further on, according to Eurostat, in 2009 the GDP per capita (PPS) in Bucharest-Ilfov was 26,100 Euro (111% of the EU average), whereas it reached only 6,900 Euro in North-East (29% of the EU average), indicating a relative distance of 3.78:1 between the most and the least developed Romanian regions. This gap recorded an increase not only compared to the accession time but also – even a much higher increase – compared to 1998 (the year of NUTS 2 regions establishment), when it was just 2.35:1. (Table 1). Moreover, even if the Bucharest-Ilfov region – with its special position as capital region - is put aside, the development gap was higher in 2009 (1.79:1) than in 1998 (1.45:1). However, in absolute terms the GDP per capita significantly increased in all regions. These findings confirm the so-called "Williamson hypothesis", which supports the idea of interregional divergence in the first stages of development at national scale (Williamson, 1965).

Region	GDP per c	apita (PPS) 1998	GDP per capita (PPS) 2009		
	Euro	As % of EU- 27 average	Euro	As % of EU- 27 average	
North-West	4,300	25	10,100	43	
Centre	4,700	28	10,700	46	
North-East	3,400	20	6,900	29	
South-East	4,500	27	8,900	38	
South-Muntenia	3,900	23	9,500	40	
Bucharest-Ilfov	8,000	47	26,100	111	
South-West	4,100	24	8,400	36	
West	5,000	29	12,100	52	
Romania	4,900	27	11,000	47	

 Table 1. GDP per capita at PPS in the Romanian NUTS 2 regions compared to the EU-27 average

Source: Eurostat

In 2009 and 2010 Romania's economy as a whole and, consequently, its regions have been severely affected by the global economic and financial crisis.

The crisis has been characterized by an uneven distribution of its effects at regional scale, depending on the specific economic and social structures, regional specialization degree, export orientation of economic activities, etc. A study published in 2009 by the Romanian journal "Capital", estimated that 25 counties out of the total of 42 (NUTS 3) would be in danger of being seriously hit by recession (Amariei & Hritcu, 2009). In these counties industrial production had already decreased by 30% to 70% in the first quarter of 2009 compared to the same period of 2008, while the unemployment had doubled in many cases in just five months (end of February 2009 compared to end of September 2008). Moreover, new foreign investors have not been attracted whereas some of the old ones have left / are about to leave.

A higher vulnerability to the crisis has been displayed by the most developed counties - more connected to the world economy's evolution and, thus, more influenced by the crisis shocks. On the other hand, these counties' economic potential might enable them to recover more easily after the peak of crisis intensity was surmounted. In particular, the counties of a higher production diversification will be in a better position (Goschin & Constantin, 2010).

In the opposite situation are the predominantly agricultural counties, characterized by a traditional economy, located in South and East Romania. According to experts' estimates these counties, where the rural population is prevalent, would be less affected as a result of their subsistence agriculture, the crisis influence being very low. In fact, in such counties the crisis met an already low development level.

As the internal vulnerabilities amplified the impact of international shocks, the turmoil was deeper in Romania compared to other former transition countries and a modest recovery was recorded only in the second half of 2011. The unemployment rates in 2010 and 2011 presented in Table 2 reflect this situation. However, in the second half of 2012 the rates slightly increased again, even if the levels are still lower compared to the levels during the crisis. It is also noteworthy that in all these years the national average was below the EU average while Bucharest-Ilfov is one of the most dynamic regions, being included in the 'below 5%' long-term unemployment club.

ŒCONOMICA

2010			2011			2012						
Region	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
North-	7.3	6.3	6.3	5.9	5.0	3.9	4.0	4.3	4.3	3.9	4.1	4.5
West												
Centre	9.9	8.6	8.2	8.0	9.0	5.6	5.5	6.0	6.0	5.1	5.5	6.4
North-East	9.5	8.6	8.3	7.8	7.0	5.7	5.6	5.6	5.5	5.0	5.7	6.2
South-East	9.3	8.0	7.8	8.1	7.3	5.6	5.5	5.9	5.9	5.0	5.8	6.6
South-	10.1	9.2	9.2	8.8	7.3	5.9	6.1	6.3	6.1	5.6	6.4	7.1
Muntenia												
Bucharest-	2.7	2.7	2.9	2.4	2.1	2.0	2.0	2.0	1.9	1.9	2.0	2.0
Ilfov												
South-	11.5	10.0	9.8	9.2	8.3	7.0	7.3	7.5	7.4	6.6	7.6	8.4
West												
West	8.2	7.0	6.7	6.5	5.5	4.1	4.1	4.5	3.6	3.1	3.4	4.0
Romania	8.4	7.5	7.3	7.0	6.0	4.8	4.9	5.1	5.0	4.5	5.0	5.6

 Table 2. Unemployment rates by NUTS 2 regions – 2010, 2011 and 2012

 - percentage

Source: National Agency for Employment, http://www.anofm.ro/statistica

3. The Regional Policy Response

From the very pre-accession period the whole construction of the regional development policy in Romania has gravitated around the EU Cohesion Policy, the 'Lisabonization' of the national policies being a process at a very large scale.

As a result, the Regional Operational Programme (ROP) is the main pillar of regional development, establishing as the strategic objective "supporting the economic, social, territorially balanced and sustainable development of the Romanian Regions, according to their specific needs and resources, focusing on urban growth poles, improving the business environment and basic infrastructure, in order to make the Romanian regions, especially the ones lagging behind, more attractive places to live, visit, invest in and work" (Government of Romania, 2007b, p. 120). It aims to respond to the main regional development issues, which express various features of regional disparities, addressed in both national and EU context.

The ROP general objective derives from the National Strategic Reference Framework (NSRF) 2007-2013, which has established as fundamental policy goal, supported by the allocations via Structural Instruments, "*the diminishing of the economic and social disparities between Romania and the other EU member states*" (Government of Romania, 2007b, p. 86). The territorial priority of the NSRF – "*promoting balanced territorial development*", further implemented by the ROP, responds the *regional convergence* issue, addressed in terms of reducing interregional disparities and the gap between regional GDP/capita and the EU average. This priority is also correlated with the so-called thematic priorities of the NRSF, namely (1) the development of basic infrastructure to European standards, (2) the increase of long-term competitiveness of the Romanian economy, (3) the development and more efficient use of Romania's human capital, (4) building an effective administrative capacity, implemented via corresponding Sectoral Operational Programmes.

The regional development objectives reflect the equity-efficiency approach employed by the policy makers in Romania. The allocation of the EU funds by region is differentiated in inverse proportion to the development level, thus offering priority to the lagging regions. Though, in order to do not entirely neglect the needs of the developed regions (and especially Bucharest-Ilfov), able to promote higher efficiency and competitiveness, this criterion has been amended by population density. The basic indicators by development region and the ROP funding by development region is presented in Table 3.

 Table 3. Basic indicators for the Romanian NUTS 2 regions and the Regional

 Operational Programme funding by region

NUTS 2 Region	GDP per capita in 2004, PPS	Population in 2004	ERDF for R	COP
	% of EU-27 average	% of Romania's total population	Mil. Euro	%
North-East	24	17.2	724.09	16.32
South-East	31	13.2	587.88	13.25
South Muntenia	28	15.4	631.36	14.23
South-West Oltenia	28	10.7	621.60	14.01
West	39	8.9	458.77	10.34
North- West	33	12.7	536.41	12.09
Center	34	11.7	483.62	10.90
Bucharest- Ilfov	68	10.2	393.10	8.86

Source: Author's calculations based on Eurostat and www.inforegio.ro.

The figures in the second column of this table explain a very frequently raised issue: despite the fact that Bucharest-Ilfov region has currently a GDP per capita (PPS) quite much above the EU average (already 111% in 2009), when the 'Convergence' regions for the 2007-2013 period were established (in 2004) it was still below 75% of the EU-25 average. As a result, all Romanian regions have qualified for allocations under 'Convergence' objective and there are not specific programmes or strategies for problem regions but rather a differentiated approach within the ROP depending on the problems identified at regional level: the less developed regions benefit from higher allocations via the ROP priority axes and, at the same time, the allocations are consistent with the regional strategies agreed by local authorities.

Bucharest-Ilfov region is applied a different ceilings when it comes to the regional state aid for initial investments as well. In 2006 the Government of Romania

adopted a decision regarding the regional state aid's maximum ceiling for initial investments (Government of Romania, 2006), which has been applied starting from January 1, 2007, the date of Romania's accession to the EU. This financial support is approved for firms which do not belong to the SME category, as defined in the regulations regarding the state aid. All Romanian development regions have been approved a 50% ceiling, except for Bucharest-Ilfov with a 40% ceiling. In the case of small and medium firms different ceilings are approved, namely 10% higher (i.e. 60% and 50%, respectively) for medium firms and 20% higher for small firms (i.e. 70% and 60%, respectively) (Table 4). Besides SMEs the transport sector is another destination.

Region	Regional state aid ceiling for:					
	Big firms	Medium firms	Small firms			
North-East	50	60	70			
South-East	50	60	70			
South-Muntenia	50	60	70			
South-West Oltenia	50	60	70			
West	50	60	70			
North-West	50	60	70			
Centre	50	60	70			
Bucharest-Ilfov	40	50	60			

 Table 4. The regional state aid's maximum ceiling for initial investments in Romania

 - percentage

Source: Based on Decision No. 946/July 19, 2006 of the Government of Romania regarding the regional state aid's maximum ceiling for initial investments

In accordance with the EU regulations, the Government of Romania has adopted three state aid schemes for regional development through the investment stimulation, applied for 2007-2011, 2008-2012 and 2009-2013. These schemes are applied mainly to big firms, for big investment projects (i.e. eligible costs of these projects exceed the equivalent in lei for 50 million euros). They finance investments in fixed assets – material and immaterial assets – referring to creation of new production units, expanding existing units, production diversification through new, extra products or a fundamental change of production process in an existing unit.

There are also three state aid schemes are available for the ROP. As in the ROP the financial support is not approved for big investment projects, the main beneficiaries are the SMEs. Another destination is the transport sector. Two of the schemes are state aid schemes for regional development: one addresses the creation and development of business support structures while the other one envisages the support to tourism investments. A 'de minimis' aid scheme for micro-enterprises support is applied as well.

As far as the absorption of the EU funds is concerned, relevant information is offered by Table 5, which presents the situation by region of the financing contracts within all operational programmes funded by Structural Instruments at the beginning of October 2012. Bucharest-Ilfov has the lowest payment ratio, explained to some extent by the fact that it is the beneficiary of large scale projects in transport and environment infrastructure which advance very slowly. In absolute terms, there are encouraging signs for the least developed region – North-East, which has the largest number of projects and highest corresponding value for these projects after Bucharest-Ilfov.

Region	Population	Allocations (ERDF)	0	contracts RDF)	Payments to beneficiaries (pre- financing + reimbursements)		
	million people	million million euro euro		%	million euro	%	
North-East	2.7	571.15	560.23	98.09%	224.67	39.34%	
South-East	2.63	463.69	396.40	85.49%	167.85	36.20%	
South	3.8	497.98	465.65	93.51%	159.94	32.12%	
South-West	2.8	490.28	464.25	94.69%	176.78	36.06%	
West	3.45	361.87	374.05	103.37%	110.59	30.56%	
North-West	2.2	423.11	380.52	89.93%	137.52	32.50%	
Centre	2.4	381.45	338.50	88.74%	144.73	37.94%	
Bucharest- Ilfov	1.9	310.06	230.42	74.32%	48.91	15.78%	

 Table 5. The situation by region of the financing contracts within the Regional
 Operational Programme – October 1, 2012

Source: Author's processing based on www.inforegio.ro

According to Brussels' latest statistics (end of November 2012) the absorption rate for Romania is 20.7% of the Structural and Cohesion Funds. The highest absorption rate has been recorded by the OP for Administrative Capacity Development, that is 43.25%, followed by the ROP with 42.2%. Compared to the average absorption rate at EU level – of c. 45.15%, Romania is far lagging behind, the only countries still below 30% being Bulgaria (28.5%) and Italy (28%).

During his visit to Bucharest in March 2012, Johannes Hahn, the European Commissioner for Regional Policy declared that, given the low absorption rate, Romania should get 30 million euro each week in order to absorb the whole sum allocated for 2007-2013 period. Therefore the European Commissioner considered 2012 "the year of implementation" (HotNews, 2012), warning that if Romania

would not prove an appropriate capacity to spend the EU money it would not be possible to get the same allocation for 2014-2020, as necessary for reducing the development gap compared to the EU average.

Despite the 2012 failures, Romania obtained for 2014-2020 programme period 39.8 billion euro from the EU budget, that is 18% more than in 2007-2013. However, due to the lower absorption capacity, the EU funds allocation per capita is lower for Romania than for other new member states. In order to increase the chances to spend the EU money for 2007-2013 a series of measures have been adopted, which refer to strengthening the administrative capacity, assuming the administrative responsibility, accompanied by procedures simplification because their complexity of rules often have led to errors and delays. Even the EU has adopted support measures, the most important being the relaxation of the "n+2" rule to "n+3" (Ziarul Financiar, 2013).

5. A Look Forward

For 2014-2020 period the smart, sustainable and inclusive growth objectives, which represent a new approach to the Cohesion policy, raise important challenges to Romania, considering the still existing important development gaps at both national and regional level. On various occasions the Romanian Government and the Parliament expressed their positions with regard to the future of the Cohesion policy, affirming that Romania agrees with a higher thematic concentration of the EU-financed interventions via Cohesion policy, in accordance with the Europe 2020 Strategy, but consider that the less developed countries and regions should have the possibility to choose among a much more diversified range of interventions. In this way the Romanian regions could (and should) be able to use the EU financing in accordance with their specific needs, which still require a strong focus on local transport and basic social infrastructure, support to business environment, etc. at the same time with the possibility to turn to good account their potential comparative/competitive advantages.

As a response to these needs the EU has established a series of aspects clearly stipulated in specific regulations but, at the same time, agreed with flexibility in respect to others. For example, the thematic concentration has been clearly decided, but the choice of the key actions and intervention categories may be decided by each member state. Also, as regards the framework for the operational programmes elaboration, choices may be made between national and regional level, between one fund or multi-fund financing, between sectoral and multi-sectoral operational programmes (Ministry of Foreign Affairs, 2012).

In relation to the latter issue, a very sensitive debate is taking place in Romania in the first part of 2013 regarding the regionalisation process. The Romanian Ministry of Regional Development and Public Administration has issued the Memorandum

on adopting the necessary measures to start the process of regionalization – decentralization, one of the main goals envisaging the creation of regional management structures for the Structural and Cohesion Funds (Ministry of Regional Development, 2013). They should contribute to the better implementation of the territorial cohesion – the new dimension of the cohesion firstly introduced in the 2007-2013 programme period, to the intraregional disparities reduction – often higher than the interregional disparities, to the turning to a better account of the endogenous regional growth potential, etc. In this way the smart, sustainable and inclusive growth objectives could be translated into smart, sustainable and inclusive territories, as Territorial Agenda 2020 (2011) requires. At the same time, it opens the door for a better absorption of the EU funds in the 2014-2020 financial exercise, avoiding the perpetuation of the drawbacks revealed by the current exercise.

6. Acknowledgement

This paper mainly draws on research relating to regional policy in Romania conducted in 2012 under the European Regional Policy Research Consortium (EoRPA), managed by the European Policies Research Centre (University of Strathclyde, Glasgow), see http://www.eprc.strath.ac.uk/eorpa/default.cfm.

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