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Middle Of The Road: Romania's Regional Policy In The Current Eu Programming Period

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52nd CONGRESS OF EUROPEAN REGIONAL SCIENCE ASSOCIATION

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BRATISLAVA, SLOVAKIA

**MIDDLE OF THE ROAD: ROMANIA'S REGIONAL POLICY IN THE CURRENT EU
PROGRAMME PERIOD**

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- DRAFT. NOT FOR QUOTATION -

Abstract. *After less than two years from its accession to the EU, Romania was seriously hit by the global financial and economic crisis. Compared to other former transition countries, the turmoil was deeper and lasted longer and a modest recovery was recorded only in the second half of 2011, given deep internal vulnerabilities that amplified the impact of international shocks. Consequently, the Romanian regions have been also hit by the crisis, which induced an uneven distribution of its effects at regional scale, depending on the specific economic and social structures, regional specialisation degree, export orientation of economic activities, etc. The crisis has generated difficulties for the beneficiaries of the EU-funded projects – both local public administration and private firms - to provide the co-financing contribution, so that the Romanian Government has had to adopt a series of measures meant to support the implementation of the on-going Operational Programmes and the EU funds absorption process as well.*

This paper discusses the main developments of Romania's regional policy in the current programme period: the "middle of the road" – 2009-2011 as well as 2012 are considered crucial years for the successful implementation of this policy. The factors influencing the regional policy during these years are analysed at the same time with the solutions proposed for the problems which the regional policy implementation is confronted with.

Keywords: regional policy, Romania, Structural and Cohesion Funds, absorption, co-financing, implementation problems

JEL Classification: R13, R28, R38, R58

1. Introduction

For Romania the 2007-2013 programme period represent 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), 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 and 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 current absorption rate for Romania is 7.4% of the Structural and Cohesion Funds. Compared to the absorption rate at EU level – of c. 29%, Romania together with Bulgaria and Greece are far lagging behind (the ‘7% club’).

Therefore 2012 must become ‘the implementation year’, able to give a positive response to the delays in the absorption of the EU funds and to turn to better account the domestic strengths as well as the opportunities offered by the EU membership.

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 Bucuresti-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).

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

Region	GDP per capita (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

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 specialisation 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 and 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, which are much closer to the world economy's evolution and, thus, more exposed to crisis shocks. On the other hand, given the economic potential of the most developed counties, it is likely that they will recover more easily after the highest crisis intensity has passed. In particular, the counties of a higher production diversification will be in a better position (Goschin and Constantin, 2010).

At the opposite pole are situated the predominantly agricultural counties, with a traditional economy, located in South and East Romania. Experts estimate that these counties, with a high share of rural population would suffer less than the developed ones as a result of their subsistence agriculture, where the crisis influence has been very low. In fact, in such counties the current overall economic situation is overlapping on a previously 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. It is also noteworthy that in both 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.

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

Region	2010				2011				2012
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March
North-West	7.3	6.3	6.3	5.9	5.0	3.9	4.0	4.3	4.3
Centre	9.9	8.6	8.2	8.0	9.0	5.6	5.5	6.0	5.95
North-East	9.5	8.6	8.3	7.8	7.0	5.7	5.6	5.6	5.52
South-East	9.3	8.0	7.8	8.1	7.3	5.6	5.5	5.9	5.87
South-Muntenia	10.1	9.2	9.2	8.8	7.3	5.9	6.1	6.3	6.14
Bucharest-Ilfov	2.7	2.7	2.9	2.4	2.1	2.0	2.0	2.0	1.94

- percentage-

South-West	11.5	10.0	9.8	9.2	8.3	7.0	7.3	7.5	7.42
West	8.2	7.0	6.7	6.5	5.5	4.1	4.1	4.5	3.62
Romania	8.4	7.5	7.3	7.0	6.0	4.8	4.9	5.1	5.05

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 NSRF, 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 ROP	
	% 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.

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

- percentage -

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

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 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 end of March 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.

Table 5. The situation by region of the financing contracts within the operational programmes funded by Structural Instruments – 31 March 2012

Region	Population (million people)	Financing contracts		Payments to beneficiaries	
		Number	Eligible value (billion lei)	Value (billion lei)	Percentage of the eligible value
North-West	2.7	962	7.47	0.986	12.3
Centre	2.63	1010	6.626	1.111	16.7
North-East	3.8	1036	8.56	1.415	16.5
South-East	2.8	793	7.091	1.42	20.0
South-	3.45	769	7.091	1.234	17.4

Muntenia					
Bucharest-Ilfov	2.2	1908	21.977	0.780	3.55
South-West	2.4	719	5.467	0.863	15.8
West	1.9	615	4.722	0.761	16.1

Source: Author's processing based on Government of Romania, Department of Foreign Affairs, <http://www.dae.gov.ro/admin/files/Contracte%20si%20plati%20pe%20regiuni%2031.03.2012.pdf> (data provided by the Management System of the Structural Instruments)

According to Brussels' statistics the current absorption rate for Romania is 7.4% of the Structural and Cohesion Funds. The highest absorption rate has been recorded by the ROP, that is 11.73% at the end of February 2012. Compared to the absorption rate at EU level – of c. 29%, Romania together with Bulgaria and Greece are far lagging behind (the '7% club').

During the 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 considers that 2012 is certainly "*the year of implementation*" (HotNews, 2012): if the absorption is not speeded up Romania risks to become net contributor to the EU budget. Moreover, if Romania does not prove an appropriate capacity to spend the EU money it will not be possible to get the same allocation for 2014-2020, as would be necessary for reducing the development gap compared to the EU average. The envisaged measures mainly refer to strengthening the administrative capacity, assuming the administrative responsibility, accompanied by procedures simplification because their complexity of rules often leads to errors and delays. The EC has recently approved two big transport infrastructure projects for railway modernization which could significantly contribute to raising the absorption rate in 2012.

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.

Recently, on June 1, the representatives of the EU “Friends of Cohesion” Group¹ met in Bucharest in order to prepare a joint initiative in view of the European Council summit scheduled on June 28-29, a summit in which the EU’s multi-annual financial framework will be analyzed. They have supported the idea of keeping “the policies through which funds are earmarked for less developed EU member states in order for them to reach the EU’s average development level” (Nine O’Clock, 2012, p.1). The adopted joint statement has focused on the need to primarily direct the EU efforts towards measures that would significantly contribute to stimulating economic growth and employment. It has emphasized the importance of the Cohesion Policy as a major instrument for stimulating growth, employment and competitiveness at the level of regions, in line with the Europe 2020 strategy and the need for fiscal discipline.

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¹ Bulgaria, the Czech Republic, Cyprus, Croatia, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.

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