

Challenges and Recommendations in European Regional Policy in Romania's Case

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1. Literature Review

REGIONAL SCIENCE identifies and presents simple principles of spatial organization governing balance and organizational structures and ensuring efficiency, equality and social welfare¹, the only one that aims to “*correlate spatial configurations formal properties of other aspects of social life*”². Regional science history begins in the early twentieth century with the German space school represented by J. Von Thunen, Weber, Christaller and Losch. The best regionalists belonged to the American, Dutch, Scandinavian, French, German, and Russian schools. Theorists such as W. Lazonick³, A.K. Glasmeier and K. Fuellhart⁴, and P. Maskell and A. Malmberg sought to implement existing concepts to describe the phenomenon of divergent growth paths from one territory to another and the serious interregional disparities at EU level.

The common regional policy's main objective is to reduce existing regional disparities between European regions and to prevent further regional imbalances in the EU. This objective is to be accomplished by transferring European resources to problem regions using the financial instruments of the European Union known as Structural Funds.

The regional development policy of Romania is closely aligned with the EU cohesion policy at all levels. Levels of development of the EU are used as benchmarks for defining local policies, following closely the Strategic Guidelines and the European regulations. In agreement with the European Economic and Social Cohesion Policy, Romania promotes a regional policy generally aimed, on the long term, at reducing the disparities in the development of regions and country areas. The Regional Development Act (No.315/2004) established the main objectives of the regional development policy in Romania, on reducing regional disparities, ensuring sectoral coordination at regional level and stimulating interregional cooperation.

2. The Romanian Context Analysis

THE ROP 2007-2013 strategic objective consisted in “*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*”⁵.

This objective is achieved through a differentiated financial allocation by Regions (see Figure 1 and Figure 2), according to their level of development and in close coordination with the actions implemented by other Operational Programmes. Romania received a total amount of 19.21 billion euro. The fact that Romania managed to absorb only 62.99% is a clear indicator that some reforms are needed in case of its administrative, adaptive and learning capacity.

2.a Challenges in terms of administrative capacity

The administrative capacity of absorption of European funds can be defined by capacity building in local government and the civil society to design and implement development projects. Thomas W. Haase⁶ believes that the administrative capacity is possible by implementing state policies on four measures. These measures consist of: making a database with information for monitoring administrative actions, strengthening policies and administrative institutions, strengthening community infrastructure and strengthening of international management. The literature defines the administrative capacity to absorb as part of a system that consists of three factors⁷. The first factor is the ability to absorb that can be measured in relation to GDP. Thus, the Council Regulation no. 1260/1999 provides that amounts received by any Member State from the Structural Funds in combination with assistance provided under the Cohesion Fund should not exceed 4% of national GDP. In the case of the ROP, a total amount of 2.65% of the total budget (ROP Budget 2007-2013), meaning 437.53 Mlei was dedicated to improve the administrative capacity of ROP institutions. According to official data the ratio of absorption was 51.50% in 2013. Those funds were used to erect buildings, hire specialized people, and buy software and equipment in order to help with the implementation process.

Although the Structural Funds are part of the Community budget, the way they are spent is based on a system of shared responsibility between the European Commission and Member State authorities. The European Commission working staff document named *Country Report 2015* highlights that administrative capacity in Romania is low⁸, fragmented, and with an unclear delegation of responsibilities. ROP administration bears the same characteristics. Despite efforts to implement a robust policy process in Romania, reforms are urgently needed to improve the quality of public administration at all levels. While progress has been made in many areas, it still remains a need for further capacity-building, reform and modernization. Public institutions are still perceived as favouring bureaucracy, over-regulation and limited transparency, weighing on the competitiveness of the economy. The lack of trust among the political and administrative layers is not conducive to a real empowerment of professional civil servants, resulting in weak owner-

ship of decisions and policies. The same document highlights⁹ that Romania scores below the regional average in many key areas of governance. Perceptions on the quality of public services, the civil service, policy making and implementation, as well as the credibility of government's commitment to policies, which are captured by the 'government effectiveness' indicator, are well below the EU average. Romania also scores poorly in other relevant indicators including accountability, regulatory quality, political stability, rule of law and control of corruption.

Despite some progress, the Romanian business environment, especially those who try to access European funds, is still confronted with an excessive bureaucracy, notably in relation to fiscal management and the complexity and duration of procedures. Regulation lacks proportionality. Administrative, accounting and reporting requirements are common to large and to micro businesses. This contributes to maintaining a high rate of activity outside the formal economy. Lots of beneficiaries tried and some managed to create artificial conditions in order to receive money for their investments (we are talking here especially about those who implemented projects with European funds). Unnecessarily restrictive criteria, the high costs of participation and the inability to contract on bases other than price deter or exclude many potential investors and deny Romania a major source of growth that is mainstream in the EU.

2.b Challenges in terms of adaptive capacity

Adaptive capacity is defined as the capacity of an economic, social, environmental or other system to cope with or recover from a potentially damaging external shock or influence. In this particular case, adaptive capacity refers to the capacity of Romanian economic and administrative actors to cope with economic crises regarding Regional Policy.

The global economic crisis has manifested itself by reducing the rate of development of entrepreneurship and increasing the number of bankruptcies, affecting the economy of Romania. After a long process of transformation and a period of sustained development, the national economy was strongly affected by the global financial crisis of 2008-2009. The financial crisis rapidly turned into an economic crisis with major implications at the level of economic growth, employment, business, health and pension systems, education, tourism, and inevitably the population's standard of living. The period 2008-2010 also showed that the small business sector is one of the most affected by the financial and economic crisis, representing at the same time the sector which can substantially contribute to a recovery of the economy as a whole. After a long period of sustained economic growth of more than 6%, the year 2009 saw a contraction of the GDP (-6.5%)¹⁰.

In order to estimate the adaptive capacity of the ROP we will make a short analysis of how the implementation of the ROP coped with the economic crisis. We will also see the extent to which the ROP strategy (in this case the creation of jobs and supporting entrepreneurship) remains relevant in the context of economic and financial crisis.

One of the needs identified in the 2007-2013 ROP is "*the existence of large areas of the country whose development prospects are marked by labor shortages*"¹¹". Although the

impact of the economic crisis on employment in Romania was moderate (a decrease of only 0.5 % between 2008 and 2011), the European average gap remains significant. The national employment rate is 59.5 % compared with 64.2 %¹² average for the Community (2014), and Romania continues to have one of the last places in the EU in terms of employment. However, the gap recorded in 2012 is the lowest since the beginning of the review period (4.7% compared with 6.8 % in 2008). The effects of the economic downturn on unemployment are visible: the unemployment rate rose to 1.6 % between 2008 and 2011. Although in the period between 2004 and 2011 youth unemployment rate in Romania was above the value recorded in the EU- 27, since 2012 this indicator is line with EU-27 average. The regional development policy in Romania had a minimal impact in stopping the downhill effects of the economic crisis, regarding the unemployment rate. The obligation to create new jobs, relative to the amount requested by the beneficiary (1 job to 33000 euro requested) led to the creation of artificial conditions.

One of the priorities identified in the ROP 2007-2013 strategy development derived from the low competitiveness of businesses, especially small enterprises. The economic crisis marked the beginning of the decline of the SME sector, as the number of active units¹³ decreased by approximately 4% in 2009. The decreasing trend was accentuated in the next two years, so that at the end of 2011, the increase in the number of SMEs active in the period before the economic crisis was almost entirely canceled. If we analyze the evolution of the SME sector in Romania compared to the dynamics of this sector in the EU- 27, we find that fluctuations in our country were much stronger. In the period before the economic crisis, the SME sector in Romania recorded a spectacular growth, well above the European average, but between 2009 and 2011 the decline was dramatic, just like the increases in previous years. Most of the SMEs tried to survive on the reserves accumulated during prior years, others started to move into insolvency. The Government plan to mitigate the crisis included the introduction of a flat tax. The minimum or flat tax was introduced on 1 May 2009¹⁴, together with other fiscal measures meant to diminish the effects of the economic crisis, but eventually their effects were exactly the opposite. The companies were required to pay a flat tax regardless of their revenue/profit. For example, the income tax was 500 euro per year whether income was 0 or 13 000 euro. The implementation of this measure increased tax fraud and led to the disappearance from the market of several companies.

Tightening lending standards and terms led to a substantial restriction of access to finance for SMEs. According to the National Institute for Statistics, the number of SMEs that could obtain financing has decreased considerably: from approximately 29,000 SMEs in December 2007 to about 8100 SMEs in the month of December 2010. During the period 2010-2012 there has been a revitalization of the SMEs' access to credit, but the monthly values remain far below those recorded in 2007-2008. Simultaneously, the NPL ratio of SMEs increased exponentially: from 0.9 % in December 2007 to 23.2% in July 2012.

2.c Challenges in terms of learning capacity

The experience of the programming period 2007-2013 can provide valuable lessons and best practices for the next generation of EU-financed projects. Unfortunately, as media reports have pointed out, the Romanian government has failed to incorpo-

rate these lessons in the draft Partnership Agreement submitted to the European Commission.

In order to estimate the ROP's learning capacity, we must compare it with previous experiences in the implementation of European funds. In this case, the most important one is SAPARD (a pre-accession structural fund). We must see if the ROP learned from the SAPARD experience and implemented measures to avoid the problems encountered in the implementation of SAPARD.

The Final Report¹⁵ regarding the implementation of SAPARD highlighted the following difficulties:

- the concentration, at the beginning of the programming period, of almost all activities at central level and the late setting up of an institutional framework adequate for ensuring the efficiency of implemented activities;
- rigid implementing procedures, the large amount of supportive documents solicited to applicants as well as their insufficient counseling by competent authorities lead to a difficult application submission process;
- the long procedural deadlines for the evaluation and selection of projects and authorization of payments;
- the poor information of the general public due to the insufficient publicity regarding the Programme's contents;
- the high cost of credits needed for co-financing, in the general context, medium rentable agricultural and agricultural related activities, as well as the lack of guarantees for accessing these credits especially for small and medium enterprises and small farmers;
- the lack of interest and of viable strategies among commercial banks and other types of crediting bodies regarding agriculture and rural development financing;
- due to the existing economic downturn, the economic actors registered state debts which blocked access to SAPARD financing.

The lessons learned during the implementation of the SAPARD Programme especially in regards to difficulties in implementing it, should have been considered in the elaboration of the new programmes. Unfortunately, as we will see in the problem analysis section, most of those problems persisted in the case of ROP 2007-2013.

2.d Challenges in terms of institutional development. New actors

Regarding future actors, who will work in the successful implementation of the future ROP 2014-2020, we can make a few remarks. A new structure for the coordination of European Funds is now in place: The Romanian Ministry of European Funds (since 2012). According to the implementation plan¹⁶ proposed to the European Commission, there will be some changes in the management structure of the ROP. The Managing Authority (MA) passes from the Ministry of Development, Public Works and Housing to the Ministry of Regional Development and Public Administration. The Intermediate Bodies (IB) remain the same—8 RDAs (the ROP IBs are set up within the RDAs' structures) Ministry for Small and Medium-Sized Companies, Trade, Tourism and Liberal Professions. The ROP Paying Unit moves from the Ministry of Development, Public Works and Housing to a special unit of the Certifying and Paying Authority.

3. Diagnostic Analysis of the ROP in Romania

THE PROBLEMS mentioned in the previous section are connected to the challenges (administrative, adaptive, learning capacity and institutional development) that led to a partial fulfillment of policy performance in Romania. As SGI studies indicated for 2014¹⁷, the general score is 5.18, with economic policy at 4.8, social policy at 4.7, and environmental policy at 6.2. The general score for democracy (5.20) and for governance (4.53) (both executive capacity and accountability) have a strong negative impact in all operational programmes in Romania, and it refers to strategic problems derived from the management authority level and at the level of beneficiaries, but especially coming from a lack of a long-term sustainable development strategic approach. Romania is last on the list of GDP/per capita, at 2.8 (from a maximum of 10), with a GDP of just 11.444 \$/capita (SGI data).

3.a Romanian ROP main issues

In order to understand the real effect of the ROP in Romania we analyzed several studies¹⁸, evaluations¹⁹ and reports²⁰ about ROP 2007-2013 and summerized that data in a SWOT analysis.

Strenghts

- Programme strategy continued to correspond to the development needs initially identified in ROP. The economic crisis deepened the initial needs, the ROP remaining in many cases the only possibility to finance major development objectives at a regional level.
- The complementarity between the ROP and the other programmes financed from European funds was properly considered at the time of the planning.
- The ROP has acted in a constant and sustained manner in order to support the potential beneficiaries in understanding the Programme requirements and in increasing their capacity to draft proposals for projects of the highest possible quality, this management element representing an internal positive factor.
- In comparison to other operational programmes, the ROP opened the financing lines quicker and could thus ensure the required conditions for the Programme's efficiency and effectiveness.

Weaknessess

- The regional analysis did not present sufficiently clearly the actual development needs of each region by considering the specific nature and local development potential. The regional analysis does not analytically and structurally present the increase and development pillars or the comparative advantages of the regions.
- The numerous needs initially identified led to an extremely fragmented Programme structure, which resulted in a very limited meeting of the identified needs. The Programme impact may be rather local than regional.
- The regions do not bring a contribution to the achievement of indicator targets proportionate to their financial allocation. Such differences may be the result of multiple causes, from the specific needs of regions up to different expense efficiency (in

certain regions, for more or less independent reasons, an output /result was generated at lower costs).

- Limited capacity of the programme monitoring function within the ROP.
- Open project applications affect the programme efficiency and effectiveness from several perspectives: they prevent the selection of the best projects and/or the strategically most important but also the effective and efficient planning of the evaluation and selection process.
- Public procurement represented perhaps the greatest challenge both for the beneficiaries and implementing bodies. The biggest problems were encountered in developing proper tender documentation in conjunction with different points of view developed by the institutions and the lengthy verification of procurement files. Obviously, poor management led to financial corrections which led in turn to cash flow imbalances.
- Regarding the equitable management of public funds, the ROP encountered a lot of difficulties, especially with regards to the right price for the investments.
- Another aspect is excessive bureaucracy regarding the tender documentation and procurement files. This is due to the large number of documents required in addition to those provided by law.

Opportunities

- European market integration could open new opportunities for Romanian development. These opportunities can be useful to address and overcome partially the main weaknesses of the business environment, such as the underdeveloped entrepreneurial/managerial attitude, fiscal control and administrative tasks.
- Diffusion of the advanced third sector (ICT, financial sector, etc...) and new technological developments.

Threats

- A continuation of the financial crisis could increase problems related to the credit conditions and economic recovery.
- Expectations of a negative demographic trend (decreasing and aging population).
- A limited industrial development and increase in productivity, in particular for microenterprises, which are more concentrated on non-advanced services (wholesale and retail trade, transport and storage, hotels and restaurants).
- The inability of local authorities to attract funds to ensure co-financing for large infrastructure projects.
- Systematic legislation changes.

4 Recommendations for Success

4.1 Recommendation for improving administrative capacity

FOR THE next programming period, a better substantiation of the regional specific needs for the best capitalization on the real development potential of each region is recommended. The adoption of a proactive, collaborative system, and problems analysis for the sustainable strategy development mechanisms and instruments are needed. Thus, each region could consider a different financial allocation from one area of intervention to another depending on the potential and specific nature of local needs.

The interventions should be planned only after having ensured a full correlation between the 2014-2020 National Strategy for Regional Development and the strategic plans in the fields of health, education, transport.

Use a Knowledge Broker System (see Figure 4) in order to develop relationships and networks with and among producers and users of knowledge by providing links, knowledge sources, and in some cases knowledge itself. In the field of ROP management, knowledge brokers ease the suitable use of the best available research evidence in decision-making processes, enhancing individual and organizational capacity to participate effectively in evidence-informed decision-making. In this particular case, a potential solution is to use individuals or organisations as knowledge brokers. The best example of knowledge brokers in this particular case, are: the stakeholders, the companies, the public organizations and universities. They should possess: expertise in synthesizing and adapting information for use in different local contexts, an understanding of the context, processes, and key influencers of both parts of knowledge, strategic planning skills and experience.

The ROP should focus on fewer types of specific operations that should be defined depending on their capacity to produce a long-term sustainable impact at regional level. Introduce electronic applications combined with E-signatures for all ETC programmes to speed up review, appraisal, and approval of projects. E-applications will reduce the amount of time and resources required in reviewing the applications. Systematic roll-out of E-signatures will make the duplicate submission of applications in hard-copy unnecessary (current requirement for the one programme where it is implemented) and greatly reduce the additional administrative burdens of checking the consistencies between e-applications and hard-copy applications.

Build a common database to keep track of project applicants across all CBC and TNC programmes. The intended use of the database is to spot duplicate applications, ineligible applicants, and identify potential synergies among projects. This recommendation will reduce the occurrence of incomplete contracts by enabling verification of the eligibility of beneficiaries at the reception of applications and reducing the number of withdrawals of project applications due to duplicate applications.

4.2 Improving adaptive capacity and using learning capacity

For the future programming period, ROP MA is recommended to clarify the position of the programme monitoring function within the ROP MA management and control system. It is recommended that ROP MA organizes calls for proposals with a fixed term for the key areas of intervention targeting a high number of potential eligible competing beneficiaries, more efficient on the long run for the ROP. Compared to “open calls”, fixed term calls shall also favour programme effectiveness especially if the evaluation grid prioritizes the projects with a high level of territorial and thematic correlation (as recommended in the previous section).

We propose the simplification of the financial reallocation system and shortening the approval process of these shifts.

Another recommendation to simplify submission of tender documentation concerns creating a web portal allowing online boarding documentation without the need to submit at least 4 copies of each file.

5. Final conclusions

WITHIN THIS programming cycle, the ROP has to adopt a proactive, collaborative, flexible relational system, from needs and problems analysis to the smart sustainable strategy development mechanisms and instruments. The influence of the factors which affected this programming cycle must be taken into account in the planning of the next regional operational programme, with strong performance measurement indicators and a monitoring system at national/regional level but also a horizontal monitoring scheme. We strongly encourage central and local bodies to use European Smart Governance indicators such as Smart Growth, sustainable growth, inclusive growth, context indicator, regional indicators, quality of governance, governance effectiveness, competitiveness index etc. A solution is a change in the logic of action of the Romanian government. In this regard, we suggest a coordination of all stakeholders, and the Managing Authorities, flexibility in rules and procedures, guidance for final results and, perhaps most importantly, innovation and creativity. More specifically, the following actions should be taken: a reduction in the level of political involvement in recruiting both local and central management of human resources in public administration, a series of more relevant and transparent evaluations, focusing on the real issues. It is the establishment of a new system: complex, modern and transparent, in which public funds are used efficiently, and this implies a long process of adaptation of the legal, institutional and procedural rules. We also encourage the use of a Knowledge Broker System, in order to develop relationships and networks with, among, and between producers and users of knowledge by providing linkages, knowledge sources, and in some cases knowledge itself.



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Abstract

Challenges and Recommendations in European Regional Policy in Romania's Case

The paper aims to highlight critical issues related to the evolution of EU's regional development policy (ROP) 2007-2013 and to advance key challenges and recommendations. The multilevel analysis of the Regional Policy proves the complexity of the solutions needed for improving the procedure for implementing projects. Using a comparative case study research methodology based on literature scanning, problem, objectives, strategies and stakeholders analysis, and quantitative data, we design a Knowledge Broker Intervention Model.

Keywords

Regional Policy, public procurements, Knowledge Broker Intervention Model, System as Action Web