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THE EU FUNDING CONTRIBUTION TO REGIONAL GROWTH AND REGENERATION IN ROMANIA. A FOCUS ON THE NORTH-EAST REGION

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Abstract. *Romania's communist regime used forced industrialization and urbanization policies as a solution for speeding-up the pace of development in the lagging areas, which resulted in reducing regional disparities. However, after 1989 these areas were the first that suffered the hardships of economic restructuring, the economic and social discrepancies at territorial level recording an important increase. The accession to the EU has created good opportunities for the economic regeneration of the lagging regions provided the European funds allocated to them be absorbed and employed in an effective and efficient manner. Based on these overall considerations this paper proposes a case study in the North-East region (NUTS 2) of Romania, with a focus on Suceava county (NUTS 3). This region, with the lowest GDP/capita in the country has an absorption rate higher than the Regional Operational Programme's national average and a commendable expertise in the implementation of the regional development projects. The research has investigated to what extent these promising results reflect the objectives of the strategy outlined in the programme documents of the 2007-2013 financial exercise, aiming at a balanced territorial development. The desk research – with inquiries into the most important programming documents and result reports relating to the ROP in Romania and, in particular in the North-East region, plus the large volume of data analysis – have been accompanied by interviews with key persons involved in the implementation process at national, regional and county level. The research has been undertaken under the auspices of the EU – FP7 GRINCOH project.*

Keywords: EU financial assistance, Regional Operational Programme, Romania, lagging behind regions, regional regeneration

JEL Classification: R11, R28, R38, R58

1. Introduction

This paper proposes a case study which assesses the achievements of Cohesion Policy in the North-East region of Romania, with a particular emphasis on Suceava county. This county is characterized by the predominance of employment in agriculture, weak industry and poor state of market services. Its economic growth was hindered in the past by the border location. Moreover, the North-East region (one of the eight NUTS 2 regions of Romania) is the least developed Romanian region and ranks third among the 'lagging behind' regions of the EU.

Considering the regional development realities in Romania, the allocations under the Regional Operational Programme (ROP) have prioritised these lagging regions. As a result, the North-East region has been allocated 16.32% of the ERDF for the ROP. To date, the ROP has the highest absorption rate of all operational programmes in Romania, that is around 42%, the North-East region being above this average, with 55.02%. The number of projects in Suceava county represent around 20 per cent of the total number of projects implemented or ongoing in the North-East region, which is an above average among the North-East region's six counties. Hence, the significance of the case study is twofold: on the one hand it offers a spotlight on a very sensitive area of Romania in terms of regional development level; on the other hand it discusses the added value, strategic quality and administrative capacity which have made it possible to record results above the average in the implementation process.

In line with the regional problem and the identified needs and strengths, enterprise support has been chosen as the policy heading for this study. There is a clear continuity between the priority axes and key areas of intervention focusing on enterprise support in the ROP 2007-2013 and the enhancement of the SME competitiveness in the Cohesion Policy for 2014-2020, as one of the key areas for economic growth and job creation.

The research has been based on both desk research – with inquiries into the most important programming documents and result reports relating to the ROP in Romania and, in particular in the North-East region and Suceava county, accompanied by large volume of data analysis – and interviews with the persons involved in the implementation process – from local authorities to experts and beneficiaries at national, regional and county level.

The paper is organized as follows. It starts with a discussion on the nature of regional problem and identifies the needs as well as strengths and opportunities, the latter mainly deriving from the EU Cohesion Policy and related ROP. A special emphasis is put on the enterprise support, as a policy heading for the undertaken study. The physical performance is analysed, followed by the assessment of the value added, strategic quality and administrative capacity. In the end the conclusions

2. The regional problem. Needs and strengths

Suceava county is included in the North-East region, the least developed region in Romania (GDP/capita is 0.675 if the national average is 1, while in Bucharest-Ilfov it is 2.063). According to the level of GDP per capita, Suceava county is ranked third in the North-East region, after the counties of Iaşi and Bacau. In the last five years, the GDP of Suceava county has seen a different evolution of GDP than the North-East region as a whole. Although in 2007 real GDP growth at the county level was double (10.7%) the percentage growth at regional level (5.4%), in 2008, in the context of the economic crisis, GDP dropped sharply, registering a negative growth (-3.9%),

well below the regional average (3.6%). By 2009, the gap had widened even more: GDP at county level reaching a percentage reduction of 5%, while at the regional level it was increasing by 9.1%.

Table 1: GDP in Suceava county compared to North-East region

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013***	**2014****
North-East region								
GDP/cap (euro)	3.698	4.011	3.303	3.358	3.555	3.942	4.365	4.826
GDP growth (%)	5.4	3.6	9.1	-3.5	1.3	3.6	4.3	4.5
Suceava county								
GDP/cap (euro)	3.763	3.774	3.242	3.292	3.488	3.867	4.272	4.710
GDP growth (%)	10.7	-3.9	-5	-3.2	1.6	3.9	4.4	4.5

*estimated
**prognosis
Source: National Commission of Forecasting

Economic efficiency of both North-East region and Suceava county, as reflected by labour productivity, has been constantly situated well below national average. In accordance with this poor labour productivity, net average earnings per employee in Suceava county represented 92.6 % if the regional average was 100 in 2009, placing the county on second lowest position in the region, while compared to the national average it was only 82%if the national average was 100. The economy of the county is characterised by low GDP per capita: in 2012 it represented 95% of the North-East region average, 83% of Romania and less than 16% of EU28. The growth in GDP per capita was about 16% lower than the national average over the last 15 years prior to economic crisis (in all cases the average was 100).

Industry is currently recovering from the crisis, recording 20% growth in manufacturing in December 2012 against December 2011 and a 32.2% increase in manufacturing turnover during the same interval. The population of Suceava county has been constantly diminishing since 1992, due to both negative natural increase and out-migration triggered by industrial decline and poverty. Its population reached 614,451 persons (about 3.3% of the Romanian population) in 2011, while population density was 71.8 inhabitants per square kilometer, compared to the national average of 79.9.

In latest years both exogenous and endogenous factors acted in favour of developing the North-East region and the county of Suceava, the former prevailing. They refer to exports, foreign direct investments (in particular in trade and woodworking sector), grants from the EU and other sources of funding. The endogenous factors, mainly innovation and entrepreneurship had a smaller contribution. Other factors that positively influenced the economy of the region and

county refer to the restructuring of the large firms in food industry, constructions and installation, the establishment of many new small firms in tourism, food industry, etc. as well as direct investments in food industry SMEs supported by the remittances of the Romanian emigrant workers. The biggest contribution to GVA in Suceava county has come from manufacturing and agriculture. The agriculture development has been based on the high share of agricultural land in total county's surface (40.8%) and big share of employment in agriculture (45.42%).

The economic development of the region depends on the ability to address a large range of obstacles that have hindered so far the development process: difficult access to finance for small producers (such as farmers) and SMEs, lack of a long term vision for the development of the county, insufficient support for innovation and entrepreneurship, complex procedures for accessing European funds and delays in reimbursement payments, frequent legislation changes; perpetuation of de-industrialization process; lack of investment in the environment (e.g. in waste collection and recycling, renewable energy); inadequate use of agricultural land and the large share of subsistence farming; lack of tax incentives for new investment; lack of own funds for investment and expensive credit; unequal and stiff competition from foreign private companies entering any market where they find opportunity; reduced innovation and competitiveness in competition with foreign investors; an education system that fails to mobilize students to training performance and lack of vocational secondary education, poor infrastructure, etc.

Regional and local policies need to have more impact in terms of increasing FDI attractiveness, export development, innovativeness, entrepreneurship, changes of economic structure, labour markets, human resource development, social cohesion. Regional fiscal policy might significantly influence FDI, entrepreneurship, labour markets, etc. In the past, there was positive impact of local taxes level and legislative stability on the development of the business environment. The local administration had a series of interventions, such as development aids, aids for firms in difficulty, assistance for pensioners and poor families. Suceava county council ranks among the top county councils in Romania in terms of the projects initiated. These projects have mainly contributed to the overall development of localities, raising living standards, supporting tourism, agriculture and the development of various industries. The local chamber of commerce and industry has supported professional reconversion and training programmes, has initiated contacts between firms and opened the door for them to various opportunities. Public-private partnerships have also been encouraged.

To a large extent, there is a perception in the region that both the national and EU interventions address regional needs. The most relevant examples refer to industrial parks policy, environmental preservation, sustainable development of tourism in the Bucovina area, farmer support policy, forestry and timber processing, etc. Interviewees also highlighted the lower taxation policy for firms applied in the second half of the 1990s in order to support disadvantaged areas. Suceava county was a relevant case as a result of the closure of non-ferrous mining in the county at that time. However, the policy did not produce the expected results as many firms in the disadvantaged areas did not use local material resources and the local labour force. Regional policies are perceived as long-term policies, whereas sectoral ones are viewed as more focused, confined to some punctual objectives. There is not a clear opinion among interviewees about whether sectoral or regional policies have the most significant impact: some respondents rank first the regional policies, others – the sectoral ones. The emphasis is rather on the complementarity between sectoral and regional policies, with the former being supported by the latter. However, there is a significant concern about increasing in urban-rural disparities: the

interviewees acknowledge the coherent approach of the ERDF based interventions and those financed by other sources but there are still problems in terms of complementarity. A stronger correlation is needed especially between ERDF, EARDF and Cohesion Fund supported programmes. ESF should also be included in this, as well as the support received from the World Bank. The impact of the horizontal policies is considered too, especially when it comes to the free movement of persons: labour migration has created important sources of revenues for family members who remain in the region and even for local development (e.g. small businesses) via remittances.

Suceava still remains a lagging behind county and, according to some of the interviewees, one of the reasons for this situation is the poor prioritisation of specific territorial needs in regional strategies. A pessimistic opinion is that the only decision to produce real impact has been the national decision related to the ROP to include of Suceava municipality among the urban development poles. Most interview responses indicate infrastructure development policy, the support to tourism promotion and human resource development as the most important directions from the perspective of accessed funds and results of implemented projects. Drawbacks have been still identified with regard to the insufficient correlation between various regional policies, insufficient consideration of territorial potential (capital) and weak consultation and collaboration between actors interested in the county's development. For example, tourism policy has not been fully integrated with a process of improving transportation infrastructure improvement, which is a basic requirement for its success. Similarly, the stimulation of some industrial sectors should have been clearly, directly correlated with professional training programmes specifically tailored to those sectors. Interviewees also mentioned the lack of foresight and strategic vision for the hierarchy and correlation of local needs. Related to this is the issue of project approval being based on strictly financial considerations, accompanied by the 'uninspired' restrictions regarding the allocation of specific funds to various projects, e.g. implementing projects for water supply network without sewage system for the used water because the funds for sewage projects had been over; water network without hydrant points for fire situations; the creation of a green area on the commune's pasture, etc..

The development strategies of the North-East region and Suceava county, respectively, are built around the Cohesion Policy objectives, aiming to take full advantage of the funding opportunities they provide. Cohesion policy is perceived to have important support in overcoming the effects of the financial crisis, creating jobs for the youth and increasing the competitiveness of SMEs. Hence, competitiveness and social well-being are almost equally emphasized in the county. Yet, in some cases, taking into account that the North-East region is the poorest in Romania and one of the poorest in the whole EU, there is some specific focus on addressing social issues (e.g. through food aid for the poor).

The main opportunities of Suceava county – associated with its strengths – identified by the interviewed refer to sustainable tourism development and the promotion of the area's natural attractions and historic monuments, as well as the rural tourism basis, the ecological orientation of agriculture, good quality of human capital, cross-border cooperation, collaboration with other local public administrations in Romania. The threats – associated with the weaknesses – are more numerous and include economic instability and investors' lack of trust in region's potential, incomplete process of decentralisation, the economic dependence on the wood market, an intensifying process of demographic ageing and out-migration of the skilled labour force (to both other countries and other regions of Romania), lack of interest and de-motivation with regard to

professional training, high rates of school leaving for poverty reasons and lack of prospects for school leavers in relation to labour market, increasing pressure on the environment and biodiversity (air, water and soil pollution, the deforestation issue, etc.), the low attractiveness of rural areas and small towns, the deepening of the urban-rural gap, and so on.

3. Enterprise support – a policy heading for the undertaken study

In line with the regional problem and the identified needs and strengths, enterprise support has been chosen as the policy heading for this study. There is clear continuity between the priority axes and key areas of intervention focusing on enterprise support in the ROP 2007-2013 and the enhancement of SME competitiveness in the Cohesion Policy for 2014-2020, as one of the key areas for economic growth and job creation. Thus, the ROP 2007-2013 not only contains a key area of intervention (No.4) entirely dedicated to strengthening the regional and local business environment but also indicative operations referring to business environment within "Support to sustainable development of urban growth poles" and "Sustainable development and promotion of tourism" priority axes (No.1 and No.5, respectively). Moreover, enterprise support cannot be separated from innovation and labour market oriented support, these two headings also contributing to business environment consolidation and increasing performance. Also, it should be noted that the ROP is funding infrastructure investments (hard investments), while innovation (understood in terms of the Oslo Manual) includes investments in SMEs.

4. EU support via Cohesion Policy. The ROP performance

The general objective of the ROP is 'sustainable, territorially balanced economic and social regional development, concentrated on urban growth poles support, infrastructure and business environment improvement, so as to make the Romanian regions attractive for investors and inhabitants'. The five Priority Axes derived from this objective relate to the sustainable development of the urban growth poles (30% of the ROP budget), improving the regional and local transport infrastructure (20.35%), improving the social infrastructure (15%), supporting the regional and local business environment (17%), and tourism sustainable development and promotion (15%).

These regional development objectives confirm the equity-efficiency approach employed by policy-makers. Thus, when the objectives of regional development for the 2007-2013 period were first discussed, the emphasis was put on clear support to the lagging regions, and the approach was nuanced so that the general objective of the ROP became 'balanced regional development'. The indicative regional allocations of the EU funds under the ROP, proposed in 2004, were differentiated in inverse proportion to the development level, thus offering priority to the lagging regions. However, to avoid entirely neglecting the needs of the developed regions (and especially Bucharest-Ilfov), this criterion has been amended in terms of population density.The indicative allocations are presented in Table 2, pointing to the North-East region as the first ranked beneficiary in the distribution hierarchy.

Taking into consideration that the needs are bigger than the allocated amounts for the programme, a large number of projects was submitted. According to information received from

the experts of the Ministry of Regional Development and Public Administration, the ROP allocated funds are over – contracted, but there are still projects in the reserve list.

Table 2: 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 EU27 average	*% of Romania's total population*	*€ million*	*%*
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
Centre	34	11.7	483.62	10.90
Bucharest-Ilfov	68	10.2	393.10	8.86

Source: own calculations based on Eurostat and www.inforegio.ro.

The ROP has been conceived as an ambitious programme aiming at supporting a geographically balanced growth process by giving a more specific local and regional dimension and allowing the different territories of Romania to develop based on their specific resources. It is based on local needs and local potential and the diversified development paths the various areas of the country may take considering their history, strengths and resources. In other words the ROP "is supporting a bottom-up local development approach, complementary to the structural top-down national sectoral development approach envisaged in most of the operational programmes"[1].

At the end of December 2013 the absorption rate of the EU funds was 33.47%, while the ROP reached 44.87% - the highest among all OPs. Table 3 provides a synthesis of the financing contracts and payments to beneficiaries for the ROP on 18 October 2013, with the North-East region ranking first (55.02% is the share of eligible value in the payments to beneficiaries for this region).

[1]Regional Operational Programme 2007-2013, Romania, http://www.candcgroup.ro/docs/REGIONAL%20OPERATIONAL%20PROGRAMME.pdf, p.117

Table 3: Financing contracts and payments by region within the ROP – 18 October 2013

Region	Population (million people)	Financing contracts	Payments to beneficiaries	
		(€ million)	*Value (€ million)*	*Share of eligible value (%)*
North-West	**2.7**	463.89	191.86	45.30%
Centre	**2.63**	417.54	187.82	49.20%
North-East	**3.8**	632.67	315.00	55.02%
South-East	**2.8**	458.53	217.18	46.80%
South-Muntenia	**3.45**	571.71	207.26	41.60%
Bucharest-Ilfov	**2.2**	301.92	83.43	26.90%
South-West	**2.4**	536.04	247.82	50.50%
West	**1.9**	422.95	166.33	46.00%

Source: Authors' processing based on http://www.inforegio.ro

As far as the enterprise support heading is concerned, it benefitted from allocations from the ERDF, State Budget and own sources for the whole North-East region and for Suceava county as well. It should be mentioned that only Priority Axis 4 - Supporting the regional and local business environment is entirely related to the analysed heading. The best situation is displayed for 'Supporting the development of micro-enterprises', where the allocations are around the county average in the North-East region.

However, there are projects that can be also related to enterprise support within Priority Axis 1 – Sustainable development of the urban growth poles and Priority Axis 5 –Tourism sustainable development and promotion. They have been individually selected for calculating the corresponding sums by allocation source. The calculations show that until 30 September 2013 Suceava county had no enterprise support related project financed via "Integrated urban development plans" area of intervention (1.1.) and is below the average for "Creation, development, modernization of the tourism infrastructure for sustainable valorization of natural resources and for increasing the quality of tourism services" (5.2), despite the major tourism potential of this county. This situation can be explained by the fact that in the case of these two priority axes only projects envisaging enterprise support within the two areas of intervention were selected for calculation and such projects are expected to be finalised in the remaining implementation period (up to the end of 2016, in financial terms). For example, in April 2014 Suceava county appears with a finalised project regarding a centre for supporting Bucovina's traditions (belonging to Priority Axis 1). Moreover, within this axis only local public authorities are eligible. As the co-financing rate for business environment is high (considering the state aid regulations, applied to local public administration as well), it made local public authorities to

finance public interest projects rather than to act as an economic actor. In the case of the other priority axes the beneficiaries were more diverse – SMEs, NGOs, religious institutions, etc.

5. Physical performance

The targets and the actual values of the physical indicators corresponding to the contracted and finalized projects in relation to enterprise support at the ROP level at the end of October 2013 are presented in Table 5. The big variations between indicator values come from the two different categories of indicators included in this table, namely output indicators and result (impact) indicators (in bold, grey). The latter cannot be fully established before the end of the ROP implementation period, i.e. end of 2016. Only at that time a complete situation of the result indicators corresponding to all finalized projects will be provided. So far, the existing situations are only particular ones. As far as the output indicators are concerned, the percentages above 100% show that the targets have been exceeded. The columns corresponding to contracted projects and financially finalized ones, respectively, and the differences between them point to cases when projects are physically completed but the final project payments are not done so far.

Table 5: Targets and physical indicators for the contracted and finalised projects in relation to enterprise support – end of October 2013

Priority Axis	**Indicator**	**UM**	**ROP target**	**Indicator values corresponding to the contracted projects**		**Indicator values corresponding to the financially finalised projects**	
PA 1	Accepted integrated urban development plans	No.	30	95	317%	0	0%
PA 1	Projects promoting the sustainable development of the business environment	No.	15	25	167%	2	13%
PA 1	Inhabitants benefitting from the implementation of the integrated urban development plans integrate de dezvoltare urbană	No.	400,000	28,440,571	7110%	5,509,805	1377%
PA 1	Firms attracted in business structures (calculated after two years from the project completion)	No.	400	314	79%	13	3%
PA 1	New jobs created	No.	1,500	1,683	112%	29	2%
PA4/KIA 4.1	Structures for supporting the assited businesses	No.	17	76	447%	20	117.6%
PA4/KIA 4.1	New jobs created	No.	3,000*	9,892	330%	1928	64.3%
PA4/KIA 4.1	SMEs attracted in business structures (calculated after two years from the project	No.	*	1210	na	287	na

	completion)						
PA4/KIA 4.1	Employment rate in business structures	%	50	0	0%	0	0.0%
PA4/KIA 4.1	The newly created useful area in the business structures	Sq m	na	80,697	na	22,075	na
PA4/KIA 4.3	New jobs created	No.	3,000	7,925	264%	5,949	198.3%
PA4/KIA 4.3	Micro-firms financially assited	No.	1,500	1,731	115%	1319	87.9%
PA5/KIA5.2	Tourism – Leisure projects	No.	300	112	37%	48	16.0%
PA5/KIA5.2	New jobs created	No.	800	2,027	253%	674	84.3%
PA5/KIA5.2	SMEs financially assited	No.	350	68	19%	43	12.3%
PA5/KIA5.2	Tourists arrived in the accommodation structures	No.	400,000	252,066	63%	188,298	47.1%

Source: own processing based on www.inforegio.ro data (from the Monitoring Committee Report)

In addition, an analysis of the top 10 projects (in terms of value) in the North-East region and Suceava county shows that in both cases only two projects are directly connected with the enterprise support heading but the other projects – most of them focused on transportation infrastructure - also contribute to a better development of the business environment by increased accessibility.

6. Added value

From the very beginning the whole ROP was conceived so as to generate added value in various ways. For example, as Romania in general and the North-East region in particular suffer from the lack of proper transport infrastructure important funds have been allocated for this axis. Further on, it helps to enhancing the accomplishment of the objectives established for other axes such as 'Support to sustainable development of urban growth poles' (Axis 1), 'Strengthening the regional and local business environment' (Axis 4) or 'Sustainable development and promotion of tourism' (Axis 5). In turn, a better local business environment or tourism development create additional sources of revenues for local budgets which can be used for rehabilitation or modernization of county and local roads. At the same time, a better business environment, a better transport infrastructure, in general better accessibility can contribute to attracting more foreign investors in the region, etc.

The enterprise support, funded via the whole Axis 4 and Key areas of intervention 1.1 and 5.2 has a special significance for the development of the local business environment and for the whole regional and local economy as well. A series of multiplier effects are created in terms of output, employment and income, attracting new activities, new areas (spread effects) in the development process. Some hints about the amplitude of these effects can be offered by Table 5, which displays the ROP targets and physical indicators for the contracted and finalised projects

in relation to enterprise support. Also, the investments in SMEs, understood in the Oslo manual terms, can be considered innovation-driven investments.

The inquiries into various evaluation reports as well as the interpretation of the experts' opinions show that the added value of the ROP performance varies in financial, strategic, operational, accountability and democratic terms. Thus, there are good partnership structures established in accordance with the cohesion policy principles, reflected in the financial partnerships too. When it comes to domestic plans and policies, however, the applying of the cohesion policy principles, mechanisms, project appraisal and selection procedure seems to bring about only moderate added value. Even if each Romanian region elaborated its own development plan, the implementation and monitoring of these plans does not represent a bold activity at region's level for multiple reasons. For example, the responsibility of implementing these plans is not clearly established in administrative terms at regional level as long as, according to the Regional Development Act still in force[2], the Romanian NUTS2 regions do not have legal personality.

7. Strategic quality

The North-East Regional Development Plan 2007-2013 has been elaborated in partnership by thematic working groups at county and regional level as well as by the North-East Regional Planning Committee. The county working groups (six – one for each county) included members representing county councils, local authorities (municipalities, towns, communes), prefectures, employment agencies, environmental protection agencies, school inspectorates, public health directorates, directorates for agriculture and rural development, county's statistics directorates, chambers of commerce and industry, universities, banks, etc. Further on, the regional working groups included representatives of the county working groups designated for specific themes, i.e. the development of human resources and social services, agriculture and rural development, business environment development, tourism and environment infrastructure. The results of their debates have been reflected by the socio-economic analysis, periodically updated, the SWOT analysis and the regional development strategy. Similarly, the Regional Operational Programme (ROP) includes socio-economic analyses for each of the eight NUTS2 regions, revealing their profile, then reflected in the national strategy for regional development. Partnership has been also applied for the elaboration of the ROP. The analyses undertaken for Suceava county and the North-East region at both levels – regional and national, in a correlated manner have revealed a series of aspects synthesised below.

During the communist regime, the economy of the region was heavily industrialized, but inefficient. The leveling of the Romanian society during the communist regime discouraged any individual initiative. Therefore, one major problem arising in the context of the transition to market economy was related to lack of entrepreneurial skills and the transformation process of the regional economy has not been fully effective or efficient. Industry strongly declined during transition to the market economy, large holdings of former agricultural production cooperatives were left in decay, unemployment and poverty emerged.

[2] Legea 315/2004 privind dezvoltarea regionala in Romania, http://www.fonduri-structurale-europene.ro/legislatie/legea-315-2004.html

The change of the political regime has led to the private sector growing, with the highest increase in service sector (e.g. transportation, trade, tourism), food industry, wood exploitation and processing, etc. Many of the new firms created were SMEs. Like all Romanian regions, North-East experienced high increase in economic and social inequality following the transition to market economy and the negative effects of social polarization. Due to the diminishing of public property and the emergence of small private property during the transition period, many large enterprises, which absorbed most of regional workforce, disappeared. This has led to increased unemployment, and massive labour migration to European countries, mostly to Italy, UK, Spain. Also, the impoverishment of population, population aging and vulnerability resulted in a decline of domestic entrepreneurial interest. During the transition to market economy, there was a steady rise in self-employed workers, especially in agriculture, where they account for almost a half of the workforce.

Both agriculture and manufacturing, the dominant sectors in the regional employment, have been declining on the long-run, while trade and other services are on the rise. The most important dynamism in latest years was recorded by food industry (in particular, local products of livestock), wood exploitation and processing, trade, tourism (important investments being made in hotels and guest houses), financial sector, etc. Retail owns significant shares in both turnover and total number of employees, as a large part of the companies in this sector are located in the villages of the county (in some cases being nearly the only ones in locality). In 2009 wholesale and retail hold 46.99% of the total turnover of companies in the county and 29.75% of their total staff, while manufacturing holds 26% of total turnover and 28.79% of their total staff. Employment in agriculture holds the highest and share in total and was stable at about 46%, well above the national average, for two decades.

In the last few years the economic and financial crisis had negative yet uneven effects throughout the region, depending on the specific local economic structure. In Suceava county mining and quarrying was the industry most severely hit by the crisis. The construction sector has been deeply affected as well. Most public and private investments (excluding those which have received EU funding) have been suspended. High reductions in turnover also occurred in trade and other services. Effects of the crisis were felt most intensely during2009 – 2010 when have taken place massive restructuring in industry and commerce, the collapse of the construction sector and the lack of liquidity in the banking sector was severe. The activity of micro-, small and medium-sized business in trade and other services has dropped significantly due to lower purchasing power of the population and the banks' restrictions on loans for private firms' investment. The population was also affected by decreased job security, growth in unemployment, lower incomes, etc. The harsh austerity measures adopted by the Romanian Government (such as 25% reduction of wages in the public sector, increased VAT that brought about higher prices, etc.) in the context of the economic crisis determined a severe drop in the purchasing power. The number of people at high risk of poverty consequently increased.

The level of unemployment rate in Suceava county had constantly been over the national average. Unemployment rate reached a peak of 13.7% in 1998 the context of economic downturn that accompanied the transition to the market economy. Sustained economic growth in the 2000s, combined to massive external migration of the workforce reduced the unemployment rate to a minimum of 3.7% in 2008. Therefore unemployment rate may not be a suited indicator for the assessment the current workforce situation. The step decline in the activity rate – from 92.7% in 1992 to 54.5 in 2011- reveals the scale of the problems on the local labour market.

To summarise, the main strengths and opportunities of Suceava county resulted from the SWOT analysis point to the rich natural resources, the ecological orientation of agriculture, the good basis for mountain, rural and cultural tourism, the good quality of human capital, the geographical location favouring the cross-border cooperation, etc. On the other hand, the weaknesses and threats refer to the economic instability associated with the incomplete decentralisation, inducing investors' doubts about region's potential, the economic dependence of wood market, the amplifying of the demographic ageing and out-migration of the skilled labour force, low interest in professional training, high rates of school abandon because of poverty, low attractiveness of small towns and some rural areas, the increase in the rural-urban gap, poor infrastructure, lower availability, accessibility and quality of social services compared to the national average, various forms of environmental degradation, etc.

The strategy was prepared based on a bottom up/top down approach, combining the development strategies of the regions with the central supervision of the overall programme coherence. The former were drawn-up at regional level, in wide partnership groups. At the same time the limited availability of strategic planning and financing capacity at the local level was taken into consideration. As a result, the local leadership at project level had to be accompanied by the central level overall coordination.

The ROP priority axes have been established through extensive partnership consultations (such as thematic working groups, fora, etc.). These were established for each of the ROP priority axes and coordinated by the Ministry of Regional Development and Public Administration. The involvement of the regional partners - mainly represented by the Regional Development Agencies (RDAs) contributed to the identification of the regional and local needs and the strengthening of programming capacity at the regional and sub-regional levels. In a broader framework the list of the main partners involved in the consultation process include:

a) "the competent regional, local, urban and other public authorities/ bodies, including the RDAs;
b) the line ministries and government agencies;
c) the economic and social partners;
d) other bodies representing civil society, environmental organisations, non-governmental organisations, and bodies responsible for promoting equality between men and women"[3].

Public consultations were organised by the Ministry of Regional Development (at that time the Ministry of Development, Public Works and Housing) at both national and regional level, ensuring large, active and effective involvement of all relevant organisations. At the same time the dissemination of information to all partners was ensured, observing the principles of transparency and access to information. Based on the partnership structures created at regional level the RDAs initiated working groups for regional programming and implementation documents drawing-up, underpinning the ROP elaboration and further implementation. Even if in some cases partnership practices were considered mimetic, based on formalism, rather than able to contribute to a true, real operationalisation of the cohesion policy, the usefulness of this principle was proven in many real situations. For example, as a result of the very active involvement of its representative in the ROP preparation debates, the emergency rescue service

[3] Regional Operational Programme 2007-2013, Romania, http://www.candcgroup.ro/docs/REGIONAL%20OPERATIONAL%20PROGRAMME.pdf, p.9

based in Romania (SMURD) succeeded to get important funding for the priority axis dedicated to social infrastructure.

In addition, it can be mentioned that for the enterprise support related consultations the participation of the representatives of local chambers of commerce and industry, businessmen associations, employer associations, trade unions was particularly relevant, contributing to a very good representation of the business development objectives in the ROP

8. Administrative capacity

The responsibilities of the ROP Managing Authority (MA) with regard to the management and monitoring of the EU funded activities included in the operational programme are established by the EC regulations, detailed by the Government Decision No. 128/2006, which updates the Decision No. 497/2004 with regard to the setting up of the institutional framework for coordination, implementation and management of Structural Instruments[4].

Subsequently, the ROP MA delegated some tasks to the Intermediate Bodies (IBs) by means of written and signed agreements. As a result, the MA undertakes monitoring activities in order to ensure that the IBs carry out the tasks in the agreed terms. In other words the ROP MA remains responsible for the implementation of the programme in accordance with the Structural Funds Regulations.

The institutions involved in the ROP management and implementation display a high degree of staff stability, resulting in the continuity of the corresponding systems. Thus, the 2000-2006 work with the pre-accession instruments (Phare C in this case), the creation of the institutional framework for implementing measures, monitoring activities and impact evaluation allowed Romanian authorities to become accustomed to EC procedures and, thus, to get prepared for the administration of the much higher amount of financial funds after accession to the EU. Moreover, staff involved in the ROP implementation participates in various training sessions, in accordance with the distributed tasks. At national level (Ministry of Regional Development and Administration) the number of employees in the programming department has varied between 12 (current number) and 20, while at the regional level (RDA) the number of staff is 3 – 5 persons.

As the ROP has the highest absorption rate compared to the other operational programmes implemented in Romania, one can consider that there is a consolidated administrative capacity for all programming phases, which determined in the high performance of this programme.

In particular, the North-East region has the highest absorption rate – 55% in October 2013, an important role being played by the North-East regional Development Agency, as the IB for the ROP implementation. The number of projects in Suceava county represent around 20 per cent of the total number of projects implemented or ongoing in the North-East region, which is a share above the average, considering that the North-East region counts six counties.

However, the interviewees underlined the need to accelerate the pace of reforms in domestic policy as a basic requirement for further increasingof the absorption rate of the EU funds in the region. Generally, the main difficulties that the EU funded programmes are confronted with relate to excessive bureaucracy, lack of transparency, insufficient communication, the long

[4] Regional Operational Programme 2007-2013, Romania, http://www.candcgroup.ro/docs/REGIONAL%20OPERATIONAL%20PROGRAMME.pdf

waiting time for evaluation results, political interventions, difficult access to co-financing credits especially because of the high interest rates, delays in pre-financing payments, delays in reimbursements, etc.. There are also complaints about various requirements included in the terms of reference relating to the public procurement for works, services within the financing contracts, which generate ambiguous interpretations and generate dysfunctionalities especially on the occasion of the periodical controls of the designated bodies. Domestic legislation is considered unstable, financial corrections are made by retroactively applying newly issues laws, the control competences of various institutions with regard to public acquisitions are overlap and are not properly coordinated, etc..

With regard to Suceava county, the respondents consider that their county's development strategy is well-structured, but its implementation is a long-term, difficult process as a result of poor financing, frequent political changes, insufficient coordination between local administrations and county administration for promoting larger projects of county interest. Interviewees have also pointed at the major role that has to be played by the County Council and the Prefecture in the county development process, considering their decision, planning, coordination, evaluation, control competencies. The need to expand coordination and cooperation between these institutions and the private sector, NGOs, and civil society has been also emphasized, as well as the need of improving coordination between the county council and local public administration. At the same time, it should be noted that the establishment of partnerships between Suceava county and NUTS 3 units from other countries has been considered an important step towards sustainable, integrated social-economic development.

In a broader context, the regional (NUTS 2) development strategy and corresponding regional development plan has been given an 8 on a scale from 1 to 10 in terms of its content by some interviewees. Even if there are close ties between the regional development plans and the ROP, they do not overlap and, as mentioned before, given the lack of legal personality in the case of NUTS 2 regions, the regional plans have an orientation character, without the necessary levers for implementation.

Besides the above comments, it can be added that in the case of enterprise support significant difficulties are noticed with regard to co-financing capacity: they come from the need to ensure the own contribution in relation to the eligible expenses, which, in the SMEs case, can reach 30%. The contribution is much higher if the ineligible expenses are considered as well.

As regards the administrative capacity, it is considered good and very good in general terms. The efforts paid in this respect from the very pre-accession period and systematically continued afterwards with the strong support and monitoring of the European Commission have shown the fruits in stable structures and responsibilities, clear allocation of tasks, good human resource management systems, effective support for project applications, well defined process of payment claims, effective first level controlling, etc.

9. Concluding remarks

Considering the regional development realities in Romania, the allocations under the ROP have offered priority to the lagging regions. As the North-East region is the least developed Romanian NUTS 2 region and also ranks third among the lagging behind regions of the EU, it received the highest allocation, namely 16.32% of the ERDF for ROP.

To date, the ROP has the highest absorption rate of all operational programmes in Romania that is around 42%. The North-East region is above this average, with 55.02%. The number of projects in Suceava county represent around 20 per cent of the total number of projects implemented or ongoing in the North-East region, which is a share above the average, considering that the North-East region counts six counties.

More than 35% of the volume of payments in the North-East region are associated with road infrastructure projects, responding to one of the main weaknesses of this region –poor accessibility in terms of transport infrastructure. The corresponding priority axis is correlated with the other ROP axes – sustainable urban development, improving social infrastructure, support to business environment, tourism development, the priority areas of intervention creating synergic effects between them. In particular, the enterprise support generates a series of multiplier effects in terms of output, employment and income, attracting new activities, new areas (spread effects) in the development process.

The institutions involved in the ROP management and implementation display a high degree of staff stability, resulting in the continuity of the corresponding systems. There has been a series of training sessions, consolidating the administrative performance in terms of human resources. The weaknesses indicated by the respondents to interview questions relate mainly to internal procedures, financial constraints, domestic legislation and politics, etc. The most frequent drawbacks mentioned by the interviewees in the North-East region refer to bureaucracy, lack of transparency, insufficient communication between institutions, the long waiting time for evaluation results, political intrusion, difficult access to co-financing credits especially because of high interest rates, delays in pre-financing payments, delays in reimbursements, etc. In particular, for Suceava county the need to expand coordination and cooperation between the public institutions and the private environment, NGOs, civil society has been emphasized, as well as the need of improve interaction between the county council and local public administration. Also, the establishment of partnerships between Suceava county and NUTS 3 units from other counties is considered an important step towards sustainable, integrated social-economic development.

The lessons learnt can be summarized as follows: rationality and flexibility in establishing priorities at regional and local level and harmonization with national headings, simplified procedures, clear and effective implementation rules, a stable institutional and business environment, ensuring co-financing capacity, and good communication between institutions.

There is a strong need to shift from development projects of local importance (locality, county level) to real regional, large scale development projects, able to stimulate inter-county and even inter-regional cooperation.

The regionalization - decentralization process, temporarily postponed, should be resumed, so as to ensure the capacity of sub-national levels to address regional development objectives in accordance with the specific features of their territories.

A more stable, effective institutional and business environment could contribute to creating the national support for the cohesion policy funded objectives. On the other hand, the expectations regarding the European Commission point to more flexibility, simplified procedures, combined, however, with keeping high standards in terms of selection, monitoring and evaluation procedures.

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