

THE ECONOMIC REGENERATION OF
LAGGING REGIONS. AN INQUIRY INTO
THE REGIONAL OPERATIONAL
PROGRAMME CONTRIBUTION, WITH
AN EMPHASIS ON THE ENTERPRISE
SUPPORT IN THE NORTH-EAST
REGION OF ROMANIA

Abstract

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. This paper proposes a brief examination of the North-East region of Romania, with a focus on Suceava county, addressing the contribution of the Regional Operational Programme (ROP) to the economic recovery. In line with the regional problem and the identified needs and strengths, enterprise support has been chosen as the policy heading for this study. It has been based on both available data and in-depth interviews conducted within the GRINCOH FP7 project.

Keywords: economic regeneration, ROP, enterprise support

JEL CODES: R11, R28, R38, R58

**REGENERAREA ECONOMICĂ A
REGIUNILOR RĂMASE ÎN
URMĂ. ANALIZA CONTRIBUȚIEI
POR, CU ACCENT PE SPRIJINUL
ACORDAT MEDIULUI DE
AFACERI ÎN REGIUNEA NORD-
EST**

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Rezumat

Aderarea la Uniunea Europeana a creat oportunitati semnificative pentru regenerarea economica a regiunilor ramase in urma, cu conditia ca fondurile europene sa fie absorbite si utilizate intr-un mod eficace si eficient. Aceasta lucrare examineaza situatia regiunii de Nord-Est a Romaniei cu privire la contributia Programului Operational Regional la relansarea economica, concentrandu-se in mod deosebit pe judetul Suceava. Sprijinirea mediului de afaceri local a fost aleasa drept tema centrala de interes pentru acest studiu, fiind utilizate pentru analiza datele disponibile in acest sens si raspunsurile la interviurile in profunzime efectuate cu prilejul derularii proiectului FP7 GRINCOH, in care autorii au fost implicati ca membri ai echipei de cercetare a ASE Bucuresti.

Cuvinte cheie: regenerare economica, POR, sprijinirea mediului de afaceri



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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 2007-2013. 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 and, thus, to contribute to economic regeneration in this county.

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, followed by the assessment of the value added, in relation to the strategic quality and administrative capacity. In the end the conclusions reveal the lessons that can be learnt from the 2007-

2013 programme period, so as to reinforce the economic development in the North-East region in the next years.

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 Iași and Bacău. 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%) of the percentage growth at regional level (5.4%), in 2007, 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).

TABLE 1 - GDP IN SUCEAVA COUNTY COMPARED TO NORTH-EAST REGION

	2007	2008	2009	2010	2011	2012	2013	2014
North-East region								
GDP/capita (euro)	3698	4011	3303	3358	3555	4200	4500	4700
GDP growth (%)	5.4	3.6	9.1	-3.5	1.3	18.4	7.1	4.4
Suceava county								
GDP/capita (euro)	3763	3774	3242	3292	3488	3900	4300	...
GDP growth (%)	10.7	-3.9	-5	-3.2	1.6	11.8	10.25	...

Data source: Eurostat database

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: for example, 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.

Despite these shortcomings, to a large extent, among the interviewed experts in the region there is a perception that both the national and EU interventions are concentrated on the regional needs. The most relevant examples refer to the industrial parks related policy, preservation of environment, sustainable development of tourism in Bucovina, measures for supporting farmers, 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 in that period. However, the policy did not produce the expected results as many firms in the disadvantaged areas did not employed local material resources and local workers.

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 improvement and development, tourism promotion and human resource development as the most important directions from the perspective of attracted funds and results of projects implemented. 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, (see, for example, Economic and Social Development Strategy of Suceava County, 2011-2020) 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).

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 (Government of Romania, 2007) 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.

As far as Suceava county is concerned, 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 (Constantin and Ileanu, 2014).

4. 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 have been created created in terms of output, employment and income, attracting new activities, new areas (spread effects) in the development process.

The inquiries into various evaluation reports (Inforegio, 2016a and Inforegio, 2016b) 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 (Law No. 315/2004), the Romanian NUTS2 regions do not have legal personality.

With regard to Suceava county, the respondents to our in-depth interviews 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.

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 (30 April, 2016), the ROP has an absorption rate of 73.20%, compared to the average for all operational programmes in Romania that is around 75% (Ministry of European Funds, 2016). The North-East region is above this average, with around 90%. The number of projects in Suceava county represents 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.

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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