ROMANIA'S REGIONAL DEVELOPMENT AT THE CROSSROADS: WHERE TO?

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Abstract

Drawing from the literature on regional and urban development, and taking into account technical evaluations of the current institutional structure at the regional level, this article seeks to assess the strengths and weaknesses of Romania's current "*regionalization-lite*" model. Law 151/1998 established the primary framework for implementing regional planning, paving the way toward eight NUTS II regions. While these regions are not formal administrative units and remain based on associations of counties, they have begun functioning and delivering development impact. The main institutional structures at the regional level are the eight Regional Development Agencies (RDAs), which have among their tasks the drafting of Regional Development Plans, the main regional-level planning tool, and the implementation of the Regional Operational Programme (ROP), the main source of infrastructure financing for county and local authorities. While few question the importance of these tasks and the high effectiveness of RDAs in fulfilling their mandates, regional-level planning and investments continue to showcase significant shortcomings. This article describes the existing institutional structure and reviews its main strengths and weaknesses. Based on this diagnostic, it lays out several options for improving the status-quo, from enhancing the current model all the way through pursuing formal administrative regionalization. The choice will fundamentally shape Romania's development for generations to come.

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1. Introduction: Why Regional Development Matters

Romania will soon celebrate two decades of regional-level institutions, policies, and investments. A variety of factors – economic, legal, political, and cultural – make this a fascinating case study for regional development scholars and policymakers. In brief, Romania has chosen a "regionalization-lite" model, without establishing formal administrative regions but trying to foster regional-level planning and investments. This was largely a compromise between what the current legal framework allows and what the country's development needs have required, particularly in the context of EU accession and, since 2007, full membership.

The current article serves two primary aims: to diagnose the effectiveness of Romania's current regional development model and to propose potential scenarios for future improvements. In what follows, the first section sets the context for this assessment, explaining the importance of a functional regional development framework. The second section describes the current model in Romania and reviews the main factors responsible for its current setup. The third section evaluates strengths and weaknesses of Romania's regionalization-lite model across the entire cycle: from strategic planning through financing mechanisms and project implementation. The fourth section concludes by summarizing several potential options for improving the status quo.

Ultimately, after ten years of EU membership, Romania should invest significant effort into reevaluating its current administrative framework and deciding on an optimal regional development model. The current article seeks to contribute to this endeavor, while noting from the very beginning that a final decision on this critical topic will require additional research and coordination among academics and policymakers.

In simple terms, sound regional development holds the key to the long-term economic development of any country, including Romania. Much of the theory of the past centuries leads to the conclusion that a country's economic growth is the result of two variables: population changes and individual productivity. Policymakers can seek to influence both

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levers, although demographic measures are typically hard to implement and take a long time to produce effects.

Romania currently experiences a profound demographic crisis,[1] ranking second in the EU for population loss and also second in the world (after war-torn Syria) for the increase in its diaspora (average annual growth of 7.3%).[2] To rely on population growth for sustainable economic growth would be unfeasible in the short and medium term. Instead, Romanian policymakers may seek to boost individual productivity. This would mean increasing the average output for each individual who takes part in the national economy.

Economic theory has explored for a long time the main drivers of individual productivity. Some initial theories tied productivity to the number of hours worked. But this clearly failed to take into account the impact of capital improvements (e.g., someone working for 10 hours with a sowing machine generates a lot more output than someone handknitting for the same amount of time). The effect of capital was captured in the Harrod-Domar model, and later improved by economists Robert Solow and subsequently Paul Romer, who showed that productivity is a factor of technological change and innovation – exogenous (i.e., transferred from abroad) and especially endogenous (i.e., produced by the factors inside a national economy).[3]

Fostering technological change and, as a result, long-term productivity and economic growth, fundamentally depends on enabling people to reach their full creative potential. This requires access to education in order to accumulate know-how, as shown by Romer, but also access to other basic services like roads, water, sanitation, and proper healthcare to enable productive pursuit. In fewer words, a country's economic growth depends on facilitating access to opportunity for all its people.

In a complementary model, economist Indermit Gill shows in the *World Development Report (WDR) 2009* that three factors are key to a country's growth: economic density (economic production per unit of space), distance (mobility of people, goods, capital, and ideas) and division (ease of cross-border flows of people, goods, capital, and ideas).[4] This "3D model" is grounded on three key market forces supporting the development process: agglomeration (economies of scale and scope), migration, and specialization (to leverage comparative economic advantages).[5] Upon analyzing extensive economic data for countries around the world, Indermit Gill and his team of World Bank economists conclude that economic growth and development require policies that support urbanization, territorial development, and regional integration.[6] All three dimensions are inextricably linked to regional development. Contrary to conventional views, this model notes that urbanization and development go hand in hand, and territorial disparities are unavoidable and even welcomed in the short-term. Over the long run, supporting an economy's strongest economic engines (i.e., its urban areas) will generate higher economic growth overall and produce spillover effects in poorer regions as well.

A 2013 World Bank report took the WDR 2009 model and applied it to Romania's case, arguing that the country's leading and lagging areas require specific governmental actions and

[1] Răzvan Bărbulescu, "Romania's Demographic Decline – What's Next," in *Romanian Economic and Business Review*, Vol. 7, No. 2

[2] United Nations, *International Migration Report 2015*, available at http://www.un.org/en/development/desa/population/migration/publications/migrationreport/docs/MigrationReport2015_Highlights.pdf

[33] *See* Robert M. Solow, "A Contribution to the Theory of Economic Growth," *The Quarterly Journal of Economics*, Vol. 70, No. 1 (Feb. 1956) and Paul Romer, "Increasing Returns and Long-Run Growth," *The Journal of Political Economy*, Vol. 94, No. 5. (Oct., 1986)

[4] Indermit Gil et al., *World Development Report 2009*, the World Bank, available at http://documents.worldbank.org/curated/en/730971468139804495/pdf/437380REVISED01BLIC1097808213760720.pdf

[5] Ibid.

[6] Ibid.

investments.[1] The authors argue that in growing, dynamic urban areas, the Romanian government should invest in connective infrastructure between cities and peri-urban areas and in quality of life programs (e.g., green spaces, bike paths, better housing, etc.). These actions support the growth of urban mass and, hence, enable urbanization and economic development. In lagging areas, interventions should ensure basic services delivered to everyone: from education to healthcare and public infrastructure (roads, water, sanitation, etc.). Instead of artificially trying to jumpstart economic activities everywhere and reduce disparities among regions, policymakers would make better use of scarce public resources by investing them in connective infrastructure that enable people in lagging regions to access opportunities in leading regions. Connectivity and mobility remain vital to all developed economies.

All this is to highlight the critical importance of effective regional development at all levels. This requires several mutually reinforcing elements: *strategic planning* that takes into account the specific needs and opportunities of each region, defining clear priorities and ensuring a coordinated, integrated approach; effective and efficient *financing* programs in line with the defined strategic priorities; and high-impact, well-managed projects at the regional level.

2. Romania's Regionalization-Lite Model

Romania has a particular model of regional territorial development, the result of policy choices, domestic legal constraints, and international opportunities. The 1991 Romanian Constitution explicitly notes that Romania's territory is organized by communes, cities, and counties, without any reference to a regional administrative layer.[2] However, as part of the EU accession and post-accession processes, Romanian policymakers have had to find solutions for designing and implementing regional-level policies and programs. In July 1998, Parliament adopted law 151/1998, which was the first step toward Romania's regional development framework, with a number of key objectives: reducing regional disparities; preparing the institutional setup for EU accession; improving the correlation of regional-level investments; and stimulating interregional cooperation in the context of Romania's EU membership preparations.[3]

The same law created the institutional framework for Romania's regional development, which was further refined through Law 315/2004.[4] Parliament approved the creation of eight "development regions," noting specifically that these are not administrative units, but serve as "the framework for elaborating, implementing, and evaluating regional development policies, as well as the gathering of statistical data, in line with European requirements by EUROSTAT, at the NUTS 2 level."[5] As with a wide range of legislative changes adopted before 2007, this regional development framework was essentially a requirement for Romania's successful EU membership bid. It is improbable that, in the absence of the accession process and its urgency and importance on the public agenda, domestic policymakers would have legislated on the sensitive topic of Romania's territorial development.

Under pressure from the UE but unable to create new administrative layers without changing the Constitution through a very complicated process, Romanian decisionmakers adopted a "regionalization-lite" model. For one, each development region is the result of a convention between the representatives of the respective counties included in each region, as explicitly defined in the annex to Law 315/2004. Based on the partnership principle, a Regional Development Council (RDC) functions in each of the eight regions, including

[1] Marcel Ionescu-Heroiu, Sebastian Burduja, Dumitru Sandu et al., *Competitive Cities: Reshaping Romania's Economic Geography*, World Bank, 2013.
[2] *See* Romania's Constitution, Article 3, paragraph (3), available at http://www.ucv.ro/pdf/site/constitutia_romaniei.pdf
[3] *See* Law 151/1998, available at http://www.cdep.ro/pls/legis/legis_pck.htp_act_text?idt=17411
[4] *See* Law 315/2004, available at http://www.cdep.ro/pls/legis/legis_pck.htp_act_text?idt=56280
[5] Ibid., article 6 (2)

county council presidents and representatives from municipalities, towns, and communes in each county. The RDC's leadership includes positions for a president and vice-president, rotating among counties. The RDC is not a separate legal entity and merely serves as a coalition of county and local-level actors. At a *de jure* level, it decides the regional strategy, programs, and projects, and it also coordinates the corresponding Regional Development Agency (RDA). The RDA serves as the secretariat for each respective RDC.

Due to the aforementioned legal constraints, RDAs are established as "nonprofit entities of public utility," and are separate legal entities operating beyond Romania's public sector. This is essentially the executive arm of RDCs, handling the design on regional development strategies and the implementation of financing programs. RDAs have accumulated significant experience in handling EU funds, both in the pre-accession and post-accession period. Notably, they have served as Intermediary Bodies (IBs) for the Regional Operational Programme 2007-2013 and 2014-2020, the most important source of funding for infrastructure investments at the subnational level, covering a wide array of needs: roads, schools, ambulatories, industrial platforms and brownfield redevelopment, green energy projects, etc. RDAs have been financed in large proportion through EU funds for technical assistance and, in smaller proportions, through own revenues (from various programs) and funds from county councils.

At a *de jure* level, RDCs supervise the entire range of RDA activities, approving monitoring reports, their bylaws and hierarchical structure, the location of headquarters, the appointment of RDA leadership, etc. At a *de facto* level, RDAs enjoy a substantial degree of autonomy from RDCs in their daily operations, and their list of attributions has expanded significantly over the years. This is evident in comparing Laws 151/1998 and 315/2004, as well as in the fact that RDAs served as IBs for Axis 1 of the Competitiveness Operational Programme toward the end of the 2007-2013 programming period. This has been the result of RDAs' consistently positive results in the implementation of EU-funded programs, primarily the ROP, as noted in multiple independent assessments.[1]

As Intermediary Bodies, RDAs enter into a contractual relationship with the Managing Authority (MA) of the respective Operational Programme. This is based on an Implementation Framework Agreement that defines the responsibilities of both parties. For the ROP, for instance, RDAs serve as the link between program applicants and beneficiaries, on the one hand, and the MA in the Ministry of Regional Development, Public Administration, and EU Funds (MRDPAEF), on the other hand. The agreement also defines how and when RDAs get paid, the list of eligible expenditures, potential sanctions for breaches, and performance indicators.[2]

Overall, Romania's "regionalization-lite" model is a compromise indicative of the two factors pulling into two opposite directions. On the one hand, at the level of EU Member States and as a result of EU conditionalities and financing programs, there is a push toward greater regionalization. This is also in line with the global trend of advanced democracies and economies: more power delegated to the subnational levels. Regions are, in this sense, "closer" to the citizens but large enough (compared to cities/communes and counties) to enable truly impactful policies and projects. On the other hand, Romania remains a very centralized country, following a tradition spanning over a century and reflecting fears related to potential requests for territorial autonomy by ethnic minorities.[3] This pull away from regionalization explains why Romania has failed to adopt formal administrative regions, keeping regional-level bodies as partnership

[1] *See*, for instance, Sebastian I. Burduja, Marcel Ionescu-Heroiu, Florian Gaman et al., *MA-IB Communication and Collaboration for the Regional Operational Programme, 2014-2020*, World Bank, December 2013

[2] Ibid.

[3] Ana Maria Dobre, "Europeanization and New Patterns of Multilevel Governance in Romania," in *Cohesion Policy and Multilevel Governance in South East Europe*, ed. Ian Bache and George Andreou, London, Routledge, 2011.

structures among lower-level authorities, with little real power, or as nonprofit entities often depending on the central level (as is the case of RDAs serving as IBs for EU-funded programs). Moreover, Romania had the opportunity to introduce a formal regional level through the 2003 referendum on several additions to the Constitution, but merely included a note under article 135 (2) – "the economy" – noting that the State has an obligation to "apply regional development policies in accordance with EU objectives."[1]

3. Strengths and Weakness of Romania's Regionalization-Lite Model

The current compromise in Romania's regional development framework entails some strengths and a multitude of weaknesses. As the country remains very centralized, even after the establishment of the eight planning regions, it preserves a central government that is able to enforce the same standards and procedures across the entire country. This standardization helps ensure that strategic planning is similar at the level of each region and financing programs like the ROP have the same processes for all applicants and beneficiaries, regardless of which part of the country they come from. A central point of command can also make interactions with Brussels easier; in the case of the ROP, for instance, it is much more efficient to interact with a single Managing Authority in the MRDPAEF than with eight different bodies.

This centralization should also facilitate coordination among and across regions. Central institutions should also be better equipped to attract the best and the brightest human resources and pay them appropriately, while regional-level bodies may struggle to build equally qualified teams (e.g., some key specialists may not want to relocate). Moreover, critics of regionalization may rightly point out that Romania's system faces enough challenges as it is. Moving toward formal administrative regions would only complicate things further, lowering EU funds' absorption rates even more. Indeed, some parts of the current system are working well in their current setup: RDAs, in particular, have leveraged their nonprofit status to adopt competitive, results-based human resource management. They enjoy a lot more flexibility than public institutions, and are hence able to reward/sanction their employees to drive results.

At the same time, the status quo system has a number of vital weaknesses. First, there is a clear focus on form over substance, leading to institutions without clear mandates, sudden and repeated institutional changes, and process inefficiencies. Good examples of this are the National Agency for Regional Development and the National Council for Regional Development, created in 1998 merely to mirror regional-level development agencies. Policymakers felt the need to establish central bodies in charge of supervising and coordinating the nascent regional bodies. The Agency was later disbanded, while the Council remains ineffective and there are no public data on how or when it meets and what decisions it actually takes. Another key example is the defunct Regional Committee for Strategic Evaluation and Correlation (RCSEC). This body was supposed to prioritize ROP 2007-2013 investments at the level of each region by evaluating how each project responded to development needs. In practice, without significant resources behind its mandate, this regional body became a bottleneck in the project evaluation cycle, generating major delays. Government Decision 1383/2008 severely limited the RCSEC's role to a strictly consultative one, and the body stopped functioning *de facto*.

An additional weakness is that the regional level simply has too little authority to enable impactful, truly regional planning and investments. RDAs produce comprehensive Regional Development Plans (RDPs) that capture the development needs and opportunities of

[1] *See* Romania's Constitution, Article 135, paragraph (2), letter (g), available at http://www.ucv.ro/pdf/site/constitutia_romaniei.pdf

each region. RDAs organize consultations and get the RDPs approved at the RDC level. They often also play a role in helping county and local authorities identify potential investment projects, and enable coordination among them. But oftentimes these documents do not influence policy and financing decisions; indeed, particularly for the 2007-2013 programming period, the RDPs had very little impact on the design and implementation of EU-funded instruments (e.g., the ROP) and effectively no impact on state-budget-funded programs (e.g., the National Local Development Program – NLDP). Fortunately, this has begun to change more recently. In the design of the 2014-2020 ROP, for instance, each RDA worked with counties in its region to define roads of "regional interest," which would be financed under a dedicated axis in the new program. Such selection criteria forced counties to work together and submit joint project proposals, proving that it is possible to stimulate regional investment projects even in the absence of a formal regional tier. Of course, it remains a lot more difficult to design and manage a project across multiple counties based on partnership instead of applying on behalf of a single regional body. But such developments should be encouraged, contrasting sharply with the previous programming period, when selection rules somewhat discouraged cross-country/regional projects: by upholding the first-in-first-out selection criterion, previous procedures encouraged the submission of small and simple projects limited to a single jurisdiction.

With further respect to financing programs, the current centralized model has failed to design interventions that respond to the different needs of each region. As a result of urbanization and economic development under free-market conditions, Romania's regions are starting to look very different.[1] The West and North West, benefitting from their proximity to the EU's core, are leading regions, where investing in advanced services can further bolster economic growth; by contrast, the North East and South regions have been lagging behind, in dire need of basic infrastructure (e.g., water and sanitation). This is why the ROP and other programs like the NLDP should offer different axes to each region, in line with its specific needs.

What is more, because there is no formal administrative tier at the regional level, there remains a single MA for the ROP at the central level, which "has become overburdened with verifications, approvals, and other procedures designed to validate decisions at the IB level."[2] Upon reviewing the list of tasks for the MA vs. the IBs, a World Bank report concluded that there should be more delegation from the former to the latter.[3] This would allow the MA to focus on strategic management (vision-setting, coordination, monitoring and evaluation, etc.), empowering IBs to deal with day-to-day operations and address applicant/beneficiary concerns much more rapidly and cost-efficiently.[4] By splitting more of the tasks into eight, corresponding to the eight regions and RDAs, the MA would ensure that applicants/beneficiaries wait less for the processing of applications, reimbursement requests, and other documents. The MA could keep some control over the process by closely monitoring IB actions based on sampling.

4. Romania's Regionalization: Where to?

Based on the previous diagnostic, this article makes several recommendations for improving Romania's current regional development framework. In the short-to-medium term, policymakers have options to enable truly regional planning and investments: (i) ensure that Regional Development Plans (RDPs) drafted by RDAs and approved by RDCs go beyond

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[1] *See* Marcel Ionescu-Heroiu, Sebastian Burduja, Dumitru Sandu et al., *Competitive Cities: Reshaping Romania's Economic Geography*, World Bank, 2013.

[2] Sebastian I. Burduja, Marcel Ionescu-Heroiu, Florian Gaman et al., *MA-IB Communication and Collaboration for the Regional Operational Programme, 2014-2020*, World Bank, December 2013, p. 1

[3] Ibid., 2

[4] Ibid., 32

EU-funded instruments, include all sources of potential funding (state-budget funded programs like the NLDP, loans, etc.), and are deeply tied to how financing instruments are designed and implemented; (ii) allow for customized financing programs at the level of each region, even under a single MA at the central level, and delegate a lot more operational tasks at the level of regional bodies (RDAs), allowing the MA to focus on the most strategic, cross-regional issues; (iii) incentivize regional projects by deploying smart selection criteria (e.g., awarding bonus points for projects developed jointly by multiple counties in the same region); (iv) strengthen the RDAs' legal status as nonprofit entities, thus preserving their ability to manage their human resources flexibly and in line with actual results delivered; (v) consider expanding RDAs' mandate to cover more financing sources in addition to the ROP, including state-budget-funded programs like the NLDP, which would enable better coordination and more complex, integrated regional investments.

In the long-run, Romania's formal regionalization promises substantial benefits if properly carried out. Unlike previous attempts, this process should focus on substance (i.e., what the regions would be responsible for, how they would collaborate with other subnational authorities, etc.) vs. form (e.g., where the regional capitals would be, what the title of the regional leading authority would be, etc.). In any case, decisionmakers and academics should start preparing for regionalization early on, not just because of the complex legal changes needed (including constitutional amendments), but also to minimize the risk of compromising absorption rates for non-reimbursable funds in the midst of the foreseen administrative changes. One possibility is to introduce regionalization-like elements through step-by-step pilots: for instance, allowing regional-level bodies like the RDAs to handle nearly all steps required for small and medium-sized investment projects, while keeping large projects under stricter monitoring by the central Managing Authority.

Ultimately, the current article has sought to review Romania's current institutional framework for regional development, highlighting both strengths and weaknesses, and proposing potential ways forward. Avenues for further research may include a comparison with how other EU states moved from a centralized to a regional development model, as well as in-depth assessments of current regional-level bodies (RDCs, RDAs, etc.) and their capacity to take on potential formal administrative roles. In a "Europe of regions," as often referred to by top policymakers, Romania will very likely have to design and implement a formal regional tier. The importance and complexity of this endeavor require significant analysis and wide-ranging consultations. The chosen path will indeed shape Romania's economic development for many generations to come.

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