Emerging Markets Queries in Finance and Business

Business environment development and regional policy in North-West Region of Romania

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Abstract

This paper aims to contribute to the debate on the regional policy performance in the field of business environment development in Central and Eastern Europe by presenting specific findings of the on-going evaluation of the regional policy through Regional Operational Programme (ROP) 2007-2013 for the North-West Region of Romania, focusing on "What does not work?" and "Why?", and on possible solutions and emerging challenges. The research activity took place in two directions: theoretical evaluation of regional policy in the field of business environment development-based on analysis of official documents regarding on-going evaluation of the ROP 2007-2013 in Romania, the European Commission opinions, official data and internal data of the Romanian Ministry of Regional Development and Public Administration and North-West Regional Development Agency, and quantitative research—based on the survey of the most significant aspects concerning the projects implemented in the field of business environment development through ROP 2007-2013, applied to the beneficiaries of the projects finalized at 1.10.2012.

Keywords: Business environment development; regional policy; entrepreneurship; innovation; agglomeration economies; Regional Operational Programme 2007-2013 in Romania; North-West Region of Romania;

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1. Introduction and methodology

In the context of the increasing attention enjoyed by evaluation of European Union (EU) regional policy especially after Eastern EU enlargement, both in scientific literature and European Commission documents (Varga, J. and in't Veld, 2011; Patton, 2002; Furubo, Rist and Sandhål, 2002; Nutley, Walter and Davies, 2002; Armstrong and Taylor, 2000; European Commission, 2013, 2012a, 2012b, 2010), the present paper aims to contribute to the debate on the ongoing evaluation of EU cohesion policy for 2007-2013 in Central and Eastern Europe by presenting specific findings about one of the seven Operational Programmes established for Romania in accordance to the cohesion policy of EU - Regional Operational Programme (ROP) 2007-2013, focusing on "What does not work?" and "Why?" in the field of business environment development for the North-West Region of Romania.

The theoretical evaluation of regional policy in the field of business environment development was based on analysis of official documents regarding on-going evaluation of the ROP 2007-2013 in Romania, the European Commission (EC) opinions, official data and internal data of the Romanian Ministry of Regional Development and Tourism (actually, Romanian Ministry of Regional Development and Public Administration) (MDRT) and North-West Regional Development Agency (NWRDA). The quantitative research taken in the purpose of identifying the impact of using EU non-refundable funds over economic development and entrepreneurship in the North-West region of Romania consisted of conceiving and applying an on-line research and monitoring questionnaire, sent to be filled in to every ROP funding beneficiaries in the North-West region – the total population was formed of 155 beneficiaries who had finished implementing projects by 01 October 2012.

The size of the sample was set at 60, with an error limit of representation of 10%. Data collection is ongoing and is done by field research taken by the research team during February - May 2013. The quantitative research was completed by a qualitative research that was based on using an open interview applied to the representatives of the NWRDA, representatives of the local government and the main beneficiaries from the public sector, representatives of consulting firms in accessing European funds, in general, ROP particularly, in order to improve the implementation of projects in the business environment development area.

2. The regional policy in the field of business environment development in North-West Region of Romania

Regional policy, by definition, includes all those activities that significantly affect the growth and development of a region. According to the OECD definition – the main objective of regional policy is to promote growth OECD, 2005, but throughout the world, growth is not the only objective of regional policy, for illustration we can mention: cohesion, equity, sustainability etc. Traditionally, regional policy has two main objectives: economic efficiency and social equity. The Okun thesis on equity versus efficiency developed in the mid-70s is re-evaluated today.

The new argument, particularly associated with the New Economic Geography based on the pioneering work of Krugman, 1998 and integrated into the World Bank, OECD and the European Commission reports is that regional imbalance, regional concentration, spatial agglomeration can, in fact, determine benefits for national growth, therefore a 'trade-off' policy may be situated between the national growth trend and reducing regional economic disparities. In the context of economic and financial crisis, problems regarding growth and development are increasingly discussed in relation to the innovation process and the role of regions in this context. Regions are considered "key players in shaping innovation trajectories" and entrepreneurship -
fundamental for the modern innovation process. Current approaches on policies and regional strategies are characterized by a greater focus on territorial capital and reflect the transition from the material to the immaterial assets, from tangible factors to intangible factors or relational factors and network type Capello and Nijkamp, 2009.

The regional policy of the EU focused on uneven growth and development disparities has evolved in this context from regional convergence to territorial cohesion. In Romania, the regional development policy is rather a functional response to the EU requirements (Dodescu and Chirilă, 2012). In the last years, Romania has done efforts to fulfill the requirements for EU accession, effort that involved reforms, new policies and better administrative practices. In 1998 were created, through the free association of counties, 8 development regions but not invested with decision capacity at territorial level; only configured as statistical units of level NUTS II with an average size of 13,000 square kilometres and a population of approximately 2.5 million inhabitants. Through the EU regional development policy, Romania benefits from funding in amount of 19.7 billion Euros, and in order to absorb those money there have been created seven Operational Programs (OP). The most performing is the ROP, while the least performing is the IEC SOP (Increasing the Economic Competitiveness Sectorial Operational Programme).

In the general context of the alarming progress of the implementation of EU funds in Romania (the actual rate of absorption in Romania is about 10%, which places Romania the last among EU Member States), ROP is the most advanced Operational Programme, ROP’s absorption rate was 21.10 % at 30.09.2012, the planned target of absorption at 31.12.2012 being 26.67%.

However, the main priorities of the ROP 2007-2013 in Romania in order to contribute at the equilibrate development of all eight Romanian development regions and to transform these regions in more attractive areas for investment, tourism and residential are: supporting the development of regional and local business environment through strengthening business support structures, rehabilitation of unused and polluted industrial sites and supporting the creation of micro-enterprises. ROP 2007-2013 finances projects with major impact on local and regional economic growth, to stimulate economic and social development, according to the following priority axes and areas of intervention, as shown in Table no.1: supporting the sustainable development of cities - potential growth poles, improvement of regional and local transport infrastructure, improving social infrastructure, supporting the development of regional and local business environment, sustainable development and promotion of tourism.

Overall development regions of Romania, the weaknesses of ROP are: growth poles, polluted industrial sites and touristic promotion, the following being uncovered with projects: Priority Axis 1 and the major intervention domains: 4.2 (except from West and Centre development regions) and 5.3 – situations explained by the strategic importance of the Priority Axis 1, the difficulties of fulfilling the eligibility criteria in the case of MID 4.2. and by the implications that are beyond the regional frame in the case of MID 5.3.

According to the EC MDRT, 2012 the main problems recorded by ROP, which negatively affect the relative good performance of the programme, are grouped into three major categories: simplification, public procurement and administrative capacity. The dysfunctions in the management and control system in the field of public procurement have been considered the most serious by the EC, because of the fact that nor the ex-ante control system neither the ex-post one, being in the RDA’s responsibility, did not managed to identify those irregularities, made especially by the final beneficiaries.

Considering that Romania is confronted with a “systemic problem in the process of public procurement”, the EC decided to interrupt payments to ROP from June to December 2011, has requested to the Romanian authorities to review the entire public procurement system so that it can demonstrate that the management and control system is safe and all required payments are legal and regular. As a result, in December 2011 the payments were resumed on a provisional basis, which means that the system is not completely effective and was granted a new term – up to the end of June 2012, for the total remediation of management and control so as the correctness of payments to be guaranteed MDRT, 2012.
Table 1. Priority axis, major intervention fields and corresponding financial allocation within ROP

<table>
<thead>
<tr>
<th>Priority axis</th>
<th>Major intervention fields</th>
<th>Financial allocation (at 1st October 2012)</th>
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<tbody>
<tr>
<td>1. Supporting the sustainable development of cities - potential growth poles</td>
<td>MID 1.1. Integrated urban development plans</td>
<td>1.118 bil. euro (30.00% ROP funding from ERDF contribution)</td>
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<td>MID 2.1. Improvement of regional and local transport infrastructure</td>
<td>758 bil. euro (20.35% ROP funding from ERDF contribution)</td>
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<td>2. Improvement of regional and local transport infrastructure</td>
<td>MID 3.1. Rehabilitation / modernization / equipping of the health services; MID 3.2. Rehabilitation / modernization / development and equipping of social services; MID 3.3. Improving the operational equipment of the interventions bases for emergency situations; MID 3.4 Rehabilitation / modernization / development and equipping of pre-university, university and vocational training infrastructure for continuous education</td>
<td>585 bil. euro (15.72% ROP funding from ERDF contribution)</td>
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<tr>
<td>3. Improving social infrastructure</td>
<td>MID 4.1. Sustainable development of business support structures of regional and local importance; MID 4.2. Rehabilitation of unused and polluted industrial sites and preparation for new activities</td>
<td>502 bil. euro (13.48% ROP funding from ERDF contribution)</td>
</tr>
<tr>
<td></td>
<td>MID 4.3. Supporting the development of micro-enterprises</td>
<td>663 bil. Euro (17.80% ROP funding from ERDF contribution)</td>
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<tr>
<td>4. Supporting the development of regional and local business environment</td>
<td>MID 5.1. Restoration and sustainable valorization of cultural heritage and the creation / modernization of related infrastructure; MID 5.2. Creation / development / modernization of infrastructure for sustainable exploitation of natural resources and for the improvement of the quality of tourism services; MID 5.3. Promoting tourism potential and creating the necessary infrastructure to increase Romania's attractiveness as a tourist destination</td>
<td></td>
</tr>
<tr>
<td>5. Sustainable development and promotion of tourism</td>
<td>MID 6.1. Support for the implementation, management and evaluation of the ROP; MID 6.2. Support for ROP advertising and information;</td>
<td>99 bil. Euro (2.65% ROP funding from ERDF contribution)</td>
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<tr>
<td>6. Technical assistance</td>
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In the North-West Region of Romania, according with internal data by the NW RDA (2012), the situation of the projects contracted up to 1st October 2012 reveals that from the total value of 32.7 billion euros allocated from the ERDF fund for the 2007-2013 multiannual period, 55% of the amount had been contracted and only 8% had been paid through pre-financing and ERDF reimbursed. The total number of contracted projects at 1st October 2012 was 245, out of which within the 4 Priority Axis dedicated to the business environment development: 7 projects were contracted on the 4.1. MID Sustainable development of business support structures of regional and local importance (beneficiaries: 2 local public administrations and 5 private agents), there were no projects contracted on the 4.2. MID Rehabilitation of unused and polluted industrial sites and preparation for new activities, and there were 238 microenterprises supported within the 4.3. MID Supporting the development of micro-enterprises NW RDA, 2012. The total number of projects completed by 1st October 2012 in the North-West Region within the 4 Priority Axis is 99, out of which 1 was completed within the 4.1 MID, and 98 projects were completed within the 4.3 MID.

Given the fact that we are in the seventh year of implementation of the current programming period and that, finally, the goal of the program is implementing projects and also the achievement of the quality of the project in terms of strategic impact, respectively achieving goals and objectives in terms of economic
development and job creation, in our opinion, the focus should move to the assessment of the program outcomes, of the realized indicators and the impact of the program from a strategic point of view. In this respect, the indicators achieved by 1st October 2012 were: 1 assisted business support structure created, 114 microenterprises supported, 408.5 jobs created in microenterprises, out of which 148 for women NW RDA, 2012.

The analysis of data sources, official data from MDRT and internal data by the NW RDA leads us to the following findings about the Priority axis 4 of ROP 2007-2013 in North-West Region comparing with the rest of Romania:

- Throughout the country, the over-contracted level of ROP is of about 110%, the main contribution being of the Centre Region and Bucharest-Ilfov Region, in terms of number of projects the North-West Region being surpassed at this priority axis only by the South-Muntenia Region;
- The problem of the projects concerning polluted industrial sites is not only of the North-West Region, these projects being concentrated in two regions, West and Centre, which is why there is the request of reallocation of the amounts available from the industrial sites at the microenterprises, as there are many projects in the reserve list;
- The field regarding microenterprises support is well represented in the North-West region, with a number of 245 projects, out of which 238 being microenterprises supported. What is specific to this axis is, due to the large number of projects and shortened implementation, the achievement and even exceeding substantially the indicators dedicated to microenterprises, although the projects do not have a significant financial value MDRT, 2012 or NW RDA, 2012.

What is specific to the North-West region in compares on to the other development regions in Romania is the fact that even if regarding the number of projects applied, approved and contracts signed it is an average region, being the forth in the overall ranking, in terms of finalized projects, EC funds paid to the beneficiaries and payments done it is the first region in the Romanian regions ranking. This reveals a dynamic business environment oriented to attract EU funds, a good management of the funds in comparison with other Romanian regions and therefore a higher rate of successful projects.

3. Research findings about ongoing evaluation of ROP 2007-2013 Axis „Supporting the development of regional and local business environment” within North-West Region of Romania

As we shown, the quantitative research consisted of conceiving and applying an on-line research and monitoring questionnaire, called Questionnaire of evaluation of the ROP impact on the North-West region of Romania, sent to ROP funding beneficiaries in the North-West region. The full questionnaire was formed of 45 questions and was split into 4 major chapters, namely: General information on the organization receiving funding through ROP; General information on the project/projects implemented by the organization received funding through ROP; Information regarding the impact of the project/projects that the organization has completed for which they obtained funding through ROP and Information on the impact on competitiveness and innovation process of the organization through the project / projects for which the organization obtained funding through ROP. The total number of 60 respondents has not been acquired yet, this is why we will present the partial findings without extrapolation to the entire population, but only by presenting the main difficulties the respondents encountered.

The main fields of activity of the questionnaire respondents, representatives of business environment, are: Activities of business and management consulting; Engineering activities and related technical consultancy; Catering – restaurants; Construction of residential and non-residential buildings; Activities of achieving software on demand (customer oriented software); Activities of advertising agencies - advertising production, signage, branding, sales or spatial shops and corporate offices planning; Dental care activities; Activities of religious organizations, Wholesale of machinery for construction; Maintenance and repair of motor vehicles;
Residential care centre for the elderly, etc.

Among the main objectives of the projects implemented by the respondents to the survey from the business environment, are included: creating jobs; increasing turnover; increasing the number of customers; developing new products; increase the number of tourists, etc.

To the question: "What were, in your view, the main achievements / benefits you obtained through the implementation of the project?", the most frequently answers mentioned organizational development and achieving competitive advantages through product and services diversification and improving the quality of existing ones, providing better working conditions for employees, increasing labor efficiency, ease employees’ work and shorten processing, the increase of the turnover, the increasing of the operational capacity and of the number of employees, rehabilitation and construction of buildings for carrying activity (business organizations - manufacturing, services, tourism), the increasing of the capacity of the buildings of social care, etc., as seen in

![Chart](chart.png)

Fig.1. The main achievements/benefits obtained through the implementation of the project

*Source: author’s calculation using the data based obtained through questionnaires applied;*

As Fig. 2 reveals, the biggest problems encountered by the beneficiaries in the implementation of the ROP projects, the respondents mentioned the excessive bureaucracy, the amending of the legislation during project implementation, struggles regarding the co-financing and the big delay in reimbursement. Even so, almost all the beneficiaries declared that through the project implemented the competitiveness of their organization increased, especially through acquisition of foreign knowledge, machines, equipment and software.
In addition to the difficulties identified by the beneficiaries, the interview respondents mentioned the fact that the projects that included buildings construction encountered problems because of the bad architectural plans. They also mentioned the fact that the beneficiaries were not ready to assure the cash-flow needed for the project implementation, as the reimbursement comes only after the investment has been done, which means that they need to have the money prior in order to be able to make the reimbursement demand. Regarding the management of the projects, the representatives of the NW RDA mentioned the bad communication between the Managing Authority and the Intermediary Organisms, so that problems were solved with delay.

4. Conclusions

As it was expected, our analysis reveals that the business environment is the most dynamic and ready to adapt to the market requirements, this is why they are the most receptive to the EU funding and those that understand the need to improve their competitiveness by further investments in their activity by creating jobs, improving the quality of products and services, introducing process, product and service innovation. Even with their enthusiasm and flexibility, the problems encountered starting from the evaluation phase and ending with the last day of implementation determined some of them to declare that they do not want to access EU financing again, mainly because of the bureaucracy issues, delays in reimbursement and therefore the need to find other sources of financing the project until the reimbursement was received, and the amending of the legislation during project implementation.

The general analysis of the implementation of ROP in the North-West region and the indicators achieved based on official data, MDRT and NW RDA internal data, leads us to the conclusion that the strongest point of the North-West region is related to supporting the development of micro-enterprises. The problem of “not covering” with completed projects of some major areas (like is the case of polluted industrial sites) can be
improved through **regional over-contracting** (the incensement of the over-contracting grade up to 120% - 130%) and **encouraging projects declared admissible on reserve lists**. This solution can be applied, though, only for the MID for which there are reserve lists and in the situation when the state budget would take the risk of financing projects that will exceed the limit of the budget allocated by the EU. Another possible solution is to **reallocate the remaining amount available under the same priority axis**, in fact, the most frequent requests of reallocation being from the 4.2 domain regarding rehabilitation of polluted industrial sites towards the 4.3 MID dedicated to microenterprises support.

Our conclusions are in accordance to the EC’s recommendations regarding over contracting, contracting economies that appear in public procurement procedures, simplification of administrative procedures, in particular, reducing gaps existing from achievement payments by the beneficiaries until the submission of applications for reimbursement by the EC, to provide a cash flow necessary to continue funding projects; including measures related to the withdrawal of projects where the beneficiaries do not realize what they have promised to perform, even after a period of monitoring of delays and redistribution of funds, so that they do not remain stuck.

Also, bearing in mind the problems signalled by the interview respondents, we consider that the banking system should be involved in the process of project implementation, by helping beneficiaries cover the cash-flow need in order to successfully implement the project, giving loans on the basis of the project, without other guarantees. We also recommend a deeper look into the architectural plans when deciding to build within a project, with a higher attention on details, so that unforeseen problems to be eliminated.

We consider that those are the issues that must be seriously dealt by the managing authorities of the ROP and other programs as well and solved in order to have a better performance in terms of economic development in Romanian regions. Given the lessons learned from the current programming period, the failures in structural funds absorption in Romania recorded for all OP, including ROP, and the financial and economic crisis - significant changes are expected mainly a real orientation towards regional competitiveness based on creativity and innovation, through encouraging creation of business support structures and agglomeration economies.

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