

# EDITOR'S CHOICE OF THE MONTH

ISSUE 4 | JULY 2024



**CENTRUL PENTRU STUDIUL DEZVOLTĂRII  
INTERNAȚIONALE ȘI MIGRAȚIEI**  
CENTRE FOR THE STUDY OF INTERNATIONAL DEVELOPMENT AND MIGRATION



**Editor's Choice**

## **Romania Receives OECD Approval and Recommendations for Regional Development**

### **About the Disparities in Romania and the Impact of (Non-) Regionalization**

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In July 2024, the Ministry of Development, Public Works, and Administration issued a press release announcing that Romania has received official approval from the Organisation for Economic Co-operation and Development (OECD) for its regional development policy. This statement highlights the recognition of Romania's efforts to strengthen its regional development policy, noting that the formal approval includes a series of recommendations for improving the policy framework, governance, and financing in this field. In addition to the relevance of the subject in the context of Romania's accession to the OECD, regional development is connected to some problems that Romania is currently facing, including the regional socio-economic imbalance, reflected by the discrepancies between the average GDP per capita in the capital and the rest of the country.

Regional disparities are also present at the European level, with the convergence of less developed regions being a goal for the European Union (EU), supported by the allocation of approximately 30% of EU cohesion funds for economic, social, and territorial cohesion. In the Multiannual Financial Framework for 2021-2027, the Cohesion Policy remains the main investment policy. Romania is directly interested in the mechanisms for allocating structural funds, being one of the main beneficiary states.

### **What Does Regionalization Mean?**

Regionalization is a process of „adapting state norms, decision-making processes, policy types, policy content, political structures, economy, and identity to align and shape according to a new set of regional priorities, norms, or collective interests” (Bahnareanu & Sarcinschi, 2012, p. 16). Thus, the region is „an administrative-territorial unit, located immediately below the state level, which has an elected public administration authority and financial means to exercise its authority” (Corbeanu-Ene, 2010, p. 94).





Regionalization has gained notoriety in the last two decades, especially in Europe. A report on regionalization published in 2007 by the Parliamentary Assembly of the Council of Europe highlights the relevance of the regional political sphere as a sub-state governance level, with the region considered „the ideal level for governance due to its size and proximity,” „closer to reality and citizens than the state” (Parliamentary Assembly of the Council of Europe, 2007).

Currently, the economic, social, and territorial cohesion policy is based on Title 18 of the Treaty on the Functioning of the European Union, which specifies its primary objective of reducing disparities between levels of development of different regions and the lagging behind of disadvantaged regions (TFEU, 2012). To achieve this goal, EU member states are supported by the European Union through structural and investment funds – the European Social Fund Plus, the European Regional Development Fund, the Cohesion Fund, and the Just Transition Fund.

### **Post-Communist (Non-)Regionalization**

After the fall of the communist regime in Romania, local authorities (from communes, cities, counties) became important within the state's institutional framework, but regional institutions did not experience the same development, as a consequence of strong opposition from political actors to regional reforms, particularly from nationalist and extremist parties, which blocked any prospects of regionalization (Ertugal & Dobre, 2011).

To meet the EU accession criteria, Law no. 151 on regional development in Romania was adopted in 1998, which mandated the creation of development regions, but specified that these would not be administrative-territorial units and would not have legal personality. The legislative initiative aimed to prepare the institutional framework for accessing structural and cohesion funds and to stimulate regional development to reduce disparities. According to this law, a Regional Development Council was established in each region as a deliberative body, and an Agency coordinated by this Council, both financed from a newly created Regional Development Fund (Law 151, 1998). These two types of entities are technocratic regional executive institutions with a technical profile, non-governmental organizations responsible for developing regional development plans and implementing projects funded by EU funds and co-financed by the Romanian state (Ertugal & Dobre, 2011).



Thus, in this case, adaptation to EU accession conditions occurred more at the **institutional level**, with the regionalization process being built on a centralist vision, without delegating competencies or granting full decision-making autonomy at **the regional level**. As Covăsnianu (2011) also pointed out, the **eight current** development regions did not develop naturally but rather as a result of politico-economic contexts, which could affect their functionality and impede their capacity to ensure sustainable regional development. Currently, the eight regions do not have legal personality and are used only for coordinating regional development projects, unlike the county and local levels, which have the capacity to undertake administrative activities in light of the decentralization process (David, 2020).

### **Steps Towards Regionalization in the Context of EU Accession**

The division of member states into development regions was adopted at the EU level in 2003 with the approval of the European Parliament and Council Regulation no. 1059. A standardized nomenclature for the classification of territorial units (NUTS) was also developed, ensuring uniform division and facilitating more accurate statistics (Bucur, 2015). The regions in Romania correspond to the EU classification level NUTS-2, the most used in evaluating Cohesion Policy results.

Compliance with EU integration requirements and access criteria to financial support for member states involved aligning regional development policies with international provisions and agreements. The objectives of the cohesion policy are achieved through national and EU funds, managed by Regional Development Agencies (RDAs). Development projects are initially approved at the level of the Regional Development Council of the respective region, and final approval is granted by the National Regional Development Council. Thus, decision towards **centralization** persists regarding projects developed under the Cohesion Policy, which have a direct impact on the originating regions. In this context, it can be said that the principles of subsidiarity, decentralization, and partnership stipulated in Law 315/2004 are not fully respected at the regional level (Mateoc-Sirb *et al.*, 2009).

According to the procedure, regional authorities, represented by the Regional Development Agencies (RDAs), should play a significant role in managing national and European funds allocated for cohesion policy. However, the centralization of decisions at the National Regional Development Council level may affect the efficient management of structural funds.



## What Do European Statistics Say?

In the fourth Report on Economic and Social Cohesion of the EU (European Commission, 2007), the first issued with Romania as an official member state, estimates suggested that Romania, Bulgaria, and Poland would need fifteen years to reach the EU average GDP per capita.

In the period 2007-2013, 35.7% of the EU budget was allocated to cohesion policy, with distribution based on fulfilling three objectives - 81.54% for convergence, 15.95% for regional employment and competitiveness, and 2.52% for increasing territorial cooperation.

Although the absorption of structural funds in Romania was not high immediately after accession, internal measures adopted in this regard (simplification of administrative procedures, training programs for public officials, adoption of strategic documents, implementation of monitoring and evaluation mechanisms, etc.) contributed to an increase in the absorption rate. In the latest Country Report for Romania (2023), the evolution of Romania's regions in terms of GDP per capita (from 52% of the EU average in 2010 to 74% in 2021) is highlighted, but existing disparities between regions are also noted. In the capital region, GDP per capita is at 166% of the EU average, while the Western region records 75%. GDP per capita values in other regions range from 49% to 71% of the EU average, with five regions having grown faster than the EU average and one of the three less developed regions, the North-East, experiencing a decrease in GDP during the reference period. According to the Report, **administrative capacity** in all regions, along with the lack of transport infrastructure and skilled labour, constitute obstacles to territorial development (European Commission, 2023).

A study by the World Bank in 2018 on less developed regions in the European Union concludes that institutional weakness, both in terms of governance and expertise, is a defining characteristic of regions whose development is stagnating (Farole, Goga, & Ionescu-Heroiu, 2018).

## Responsible Institutions

To implement development projects tailored to regional needs and ensure closer collaboration between central and territorial authorities, the Romanian Government has mandated the elaboration of a **Territorial Development Strategy of Romania**, coordinated by the Ministry of Development, Public Works, and Administration (MDLPA). The document was created through close cooperation between central public institutions within the Working Group supporting activities in the process of drafting the Territorial Development Strategy of Romania (MDLPA,





2023). Thus, in this case, central authorities had greater authority compared to „regional voices,” with regional development agencies mentioned only as being consulted as of March 2015.

Expertise groups with a direct impact on the management and implementation of projects supported by cohesion policy funds consist of public officials working in Regional Development Agencies (RDAs). According to EU budget planning periods, each RDA develops Regional Development Plans, which include particular coordinates for each area. The plans contain analyses of recorded developments, as well as development strategies tailored to the specific regions. Regarding the administrative capabilities of regional authorities, the latest Development Strategy for the Central Region highlights the need to support „strengthening the capacity of governance structures at multiple levels, strengthening institutions involved in planning and managing territorial development processes, and implementing **integrated territorial strategies**” (Central RDA, 2020). Similarly, the North-East RDA included in its Development Strategy 2021-2027 actions aimed at „developing the administrative capacity of actors involved in implementing, monitoring, and reviewing the Research and Innovation Strategy through smart specialization and the entrepreneurial discovery mechanism/system: North-East RDA, Regional **Innovation Consortium, etc.**” (North-East RDA, 2020). Therefore, it can also be observed at the level of the local expertise groups that there are deficiencies in the competencies and specialization of territorial authorities responsible for regional development.

## **What are the Risks?**

From the perspective of existing risks, the limited competencies of regional authorities, despite the requirements for integration and alignment with European policies, may contribute to inefficient management of structural funds and the perpetuation of existing disparities. The lack of „regional voices,” local authorities more interested in gains than in collaboration, and the transformation into a competition of projects for the central regional development authority are determining factors of the current state - a relatively good absorption of European structural funds, but without addressing or even exacerbating inter- and intra-**regional gaps** (Ianoș & Pescariu, 2012). **Centralization of decisions and lack of subsidiarity** can lead to inefficient project implementations, negatively impacting regional development and the utilization of funds. Inadequate regional development can lead to a loss of competitiveness in some regions, affecting their contribution to overall economic growth.



Another risk deriving from the lack of administrative competencies at this level is the disregard for regional specifics, which could exacerbate economic and social discrepancies between regions and result in inefficiencies in managing projects that benefit the respective region. Over time, centralization and disregard for the principles of subsidiarity can diminish the legitimacy of cohesion policies in the eyes of citizens, generating dissatisfaction and mistrust in EU institutions and contributing to Euroscepticism.

Excessive centralization can create opportunities for unethical practices, corruption, and abuses in fund management, affecting the integrity of the resource distribution process. In the long term, the persistence of socio-economic imbalances between Romania's regions and the failure to reach the threshold of 75% of the EU average GDP per capita may have adverse consequences for Romania's image within the Union. Additionally, the lack of progress in light of continued structural funding over the past two decades may intensify existing debates within the European Union about the main beneficiaries of Cohesion Policy.

## Conclusions

Romania continues to experience deficiencies in the decentralisation of governance at the level of regional development and disparities between the socio-economic development levels of regions, particularly in comparison to the capital area and the EU average GDP per capita. One cause of regional imbalance is the limited administrative capacities at the regional level, which reinforces the outlook that the situation is unlikely to improve in the near future.

Following the World Bank's reasoning in a study on underdeveloped regions, where institutions are a defining element of regions and their approach is crucial for expanding potential and implementing regional policy (Farole, Goga, & Ionescu-Heroiu, 2018), feasible solutions may include:

- granting real administrative competencies to regional institutions;
- improving the quality of public administration and governance at the regional level;
- encouraging partnerships among the counties within regions to achieve a decision-making process based on regional resources and needs.



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