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**Financing Opportunities and Performance Improvement in Times of
Economic Crisis. Case Study: the Romanian Local Public Administration**

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Abstract: The objectives targeted by this research paper refer to the analysis of the new economic context at the level of the local public administration in the Romanian regions. The paper will identify the existence and extent of structural changes occurred at the level of the local public administration, as well as efforts it made in substituting traditional funding means with European funds. The paper at hand is a continuation of the author's prior work on the topic of regional differences in Romania and on the effects of European funding on local economic development in our country. The main methods used in the paper are: the comparative analysis performed at the regional level and the empirical study of the involvement of regional local authorities in accessing European funds. The implications of the research results are valuable both to theoreticians and practitioners, since they indicate the willingness of local public administration to become flexible, pro-active and involved in enhancing its development. Also, conclusions can be drawn regarding the administrative capacity of the regions. The value of the research results resides in the fact that the analysis approach is new and the data combination used provides a fresh perspective on the matter.

Keywords: public sector; economic crisis; financing

1. Introduction

The global economic crisis that took over most of the world in the past few years had a severe, although delayed, impact on the Romanian economy. The public sector was particularly significantly impaired, due to the increasing budgetary deficit and the additional pressure on the state and local budgets.

In Romania, the economic crisis brought about an important decline of all economic sectors, a strong increase of unemployment and several austerity measures for the public sector, meant to decrease public expenditure.

However, opportunities can also be found in times of economic crisis, reflected especially in the restructuring of public and private organizations, in an enhanced competitiveness of all organizations and in a strive for creativity and innovation, as tools for gaining a competitive edge or for improving performance.

For the public sector, the economic crisis brought to light the opportunity to discover alternative financing means, apart from the state budget, mainly the access to European funds. The absorption rate of European funding prior to the economic crisis was very low in Romania, reaching merely 10%.

The paper at hand will perform a comparative analysis, at the level of the local public administration in Romania, attempting to reveal if in times of crisis, the administration’s ability to attract European funds has increased and, as a consequence, if its performance has improved. The case study will illustrate the situation of the eight regions in Romania, prior to the economic crisis and today, in terms of number of projects written and submitted for approval, number of projects actually approved, and amount of money involved.

Also, we will emphasize the possible structural changes brought about by the crisis, which influenced the administration’s flexibility and its adaptation to the changing environment.

Our working hypothesis is that, facing the lack of financing from the state budget, the local public administrations tried to increase their level of European funding. We expect to find both an increase in the number of projects written and accepted, and a change in the structure of the organization, in terms of number of persons/specialized compartments/departments/services assigned to access European funds, thus compensating the poor domestic economic environment.

2. Impact of the Global Economic Crisis on the Romanian Economy

The Romanian economy felt the global economic crisis on several levels: first of all, the decrease of economic activities, of exports, production and consumption; then, the increase of the unemployment rate and the severe drop of wages, more obvious in the public sector, where the budgetary cuts reduced public sector workers’ salaries by 25%, for a period of six months (July-December 2010). Starting with January 2011, the wages of public employees increased by 15%, still much lower than prior to the implementation of the austerity measures.

The unemployment phenomenon affected both the public and the private sector. The overall evolution of the average number of employees throughout the Romanian economy can be seen in the figure below:

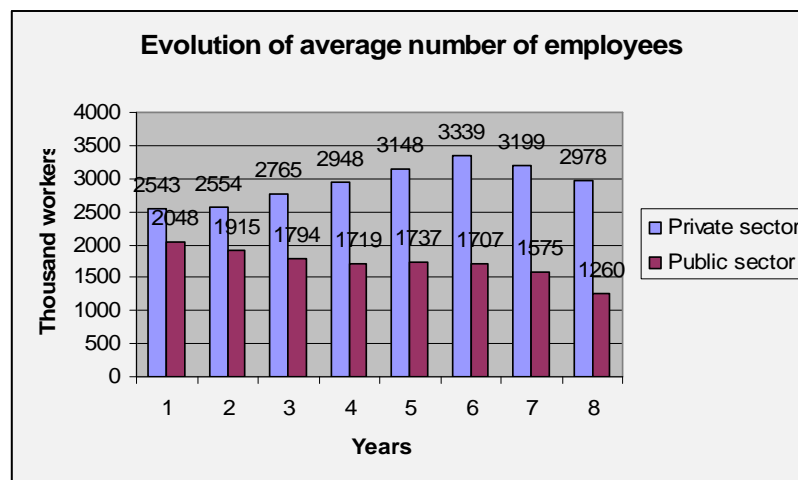


Figure 1. Evolution of the average number of employees (2003-2010)

Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute

From a total average number of 4,591,000 employees in 2003, in the conditions of economic development and in the light of Romania’s preparation for accession to the European Union, during

year 2006-2008 the number of employees increased constantly, reaching, respectively 4,667,000, 4,885,000 and 5,046,000 persons. Year 2009, the first year when the economic crisis was significantly felt in our country, the total average number of employees decreased by 6% (reaching the level of 4,774,000 persons), only to experience further reduction during year 2010. At the end of 2010 the average number of employees in Romania was of 4,238,000 persons, almost 20% less than two years before.

In parallel with the increase of the unemployment rate, beginning with year 2008, the public sector experiences severe personnel reductions. The total public employees in 2010 represented only 61.5% of the number of persons working in the public sector in 2003. In the private sector, although unemployment exists, the total number of persons working in 2010 represents 121.4% of the number employed in private enterprises at the level of year 2003.

The unemployment rate which decreased constantly between 2003 (7.4%) and 2007 (3.9%), starting with 2008 unemployment began to rise: 4.4% in 2008, 7.8% in 2009 and 6.9% in 2010.

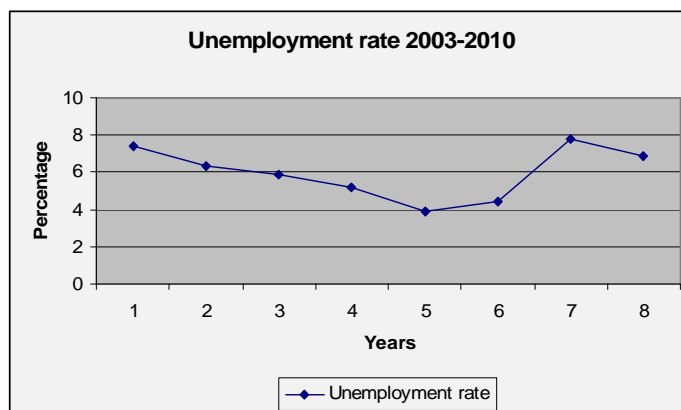


Figure 2. The evolution of the unemployment rate (2003-2010)

Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute

As seen from the data above, the economic climate in Romania changed significantly because of the global economic crisis. The following parts of the paper will illustrate the manner in which the local public administrations at the regional level handed the new economic challenges and what possible solutions were identified.

3. Regional Differences in Romania, in Terms of Administrative Structures

The Romanian territory is divided into eight NUTS II-level regions, which have a more or less decorative role. They have no legal personality, they are not administrative-territorial units and they exist only due to the efforts Romania made in view of the European Union accession. Starting with September 1998, the process to organize the national territory into regions according to the European model began. The lengthy process of freely associating neighbouring counties with similar and complementary economic and social backgrounds ended in October 1999, when all eight regions had been established (Jaliu, 2009).

However, the inter- and intra-regional differences in Romania are great, not only because of the somewhat forced creation of regions, mainly on geographical grounds, but also as a consequent of the

former socialist organization of the country, which had developed certain industries and economic branches in particular parts of the country, leaving other territories completely deficient in terms of industrial development.

Table 1. The regional territorial structure

Region	Number of counties	Counties	Surface (km ²)
North-East	6	Bacau, Botosani, Iasi, Neamt, Suceava, Vaslui	36,850
South-East	6	Braila, Buzau, Constanta, Galati, Tulcea, Vrancea	35,762
South Muntenia	7	Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman	34,453
South-West Oltenia	5	Dolj, Gorj, Mehedinti, Olt, Valcea	29,212
West	4	Arad, Caras-Severin, Hunedoara, Timis	32,034
North-West	6	Bihor, Bistrita Nasaud, Cluj, Maramures, Satu Mare, Salaj	34,159
Center	6	Alba, Brasov, Covasna, Harghita, Mures, Sibiu	34,100
Bucharest-Ilfov	2	Bucharest, Ilfov	1,821

Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute

Except for Bucharest-Ilfov, the regions are similar in size (between 29,212 km² and 36,850 km²) and in number of counties (generally, 5-6 counties).

In terms of administrative-territorial organizing, all regions have constantly increased their number of towns/municipalities and communes in the last few years. The statistical data go back only to year 2006, but the comparison of these data to those of 2003 faithfully illustrates the growing bureaucracy of the local public administration.

Table 2. Comparative data regarding the number of towns/municipalities and communes at the regional level

Region	Towns/municipalities		Difference	Communes		Difference
	2003	2006		2003	2006	
North-East	34	46	+35.3%	478	505	+5.6%
South-East	33	35	+6.1%	339	354	+4.4%
South Muntenia	43	48	+11.6%	488	519	+6.4%
South-West Oltenia	35	40	+14.3%	385	408	+6.0%
West	38	42	+10.5%	265	278	+4.9%
North-West	35	43	+22.8%	399	401	+0.5%
Center	55	57	+3.6%	336	357	+6.3%
Bucharest-Ilfov	3	9	+200%	37	32	-13.5%

Source: Own processing from data provided by the 2009 Statistical Yearbook of Romania, National Statistics Institute

The number of towns and municipalities has increased very much in only 3 years. The northern regions, North-East and North-West, increased the number of their towns by as much as 35.3%, respectively 22.8%. Three other regions have an addition of more than 10% in their number of towns, while the Bucharest-Ilfov quadrupled the number of towns in Ilfov County (from 2 towns in 2003, to 8

towns in 2006). The same tendency can be noticed in terms of villages that turned into communes, the positive trend being found in 7 out of the eight regions. However, the percentage of the increase is for almost all regions in the vicinity of 6%. The North-West region increased the number of communes by only 2 (from 399 in 2003 to 401 in 2006), while the Bucharest-Ilfov region is the only region where the number of communes has gone down, most likely because they were transformed into towns/municipalities.

The problem presented by the increase in the number of towns/municipalities and communes presents two sides. On the one hand, the decreasing trend of the unemployment rate during the period analyzed (2003-2006) may have been influenced not so much by economic progress and growth, but by the increased number of local public administration authorities. Overall, in just three years, 44 new towns were created, alongside 127 communes. The staff necessary to run the new town halls had some impact on the regional and national unemployment rate. On the other hand, the newly created public authorities place an additional burden on the local and state budgets.

In the conditions of the economic crisis, the public sector was forced to reduce expenditure. However, these new structures could not be dismantled and their financial burden was shared by the entire public sector. The austerity measures adopted by the government, with a view to manage the budgetary deficit, brought forth important challenges at the level of the local public administrations. The following section of the paper will analyze if the local public authorities were willing and/or able to compensate the lack of financial allocations from the state budget with increased efforts on the road to accessing European financing.

4. Evolution Of EU-Funding Accession at the Level of the Romanian Regions

The accessing of European funds has always been a difficult task for Romania, both for the public sector and the private actors. In the European Commission's Report "Cohesion policy: Strategic Report 2010 on the Implementation of the Programmes 2007-2013", at the end of September 2009, Romania has managed to absorb only 14.1% of the funds available (2.71 billion Euros paid for selected projects, out of the 19.21 billion Euros assigned by the EU as contribution for the development programs). The EU average on September 30th, 2009, was 27.1% absorption rate. Only Greece has a lower absorption rate than Romania, accessing only 11.9% of the available funding. Other states, such as Ireland, the Netherlands, Belgium or Spain, are above the 50% level. As terms of comparison, Bulgaria has an absorption rate of 20.2% and Hungary reached 46.3%.

In what concerns the Lisbon objectives, the situation presents as follows: For the Convergence objective, for which Romania is eligible with all its eight regions, the Lisbon earmarked selected projects represent 9.4% of the available funds (EU average 27.6%), while the non-earmarked projects reached an absorption level of 19.1% (EU average 26.2%).

Since most of the publically available data focuses on the development and implementation of the Regional Operational Programme (ROP), we shall analyze hereinafter the changes brought about by the economic challenges in the dynamic of accessing ROP funding.

According to the Annual Implementation Report for year 2009 of the Regional Operational Programme, elaborated by the Government of Romania, through the Ministry of Regional Development and Tourism, on December 31st, 2009, at the national level, there had been submitted 3,110 funding requests, in total value of 7.25 billion Euros, out of which 4.78 billion Euros would come from the ERDF. 715 financing requests had been approved, with an overall value of 1.69 billion

Euros (ERDF – 1.14 billion Euros), and 578 financing contracts had been signed (total value – 1.49 billion Euros; ERDF – 1.01 billion Euros). 57 projects were finalized before the end of year 2009, all for micro-enterprises, creating a total of 218 new jobs and bringing a European contribution of 2.9 million Euros. The top 3 regions in terms of contracts signed were West (12 contracts), North-East (11 contracts) and Center (10 contracts). In opposition, the South-East Region concluded a single contract, while South-West Oltenia and South Muntenia concluded 3, respectively 5 contracts.

In comparison, the situation at the end of year 2008 was as follows: total funding requests submitted: 1,516, with an average value per project of 2.41 million Euros. The ranking of the regions in terms of number of projects submitted remained the same at the end of 2009, as in the previous year. The highest number of projects was submitted by the North-East Region, followed by Center and North-West. The lowest number of projects was submitted by Bucharest-Ilfov, South and West regions.

However, in terms of dynamics, the region which submitted most projects between December 31st, 2008 and December 31st 2009 was the North-West region (286 projects), closing in on the gap between it and the Center Region in the overall number (a difference of 60 projects in favour of the North-West Region). The second most active region during year 2009, in terms of projects submitted was the North-East Region, followed by the Center Region.

The lowest number of projects, apart from the Bucharest-Ilfov Region, was submitted in 2009 by the South-West Region (156 projects), closely followed by the West and South Regions, with 181 and, respectively, 189 projects submitted.

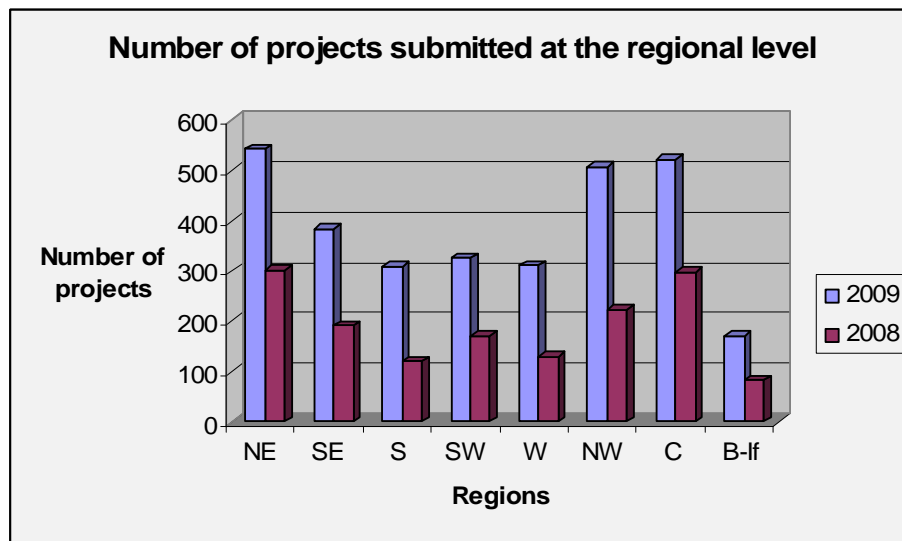


Figure 3. Comparative analysis of the number of projects submitted at the regional level

Source: Own processing from data provided by the 2009 Annual Implementation Report regarding ROP

The average value of the projects proposed does not vary much between the two years analyzed, 2008 and 2009, with an overall average value in 2008 of 2.41 million Euros/project and an average value of 2.33 million Euros/project in 2009. In both years, the region with the highest average value per project was South Muntenia (4.05 million Euros/project in 2008 and, respectively, 3.25 million Euros/project in 2009). The second-highest average value per project submitted was found in both years in the South-West Region (3.51 million Euros/project in 2008 and 3.01 million Euros/project in 2009). The smallest projects, in value, were designed in 2008 in Bucharest-Ilfov (1.08 million Euros/project) and

Center Region (1.78 million Euros/project). In 2009, the lowest average values per project were seen in North-West (1.71 million Euros/project) and Bucharest-Ilfov (1.77 million Euros/project).

The general trend in terms of average value/project was a descending trend, 6 out of the 8 regions submitting in 2009 projects of a lower average value than in 2008. Only 2 regions increased their average value, Bucharest-Ilfov and Center Regions, with the above-mentioned data.

The percentage of rejected projects at the end of year 2008 was 33.47%, while one year later, at the end of 2009, the percentage of projects rejected in different stages of the evaluation processes had decreased to 31.5%. The data at the end of year 2008 identified the South-West Oltenia Region as the region with the lowest percentage of rejected projects (27.14%), while the region which had the most difficulties in writing acceptable projects was South Muntenia (41.17% rejected projects). The second ranking region in terms of low percentage of rejected projects was the Bucharest-Ilfov Region (28.03%), while the third was the South-East region, with 28.05% projects rejected.

The situation one year later is quite different: the best capacitated region was the North-West Region, with only 25% of the projects rejected, a progress of 7.29% since the previous year. The Center Region has a total of 46% rejected projects in 2009, after having placed second in this negative hierarchy in 2008, with 40.38%.



Figure 4. Percentage of rejected projects in 2008, respectively 2009

Source: Own processing from data provided by the 2009 Annual Implementation Report regarding ROP

Analyzing the figures above, we can notice that, at the national level, the number of projects submitted in 2009 is significantly higher than in the two previous years. In fact, in a single year, the number of projects submitted for evaluation has doubled. This, in our opinion, indicates the fact that the European funding is seen increasingly as an alternative source of funding. It is true that the issue of co-financing is still a difficult issue in Romania, even though for the Regional Operational Programme the co-financing is limited to 16% of the contracted amounts (14% from public sources, 2% from private actors), the rest being supplied from the ERDF.

5. Conclusions

As the effects of the global economic crisis are still very much present in Romania and in Europe, a viable source for financing future development and for overcoming the economic shortcomings remains the EU financing by means of its structural and cohesion funds.

The paper analyzed the state of facts of the Romanian regions with respect to their ability to access this EU financing and illustrated the dynamic way in which the public and private actors responded to the challenges brought by the economic crisis, intensifying their efforts to submit more and better projects for EU evaluation, and, hopefully, for EU funding.

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