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V4 AND EU INREGRATION PROCESS: THE CASE OF UKRAINE

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Vladlen MAKOUKH**

Abstract: *The assistance of V4 is a very important for Ukraine. V4 countries reiterated their readiness to assist the Ukrainian authorities in preparing a comprehensive reforms package that should be at the forefront of the new government agenda. Such package should be focused on strengthening the rule of law, the efficiency of national and local governments, the transparency of public procurement, the reduction of state regulations and the fight against corruption, as well as envisaging a self-government reform that will bring the decision making process closer to the Ukrainian people. Genuinely implemented reforms, as demonstrated by V4 countries will bring the country closer to the European Union and will contribute to achieving Ukraine's European aspirations, which are duly noted by the V4 countries. The international conference in support of Ukraine in 2015, as well as the Riga Eastern Partnership summit of 2015 represent important milestones in this respect.*

Keywords: V4; V5; Ukraine; financial assistance; judicial reform

JEL Classifications: F02; F55

Introduction

The Visegrad Group (also called the Visegrad Four or V4) is the formation of four Central European countries: Poland, Slovakia, Hungary and Czech Republic. It was created in Visegrad castle in Hungary on 15 February 1991, during the Summit of Heads of State and Governments of Czechoslovakia, Hungary and Poland. That's when the Warsaw Pact's mission came to an end. Presidents Vaclav Havel, Lech Walesa and Prime Minister Yozef Antal founded the so-called Visegrad three (V3), which transformed into the Visegrad four (V4) after consequent dissolution of Czechoslovakia. The original purpose of V4 was to promote integration within NATO and EU. Once it has been successfully implemented, the concept of organisation was rethought. During the summit in Czech city of Kroměříž in 2004, the member countries adopted a new Visegrad Declaration, which envisaged more active cooperation of organization with other states in the format of V4 +. The main objective of this cooperation became the transfer of integration experience and support of neighbouring countries that were interested in European integration. It should be mentioned that Ukraine occupies one of the main ranks among the countries invited to the partnership within the Visegrad Group.

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The goal pursued by Visegrad countries (coordination of cooperation on the path to European integration) has been properly achieved in May 2004 when all four states joined the EU. But even now the basic algorithm of V4 activity includes the exchange of ideas, elaboration of common positions on important international issues and political situations, particularly in Central and Eastern Europe.

According to the statutory documents, the annual presidency of V4 is determined on the basis of rotation, which is crowned by summits of heads of government. The foreign ministers hold their talks on the eve of important international events and forums. V4 extension with new members is not expected, but this does not rule out *ad hoc* consultations on some important issues with other countries. The formation is an important regional forum, with emphasis on the fact that its work is advisory. Thus, decisions taken in its framework do not have binding force for governments of V4. Concrete cooperation takes place on the level of interdepartmental contacts.

After the accession of V4 member countries to the EU and NATO, cooperation within this formation acquired features of regional forum for exchanging ideas. Two levels of dialogue (political and expert) have been clearly determined.

The political dialogue conducted within the regular meetings of Heads of State, Government and Foreign Ministers, during which there are no substantial debates, but parties voice their position and accept the documents with declarative contents. The cooperation of V4 member countries is based on concrete projects, on sectorial and inter-agencies cooperation. It provides expert dialogue with qualitatively new legitimization since it started to be implemented both on *regular basis* and *ad hoc*.

The foreign policy priorities of V4 countries include their willingness to actively participate in the implementation of EU policies towards countries of Eastern Europe (Ukraine, Moldova) and South-East Europe (Western Balkans).

1. V4 and Ukraine

It is of primary importance for V4 countries to ensure the democratic development of Balkan countries, as well as to promote the European aspirations of Ukraine. During multilateral negotiations, the representatives of V4 countries constantly stress their readiness to fully support Ukraine on its path to the EU and to present this position at V4 forums and international meetings of higher level.

The conflict in eastern Ukraine significantly influenced the political and economic situation in Central and Eastern Europe, increasing the differentiation of the so-called "New Europe". Such differentiation is caused by different strategic interests of regional players that, on the one hand, try

to get dividends from the situation on the borders of Ukraine, and, on the other hand – are compelled to reconsider conceptual approaches for ensuring national security in terms of cardinal fracture of geopolitical paradigm.

There is a number of applications to support Ukraine in order to preserve its territorial integrity, that have been approved in the framework of V4, on the level of Heads of Government and Foreign Ministers since the deepening of the Ukrainian crisis in 2014. Slovakia currently occupies the presiding role in V4 and actively uses the format of the V4 + for drawing The United Kingdom, Austria, Switzerland, Western Balkan countries, as well as Germany and France to support Ukraine.

The *chronology* of 2014-2015 indicates the increasing of EU's attention (including Visegrad countries) regarding the "Ukrainian case".

The working meeting of state secretaries in the format of V4 + Germany was held in Bratislava on *July 3rd, 2014*, on the Slovakian initiative. Following the meeting, the Slovakian State Secretary of Foreign Ministry Peter Burian noted that the situation in Ukraine directly affects the V4 countries. He stressed that Ukraine's path chosen, as a result of recent political and social changes must remain at the centre of European attention. At the meeting, Secretaries of State reached a common opinion on the necessity to coordinate efforts for assisting Ukraine in European endeavours.

The meeting in the format of V4 + Ukraine at the level of deputy ministers of foreign ministries was held in Lviv on *October 6th, 2014*. The Ukrainian side was represented by First Deputy Minister of Foreign Affairs of Ukraine Natalia Galibarenko.

The summit V4 + UK + Western Balkans took place at the level of Foreign Ministers in Bratislava on *30-31st of October, 2014*. The foreign ministers of the Visegrad Group countries called for the observance of the Minsk protocol for the establishment of regional peace and stability.

The summit of V4 Presidents + Germany + Ukraine took place in Bratislava, on *15-16th of November, 2014*. Within the summit, the President of Ukraine Petro Poroshenko held bilateral meetings with presidents of Slovakia, Poland and Germany.

The summit of V4 countries + Switzerland at the level of Prime Ministers was held in Bratislava on *December 9th, 2014*. It was focused on issues of energy security, strengthening economic relations, competitiveness, academic exchanges and education. The joint statement under results of the summit expressed support for Ukrainian integration steps to Europe and concerns over the deteriorated stability in Europe due to the events in Ukraine.

The meeting of V4 + Ukraine Foreign Ministers took place on *15-16th of December 2014*, in Kyiv. The adopted joint statement stated that the V4 member countries provide assistance in reforming separate sectors of Ukraine.

On *March 31st, 2015*, the European Commission made a decision to allocate last tranche of 250 mln.€ for Ukraine in the framework of the first macro-financial assistance program. According to the European Commission, in 2014 Ukraine received 1.360 bln. € of macro-financial assistance.

2. Possible options for deepening the Ukraine – V4 cooperation

V4 is actively developing. Member countries are aware of cooperation uniqueness in terms of their membership in the European Union. In general, these countries support substantial financial aid to Ukraine. Ministers of Foreign Affairs of V4 declared it at a meeting of seven Eastern European countries' representatives in Budapest. Visegrad countries have proposed the plan for Ukraine's support in the energy sector (in particular, the matter concerned with the supply of gas, purchased by European Union countries). The call for liberalisation of visa regime for Ukrainian citizens was announced on the meeting as well.

The idea to create a group of Ukrainian reforms' support emerged during the negotiations of V4 countries with Western partners in Bratislava. It was then decided to organize a joint visit of Polish, Hungarian, Slovakian and Czech Foreign Ministers to Ukraine (Doroga, 2015). In addition, V4 countries announced plans to create a special fund for Ukraine's support. Although the fund's assets have not been announced yet, it was pronounced that it is ready to provide Ukrainian students with 410 scholarships to study in Europe (Korba, 2014).

According to the announcement of Polish Foreign Minister Grzegorz Schetina, the essence of patronage over reforms in Ukraine "means expert support, joint development of programs and discussing of reforms course with the experts". Slovakia should become the main country in assistance of domains of energy and energy security, while Poland in decentralisation processes and reforms of government at the regional level, as well as in administration and civil service. Czech Republic will provide assistance in reforming the civil society, education and media. Hungary will be the main country which assists in economic development, small and medium enterprises (SMEs), as well as in the implementation of agreement on the foreign trade.

In the future, experts from Visegrad countries plan to arrange some kind of «road-show» in different cities of Ukraine, in order to find solutions to problems and determine the most actual among them. Following the expert discussion of reforms on self-government and decentralisation of power in Ukraine, some targets for priority actions were established. Thus, according to the Polish Foreign Minister, "the Ukrainian government should be closer to the people and do not have a huge apparatus of officials, otherwise it will be impossible to solve the corruption problem. If Ukraine does not

overcome corruption, it will gain nothing, but it cannot win without power decentralisation and deregulation". At the meeting with Deputy Chairman of The Ukrainian Parliament O. Syroyid, the Ministers of Foreign Affairs of V4 stressed the need for serious reforms in Ukraine, in particular through the creation of independent media, constitutional reform implementation, reforming the judicial system and principles of self-government of local communities. According to European diplomats, all the reform measures should be transparent and understandable to society.

During the official meetings in Kiev with the foreign ministers of Poland, Hungary, Slovakia and Czech Republic, the Ukrainian President Petro Poroshenko announced Ukraine's intention to join the "Visegrad Four", with subsequent conversion of this group to the "Visegrad five". Some countries of European "quartet" supported the abovementioned idea. Thus, the *Polish* Foreign Minister Grzegorz Schetina said that Poland is interested in Ukraine's integration in the European Union and, correspondingly, in its joining the "Visegrad Four".

Similarly, *Slovakia* is interested in creating a more effective union on the basis of the V4, provided that the main priority of such union would be lobbying the common interests of the Central and Eastern Europe (CEE) region countries at the EU forums. It is not excluded that, with this purpose, some amendments will be introduced regarding the composition of association members, as well as the organisational foundations of V4 work. Bratislava understands that, at the moment conditions for expanding the format and changing the principles of the group are not sufficient: firstly, some of the V4 countries come out against the members' expansion, and secondly, V4 countries have similar settings of socio-economic development and similar positions on most issues. However, Ukraine reckons on the support of Slovakia as a country whose geopolitical interests are mostly concentrated in the Eastern European area.

3. V4 experience and judicial reform in Ukraine

Copenhagen criteria (of 1993), which established the general political and economic guidelines for countries seeking to join the EU, stipulate that the EU membership "requires achieving by the candidate country stability of institutions guaranteeing ... the legality ...". Thus, accession demands not only political, constitutional and legal framework that will guarantee the legality, but establishment of quite independent and effective judiciary. However, EU legislation contains a relatively small catalogue of regulations related to the judiciary. Judicial systems of EU countries differ significantly, including matters of judges' selection, judicial self-government or the structure of the higher national courts. "Tough" EU law directly settles only a limited number of legal issues,

including those related to the ability of judges to properly apply EU law, for instance, by means of relevant references to the EU Court of Justice, as well as direct application of selected EU standards in internal procedures or effective sanctioning of the EU rules' violations by individuals. The EU is relatively more ambitious in the issues of judiciary transformation in candidate countries.

The status of the judicial system has been discussed within the relevant sections of the Commission regular reports, dwelling on the progress (or lack of the progress) in the accession candidate countries. Sometimes, the Commission analysis is characterised by inconsistency and lack of clear guidelines. For example, the *Kochenov* critical analysis, related to the EU impact on the rule of law in the candidate countries, describes the case when the European Commission asked Romania to establish a fully independent institution of judicial training (as a guarantee of the independence of justice), and vice versa, the decision of the Czech Republic to set up training of legal personnel in semi-autonomous body under auspices of the Ministry of Justice, rated as a positive step towards coordination of education process (De Ridder, 2011). However, in other situations, the European Union could send a clear signal to candidate countries. For instance, the Slovakian Government's disregard for the conclusions of the Constitutional Court was one of the reasons for delaying negotiations between Slovakia and the EU on the issue of accession (Šlosarčík, 2013).

Ukraine badly needs real, not apparent judicial reform, which will be the pledge of providing affordable, transparent and fair justice, genuine guarantee of judicial independence, will significantly improve the state of court decisions implementation, and will create the terms for improving circumstances for professional judges. These reforms should start with improving the constitutional foundations for strengthening the judiciary as truly independent and fair in terms of creating a new Constitution of Ukraine. In particular, Ukrainian experts propose to recreate the article 6 of the European Convention on Human Rights (which protects the right to a fair trial) in the draft of the new Constitution. It has also proposed to add to the draft of Constitution the provision that judges do not have to bear political commitments to the organs or persons who appointed or elected them. Changes in the legislation should necessarily include: the reform of the judicial self-government, the reform of the system of judges' selection, the reform of disciplinary responsibility of judges, as well as strengthening the role of the Supreme Court in shaping a coherent judicial practice and revising the rates of court fees (Zaharov, 2014, pp.77-85).

Conclusions

On the grounds of the abovementioned arguments, we may conclude that it is of paramount importance to deepen cooperation between Ukraine and Visegrad countries, particularly in the context of Ukraine joining a more active dialogue with the aim of borrowing the European experience and further develop cross-border cooperation in the process of the European Union enlargement (the use of certain benefits of free economic zones, development of joint cross-border projects, development of the border infrastructure, improvement of cross-border control, etc.), as well as conducting consultations on other matters of mutual interest. In addition, special attention should be paid to issues related to promotion of political and economic interests of Ukraine in the international institutions and attracting effective assistance from the Visegrad countries in the form of additional financial resources with the aim of supporting and stabilising the Ukrainian economy.

At the same time, it is necessary to take into account the problems and issues in the context of bringing Ukraine closer to the EU, particularly, the plight of Ukraine's economy and the complexity of implementing parts of the Association Agreement which are related to the objective difficulty of adaptation of Ukrainian economic capacities to the European standards.

Launching of real, not declarative implementation of European integration reform' package by new leadership of Ukraine requires the conversion of Ukraine's relations with the countries of Visegrad on the level of strategic partnership, given the fact that the successful implementation of these objectives should lead to final drifting of official Kyiv into European 'milieu' (with expansion of Central and Eastern Europe region after including Ukraine). The abovementioned, as a whole, meets the interests of Central and Eastern Europe countries, but requires them to apply their joint efforts towards a consistent support of Ukraine's course towards European integration.

For further development of cooperation between Ukraine and the Visegrad Four, it is expedient for Ukraine to participate in meetings at all levels in the format "V4 + Ukraine" and to hold consultations with four countries on the level of experts with the aim of taking into account Ukrainian interests in determining the areas of cooperation within these formats.

In the future, the main purpose of dialogue between Ukraine and V4 should concentrate on borrowing the V4 countries' particular experience in the process of European integration, further development of cross-border cooperation in the context of enlargement of the European Union (using of the benefits of free economic zones, development of joint cross-border projects, development of the border infrastructure, improvement of border control, etc.), as well as consultations on other matters of mutual interest.

It is also important to provide effective assistance to Ukraine within international institutions, using the established networks of V4 countries with them.

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A CRITICAL APPROACH OF THE EUROPEAN FUNDS ABSORPTION FOR THE 2007-2013 PROGRAMMING PERIOD: CASE STUDY - REGIONAL OPERATIONAL PROGRAMME OF ROMANIA

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Stefana VARVARI**

Abstract: *For Romania, 2015 represents the year in which new programming documents are enacted, among which the Regional Operational Programme is the one that focusses on the harmonious development of the regions in terms of GDP/inhabitant and number of new jobs created. During the 2007-2013 period, 19% of the total EU contribution of EUR 19,667 million were allocated for this programme and about a third of the total allocation for 2014-2020 is provided for it. This shows that regional development was and is still considered one of the main objectives, after the improvement of the transport and environment infrastructure. In this context, the authors analyse, in a comparative manner, the results obtained on each axis and by each region during the 2007-2015 time-span, through the projects financed under the Regional Operational Programme 2007-2013 of Romania, trying to identify the main problems and bottlenecks and the way they were dealt with during these years, as well as the changes envisaged for the new ROP 2014-2020. For this analysis the monitoring and the evaluation reports were taken into consideration.*

Keywords: regional operational programme; regional development policy; European Regional Development Fund

JEL Classification: O18; R58

Introduction

Regional economic development is influenced and depends on the quality of transport, health, educational and social infrastructure and services, which have a positive effect on a region's attractiveness, by increasing its accessibility, the health of the population, the qualification level and the participation in the labour market. The presence of business support structures is also an important factor for the attractiveness of a region, stimulating the regional and local business environment and promoting it as a good location for investment in economic, social and cultural activities.

The regional policy of the European Union (EU) aims at reducing the structural disparities among the EU regions, by promoting a balanced development at EU level and equal opportunities for all its inhabitants. The objectives of the regional policy are based on solidarity, economic and social cohesion and are put into practice through a series of financing operations, funded by structural and cohesion funds. This policy is the second largest receiver of EU budget. The allocated budget for

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economic, social and territorial cohesion is 325 bn. Euros (2011 prices) for 2014-2020, a little less than it was for 2007-2013 (355 bn. Euros, 2011 prices)¹.

The Regional Operational Programme (ROP) for the 2007-2013 programming period was the main instrument that Romania used in order to reach the objectives set in the National Development Plan and the regional development policy. It was intended to solve the development problems identified in the National Strategy for Regional Development and all 8 development regions (NUTS 2) of Romania² could access this programme. Between 2007 and 2013, 19% of the total EU contribution of EUR 19,667 million were allocated for this programme and about a third of the total allocation for 2014-2020 is provided for it. This shows that regional development was and is still considered one of the main objectives, after improvement of the transport and environment infrastructure.

The strategic objective of the programme was to support an equally balanced economic, social and territorial growth of all parts of the country, in accordance with their specific needs and resources. ROP's purpose was to ensure that all areas have a minimum level of business, social and human capital infrastructure to allow growth to take place. The Managing Authority (MA) for the ROP was the Ministry of Development, Public Works and Housing (at present the Ministry of Regional Development and Public Administration) and there were 8 Intermediate Bodies designated one for each region, within the Regional Development Agencies (RDAs). The ROP was financed by national and local budgets, private sources and co-financed, up to 85% of the total public expenditure, by the European Regional Development Fund (ERDF). Indicative financial allocations were made at regional level based on their development level measured through GDP/capita and population density. Less developed regions proportionally received higher amounts of financial allocation.

1. Implementation stage of ROP 2007-2013

The programme proposes an integrated approach by combining investments in local infrastructure with active policies for business stimulation and support of the local resources capitalization. ROP could be seen as a sectoral programme without regional specificity. The difference between the 8 development regions was determined by the financial allocation as mentioned before (higher allocations for poorer regions, with North-Est region having the highest allocation – 16%, and Bucharest-Ilfov region the smallest - 9%).

¹ According to the information available on DG Budget's website: http://ec.europa.eu/budget/mff/figures/index_en.cfm

² Established by Regional Development Law no. 151/1998, which was later amended by Law no.315/2004.

According to the Regional Operational Programme document (October 2013), the programme was structured on six priority axes and 15 key intervention areas and was used to finance projects that had in view the support of urban poles, rehabilitation and modernisation of local transport infrastructure, education, health and social care infrastructure, strengthening the business support structures, creation of micro-companies, valorisation of the local tourism, cultural and natural patrimony through the development of tourism infrastructure and related entrepreneurial initiatives.

The objective of the first axis was to increase the quality of life and to create new jobs in cities and their surrounding areas. This objective should have been reached by supporting investments in the rehabilitation of the urban infrastructure, the improvement of services (including social services), and the development of business support structures and entrepreneurship.

Axis 2 had as objective the increase in the accessibility of the regions and the mobility of population, goods and services in order to foster the economic development of the regions. This axis supported investments in the rehabilitation and modernization of the county roads and urban streets network (including ring roads) in order to ensure fluent urban traffic, reduce journey time, eliminate bottlenecks and ensure safe crossing of localities.

The objective of axis 3 was to create the premises for better access of the population to essential services. This was to be done by supporting the rehabilitation / modernization / equipping of the health services' infrastructure, of social services infrastructure, of pre-university, university education and continuous vocational training infrastructure and the improvement of the equipment of the operational units for public safety interventions in emergency situations.

Axis 4's objective envisaged to facilitate the creation of jobs and sustainable economic growth by supporting a friendly entrepreneurship climate in the local communities. There were more types of interventions supported, in order to achieve this objective, such as: creation and development of business support structures of regional and local importance, rehabilitation of the industrial sites, stimulating and assisting new and existing entrepreneurial initiatives (micro-enterprises) at local and regional level.

Axis 5 aimed to capitalize and promote the cultural heritage and natural resources with tourism potential in a sustainable manner and to improve the quality of accommodation and leisure infrastructure. This objective could have been reached by supporting the restoration and valorisation of cultural heritage and related infrastructure, the creation / development / modernization of the tourism infrastructure and the promotion of tourism potential (tourism brand) and setting-up of the needed infrastructure (tourism information and promotion centers).

The Technical assistance axis is aimed at providing support for transparent and efficient implementation of the programme, the effective use of the funds and a high quality and coherence of actions. The objective was meant to be reached by supporting the implementation, management and evaluation of the ROP and the publicity and information activities.

The ROP for the 2014-2020 programming period (draft) proposes 12 priority axes, but at the level of intervention areas there are many resemblances with the ROP 2007-2013. ROP maintains its integrated approach offering support for investments directed to improvement of the economic environment (axes 1 and 2 which were transferred to ROP from Increased Economic Competitiveness SOP), environment protection and climate change (axis 3), sustainable urban development (axis 4, but this time the beneficiaries are all county capital cities, except for Bucharest and Tulcea), protection and capitalization of cultural patrimony (axis 5), improvement of the regional transport infrastructure (axis 6), tourism development (axis 7), development of health, social and educational infrastructures (axes 8 and 10), economic and social regeneration of disadvantaged communities (axis 9, new integrated approach to local development) and extension of the geographical system of property registration in cadastre and land registry (axis 11, new).

19.68 billion Euros have been allocated to Romania through structural and cohesion funds for the 2007-2013 period, representing approximately 892 euro/inhabitant and 2.3 % of PIB. For ROP there have been 4.66 billion Euros allocated, out of which 3.96 billion Euros represented the European co-financing. 15% was represented by the national financing. The highest amount was allocated for supporting sustainable development of cities (30%), followed by supporting the local and regional transport infrastructure (20%). Smaller amounts were allocated for social infrastructure and tourism. Approximately 3% of the funds were destined for technical assistance. The annual distribution shows an increasing trend with higher amounts towards the end of the period.

Until the end of February 2015³, 4,630 projects have been contracted, with a total value of 32.78 billion RON, out of which 20.33 billion RON from European Regional Development Fund (over 60%), 3.12 billion RON from the national budget and 2.51 billion RON own contribution. The rest of the sum (20%) represented ineligible expenditure.

There is a high level of application for the allocated funds (approximately 200%) in all 8 regions a fact that underlines the high needs of the regions for improved infrastructure supported by ROP. The contracted rate represented approximately 115% of the allocated funds with higher levels for urban centres and road, health and social care infrastructures.

³ List of contracted projects, 28th of February 2015.

The total number of projects submitted by beneficiaries was 10,070 (22% of the total projects submitted through the 7 operational programmes⁴), but only 5,142 have been approved and 46% were contracted. The current absorption rate⁵ was 58.57%, the second highest, after ACD OP (77.54%). At a national level, the current absorption rate was 52.59%. This rate registered an important increase in the last years, due to the measures taken by the MA regarding the simplification of the procedure, the acceleration of the processing process of the reimbursement applications, the introduction of the system of payment application for beneficiaries and the assurance of payment reserves through loans from Treasury and also due to the changes made in the ROP's financial plan after the transfers from TSOP and ESOP⁶.

Taking into consideration the number of projects submitted, the ROP was the third one after IEC SOP and HRD SOP. The high popularity of the programme could be attributed to the information and publicity measures and to the fact that the ROP's objectives responded to the real needs of the regions and of the potential beneficiaries.

In what concerns the number of contracted projects, one can notice that 30% were contracted on ROP, overrun only by IEC SOP, with 5,557 contracted projects. But the contracted rate was higher for ROP than for IEC SOP (46%, respectively 32% of the total submitted projects).

If one looks at the ERDF sums contracted, one can observe that 22% of the total was contracted through the projects submitted on ROP. The only programme that reached a higher contracted amount was ESOP.

1.1. Analysis on priority axes of ROP

The highest interest of the beneficiaries was in regional and local transport infrastructure, showed by the highest value of requested funds recorded by axis 2 (three times higher than the allocated funds), which was followed by axis 1. *Support to sustainable development of urban growth poles*, for which the highest interest was also in urban infrastructure, mostly transport infrastructure.

Axis 2. *Improvement of regional and local transport infrastructure* registered the highest level of internal payments and reimbursement from the European Commission. Axes 4 and 5 are the ones

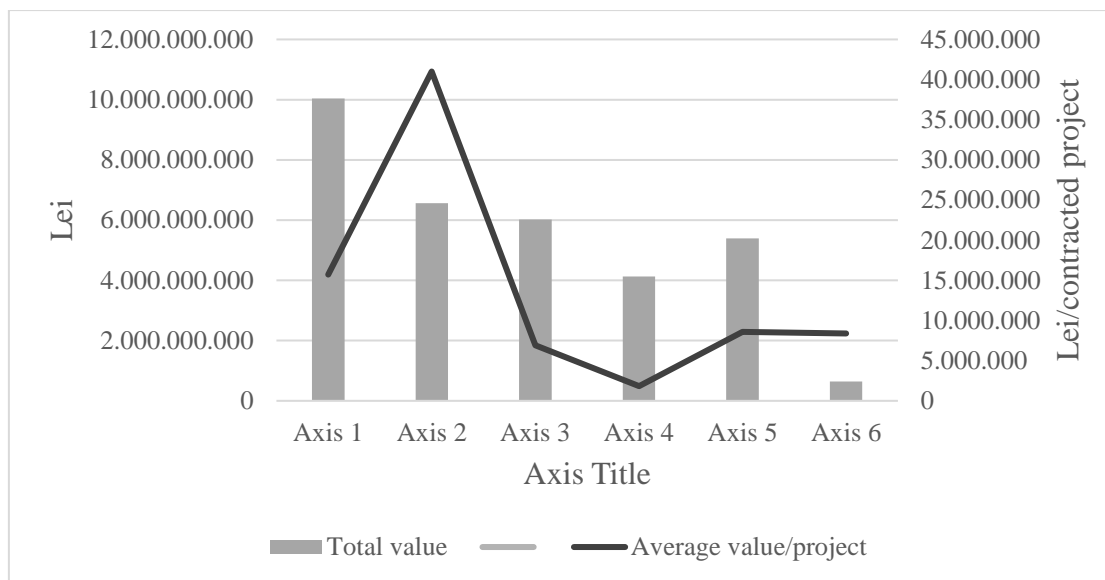
⁴ Regional Operational Programme, Environment Sectoral Operational Programme (ESOP), Transport Sectoral Operational Programme (TSOP), Increasing Economic Competitiveness Sectoral Operational Programme (IEC SOP), Human Resources Development Sectoral Operational Programme (HRD SOP), Administrative Capacity Development Operational Programme (ACD OP) and Technical Assistance Operational Programme (TA OP)

⁵ Calculated by the Ministry of European Funds as the amount of expenditure transmitted to the European Commission out of the total amount

⁶ According to Updated Interim evaluation of the ROP 2007-2013, April 2014

that contracted lower values than the allocated funds. Two key intervention areas covered almost half of the total contracted funds: 1.1 Integrated urban development plans and 2.1 Improvement of regional and local infrastructure.

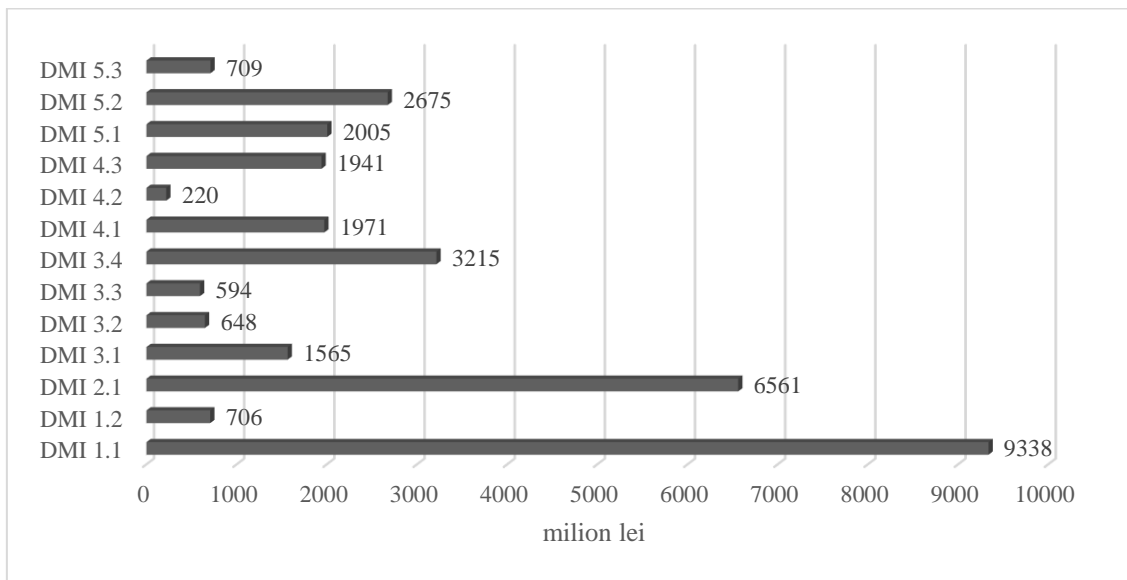
Figure 1 - Value of contracted projects by priority axis of ROP



Source: Own calculation based on the List of contracted projects, 28th of February 2015, MA for ROP

The highest number of contracts were signed within axis 4. *Strengthening the regional and local business environment* (2.259 projects, representing 49% of the total projects contracted on ROP). This shows a high interest of the private beneficiaries in receiving funding for investments in business development and increased competitiveness on the domestic and international markets. Within axis 2, only 160 projects were contracted (3.5% of the total contracted projects), but this is due to the fact that these projects are big infrastructure projects, with high values. However the situation is inverted when looking at the average value per contracted project: projects funded by axis 2 registered an average value of 41 million RON/project, in comparison with only 1.8 million RON /project in the case of axis 4. A high average value was also registered for the projects financed under axis 1, especially due to the complex projects in urban infrastructure. The average value per contracted project within axis 3 and 4 are lower than the average value per project registered at programme level (7 million RON /project).

Figure 2 - Value of contracted projects on key intervention areas



Source: Own calculation based on the List of contracted projects, 28th of February 2015, MA for ROP

Analyzing the value of the projects contracted on each key intervention area, one can observe that the largest values were registered by the projects contracted within key intervention areas 1.1 Integrated urban development plans (9.3 billion RON) and 2.1. Rehabilitation and modernization of the county roads and urban streets network (6.5 billion RON). Looking at the value registered by the projects contracted on the other three axes (except technical assistance), one can notice that higher values were registered by the projects contracted on the key intervention areas 3.4 Rehabilitation, modernization, development and equipping of pre-university, university education and continuous vocational training infrastructure, 4.1 Development of sustainable business support structures of regional and local importance, and 5.2 Creation, development, modernization of the tourism infrastructure for sustainable valorisation of natural resources and for increasing the quality of tourism services. The lowest value of attracted funds was in the case of the projects financed within key intervention area 4.2 Rehabilitation of unused polluted industrial sites and preparation of new activities. This is due to the fact that this type of intervention was not considered attractive by potential beneficiaries. There were contracted only 6 projects in Centre and West regions.

The key intervention areas that proved to be most attractive for beneficiaries, as shown by the high number of projects that were contracted are 4.3 (with 2,169 projects), 1.1 (with 526 projects), 3.4 (with 525 projects). This shows that micro-enterprises were interested in increasing their competitiveness and public administrations were interested in improving urban environment especially through investments in urban infrastructure and in improving education infrastructure.

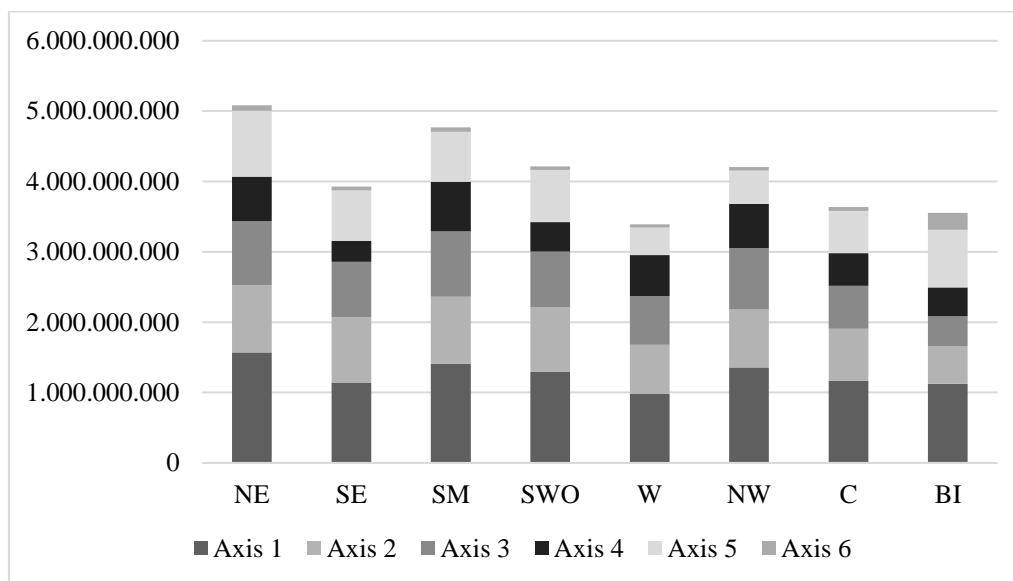
These investments have important contribution to both the quality of life of the inhabitants and the economic development of communities, generating new jobs or maintain the existing ones.

1.2. Territorial analysis

In the last two years there has been an important increase in the contracted rate for growth poles, which registered a low level in the previous years due to late launch of the call for projects and the complexity of the integrated plans necessary for these poles. The cities that registered the highest contracted funds were Bucharest, Iasi, Craiova, Cluj-Napoca, Timisoara, Ploiesti, Braila, Targoviste, Brasov, Oradea, Constanta, Pitesti, Alba Iulia and Piatra Neamt, all of them with over 50 million EUR contracted.

The North-East region contracted projects with the highest values, reaching 5 billion RON. This region is also on the first place taking into consideration the value of the contracted projects on axis 1, axis 2 and 5, a fact that is justified on the one hand by its low development level and the high needs that it had in what concerns infrastructure (axis 1 and 2) and on the other hand by the high potential it has in what concerns tourism (axis 5). At the other end of the regional hierarchy, based on the total value of the contracted projects, stands the West region with only 3.3 billion RON, but this region is at the top when it comes to average value per contracted projects with 8.1 million RON /project (lowest number of contracted projects, only 414), over ranked only by Bucharest-Ilfov region with 8.5 million RON /project. South-Muntenia and North-West regions registered the highest number of contracted projects. South-Muntenia region was on the first place from both value and number of contracted projects within axes 3 and 4. In North-West region was recorded the lowest average value per contracted project.

Figure 3 - Territorial distribution of the contracted funds on priority axes of ROP (lei)



Source: Own calculation based on the List of contracted projects, 28th of February 2015, MA for ROP

Taking into consideration the number of contracted project, one can notice that North-East, South-Muntenia and Center regions showed more interest in developing tourism infrastructure than in urban development. As opposed to the other regions, West and North-West regions contracted more funds for strengthening business environment than for tourism infrastructure.

At the end of 2013⁷, North-East, Center and South-East regions were the ones that, registered the highest proportion of finished projects from the total contracted (around 30%) and Bucharest-Ilfov region only finished 10% of the projects it had contracted. The rest of the regions finished about one quarter of the projects.

2. Main problems encountered during the implementation of the programme

According to the Implementing Annual Report 2013, the level of achievement of the ROP targets through finished projects was high for the number of rehabilitated/modernized urban infrastructure and the number of inhabitants benefiting from this, number of rehabilitated km of county roads, number of people that benefit from improved health, educational and social care infrastructure, and number of supported micro-enterprises and jobs created in micro-enterprises. On the other hand, there are low levels of achievement in what concerns the number of rehabilitated/modernized health, educational and social care infrastructure, km of rehabilitated urban

⁷ ROP Implementation Annual Report 2013

streets, number of projects regarding energy efficiency, urban business infrastructure, cultural heritage and tourism infrastructure and promotion.

The payment rate was low and holds back the implementation of the projects, having a negative impact on the level of achievement of all projects' specific indicators. The low level of payments could be explained by the reduced capacity of covering the necessary amounts that should be reimbursed to the beneficiaries. Small rates were also registered for approval and contraction which led to delays in the programme's implementation and funds absorption.

In the last years, the Audit authority identified errors related to the SMIS (Single Information Management System) such as: incorrect registration of the debits of the projects for which expenses have been declared to the European Commission; related to elaboration and evaluation process such as: insufficient verification in what concerns the conflict of interest for private beneficiaries; lack of coherence, at projects' level, between physical and financial indicators; related to public procurement, such as: unequal treatment for the bidders; the winning bidder didn't satisfy the minimum requests for qualification and selection; restrictive requests in the tender documentation in what concerns the qualification criteria; and related to the implementation stage, such as: unjustified increase of the initial value of the contract by using additional acts to the contract.

Problems could be grouped into more categories, taking into consideration different stages in the preparation and implementation of a project. Thus problematic issues were connected to the elaboration of the project and of the requested financial documentation and the launching and implementation of the calls for application (which were more frequent at the beginning of the programming period); project evaluation and contracting, project implementation and institutional capacity of the beneficiaries and of the financing authorities (which are still an issue).

Specific problems have been encountered for certain priority axes of the ROP:

- for axis 1 there have been important delays in the implementation plan of some individual projects financed within growth poles' integrated urban development plans which led to a low level of reimbursement; and some beneficiaries had difficulties in elaborating large enough grant applications, for more blocks of flats, in order for the project's value to meet the requirements;
- lack of correlation between interventions financed through ROP and interventions financed within other programmes, for example the frequent overlapping of the road infrastructure rehabilitation projects financed by ROP and creation/rehabilitation of the water and waste water networks projects financed by ESOP;

- in the case of axis 3, a lack of funds for financing reserve projects for health and education infrastructure was noticed, but the problem was solved by reallocating funds from ESOP and TSOP; different NGOs complained about the quality of the services offered by the rehabilitated/modernized social centers which led to reviews and improvement of the verification and monitoring activities; and restrictive eligible expenses that didn't cover the needs in the field of emergency interventions;
- axis 4 registered a high level of contract termination requested by the beneficiaries;
- for axis 5, there was a sub-contracting risk of the funds registered as savings or coming from terminated projects in the field of tourism infrastructure; and low level of contracted projects in what concerns the creation of national centers for touristic information and promotion, but reallocations among regions and key intervention areas have been done.

In the implementation stage there were some problems connected to: delays in the contracting phase due to the lack of evaluators or delays in the public procurement of the design services; difficulties for the private beneficiaries in assuring the necessary cash-flows for the implementation of the projects; difficulties for the public beneficiaries in fulfilling the target regarding the jobs created; underestimation of the resources needed for project implementation (in terms of time, people, money); multiple additional acts to the initial financing contract and the time taken for them to be approved and also multiple additional acts to the works contracts; heavy process in what concerns the verification and approval of the reimbursement applications.

Public procurement still represents an important blockage factor, generating big delays in the implementation process. Deficiencies in the public procurement process, fraud and conflict of interests generated the application of financial corrections and even pre-suspension of the programme. Some examples of problems generated by public procurement are: inadequate specifications due to the lack of good practice models or contract models and interpretable legislation led to many contestations which are time consuming; the use of some evaluation criteria such as execution time or price that led to the selection of low quality, unrealistic proposals; designers' obligation to offer technical assistance during the implementation of the works contract was not included in the design services contracts; lack of allocation of funding for contingency expenses.

Conclusions

Regional policy is considered one of the most important policy at the EU level, a fact showed by the high amounts of money allocated from EU budget.

The quality of life in the regions is influenced by the level of available infrastructure and services. Good infrastructure is a vital factor for the location of people and companies, development of business environment and tourism.

The main instrument used by Romania in order to achieve the regional policy's objectives is the Regional Operational Programme. The specificity of this programme is given by the integrated approach it proposes. It is the only programme in Romania that supports investments not only in local infrastructure, but also in business stimulation, environment protection, social infrastructure (education, health, social care) and local resources capitalization (tourism).

Out of the 19.68 billion Euros that have been allocated to Romania for 2007-2013, 3.96 billion euros represented the sum from the European Regional Development Fund that was allocated for the implementation of ROP. The programme generated a high interest among beneficiaries, but the contracted projects represented under half of the total projects that were submitted

. The programme also registered a high absorption rate compared to the other operational programs of Romania. Around 50% of the ROP's budget was ment to support investments in sustainable urban development (axis 1) and local and regional transport infrastructure (axis 2). The projects contracted on these two axis brought the highest funds in the regions. Axis 4 and 5 are more problematic, because the value of contracted projects reported to the allocated funds remains low in comparison with the other axes. The more developed regions (eg. West, North-West) presented a higher interest in developing economic environment, while poorer (eg. North-East, South-Muntenia) regions focused more on transport and urban infrastructure and promotion of touristic potential.

It was noticed that for certain programme indicators such as: the number of rehabilitated/modernized health, educational and social care infrastructure, km of rehabilitated urban streets, number of projects regarding energy efficiency, urban business infrastructure, cultural heritage and tourism infrastructure and promotion, there is the possibility that the targets would not be reached.

Taking into consideration the projects that were finished at the end of 2013, the following results were obtained as mentioned in the ROP Implementation Annual Report (2013):

- 1,171 km of rehabilitated/modernized roads
- 111 km of rehabilitated streets
- 22 km of built ring roads
- 22 created/extended business support structures
- 2.036 jobs created in business support structures
- 1,358 supported micro-enterprises

- 6,404 jobs created in the supported micro-enterprises

The updated Interim Evaluation of the ROP presents an analysis of the efficiency and effectiveness in the use of funds contracted within the programme. Two main conclusions underline that the regional contribution to the programme's targets were not proportional with the allocated funds due to different effectiveness of the expenses. Some of the regions managed to reach the output or results indicators with lower costs than others. In general, the effectiveness of ROP is considered to be good. The contracted funds show that the targets set for the programme's indicators will be reached for most of the key intervention areas.

Although the absorption of EU funds is a priority for Romania, there are still many problems within this process. The main problems during the implementation phase are connected to low payment and reimbursement rates and public procurement process. However, during the time a series of measures have been taken in order to eliminate these problems.

The authors consider that many of the issues that appeared in all stages of the programme's implementation could be solved through a series of actions like: development of standard procedures for all operational programs, including only where is necessary, specific procedures and developing a manual which include standard models and even examples of best practice, reducing the number of justification documents, financial corrections should be charged directly from beneficiary and not from the project, so that attracted European funds are not lost; adoption of a law on public procurement; the design contract should include clauses through which the designer is charged if during the implementation of the works contract design errors or omissions are found; high penalties and even the prohibition, for a determined period, for those who execute fraud actions against EU projects; salary motivation, based on performance, for staff responsible in projects implementation (both in the institutions with coordinating role and managing European funds and also, potential beneficiary institutions of structural and cohesion funds); hiring qualified staff with experience in the implementation of projects financed by European funds, especially for those operational programs for which long delays in assessment or reimbursement are found.

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BEHAVIORAL INPUTS TO THE THEORETICAL APPROACH OF THE ECONOMIC CRISIS

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Abstract: *The current economic and financial crisis gave room for the theoretical debates to reemerge. The economic reality challenged the mainstream neoclassical approach leaving the opportunity for the Austrian School, Post Keynesianism or Institutionalists to bring in front theories that seem to better explain the economic crisis and thus, leaving space for more efficient economic policies to result. In this context, the main assumptions of the mainstream theoretical approach are challenged and reevaluated; behavioral economics is one of the main challengers. Without developing in an integrated school of thought yet, behavioral economics brings new elements within the framework of economic thinking. How are the main theoretical approaches integrating these new elements and whether this process is going to narrow the theory or enrich it to be more comprehensive are questions to which this paper tries to answer; or, at least, to leave room for an answer.*

Keywords: neoclassical approach; economics crisis; behavioral economics

JEL Classification: D03; G01

Introduction

The major theoretical approaches use psychological assumptions in their explaining theories of the economic crisis, consistent with the hypothesis that stand at the theoretical approaches foundations. Within the context of explaining the economic crisis, the focus lies on the way in which the economic agents are making their economic decisions of consumption, production or investment.

The mainstream neoclassical approach relies on the perfect rationality assumption in order to base the theory of optimizing decision under risk conditions. Yet, by confrontation with the recent economic and financial crisis, the neoclassical approach's basic assumptions seem to stagger, placing a shadow of doubt, at the level of doctrinaire and theoretical debates, upon the realism and the degree of generality of the resulting models and also upon the efficiency of the economic policies they inspired.

In this context, the challenges from the behavioral economic thinkers, especially from the Daniel Kahneman and Amos Tversky's prospect theory (Kahneman, 1979), reemerge in front of the academic debates framework; questioning the basic assumption of the mainstream neoclassical approach from this perspective, supported by psychological scientific research challenges the capacity of the neoclassical model to catch, in predictive models, the economic behavior.

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The behavioral economic lens provokes at a methodological level and leaves room for other non-mainstream theoretical approaches to re-enforce their doctrinaire positions, integrating the elements raised by the prospect theory and the behavioral psychological inputs. The Keynesian investment theory, the postkeynesian economic crisis theories, the Austrian school approach and the institutionalist theoretical approach re-enforce their psychological assumptions through behavioral researches, suggesting a higher degree of adequacy to economic reality and a better predictive capacity.

To consider such subjective elements that relate to individual psychology takes a conceptualizing effort of defining terms from the psychological scientific background, in order to make such concepts large enough to cover the general trend of economic reality and not the particular, specific, exceptional behavior. In this particular case, the theory that bases on such narrow psychological assumptions risks to be narrow at its turn, fully explaining just a particular situation. The degree of generality and addressability is usually the norm of measuring a theory's validity. Thus, a theory that addresses and explains an exceptional behavior, although useful, remains narrow and restrictive for the normative level.

From this point of view, the behavioral economic thinkers and researchers methodologically challenge the mainstream theory, but also other theoretical approaches. Their efforts do not coagulates yet into a specific school of thought. Yet, attacking the neoclassical assumption of perfect rationality, bringing in front the reality of asymmetric information and of economic decision making process under risk and uncertainty, stressing the importance of concepts like "market sentiment" and "moral hazard" (Dow, 2012), and also focusing upon studying the importance of trust between commercial banks, central bank and population as explaining elements for the economic and financial crisis, forces the mainstream neoclassical theory and the other non-mainstream approaches to reconsider the psychological assumptions they base their line of thought, in order to enrich the basic hypothesis and/or consider new ones that better link the model to the economic reality.

Further on, this paper is trying to describe the behavioral elements that led to contesting the neoclassical theory's assumptions and to analyze the way in which these elements resulted in challenging the explaining and predictive power of the optimizing decision under risk model, leaving room for other theories attempts of approaching uncertainty as a starting premise of any economic decision.

1. Psychological assumption in the mainstream and other non-mainstream theoretical approaches

The recent economic and financial crisis questioned the explaining capacity of the mainstream neoclassical approach, placing the economic thinkers in a position of trying to adjust the starting assumptions in order to better explain the mechanisms of the crisis and to permit more efficient instruments of economic policy for preventing and managing crisis.

The mainstream neoclassical theory is founded on the assumption of existing intrinsic stabilizing market forces that allow them to converge towards equilibrium and also on their coordination capacity in perfect competition conditions. So, as long as the market has the certainty of ensured perfect competition conditions, and especially perfect information, the economic agents choices will always be rational, leading toward spontaneous equilibrium at levels of full employment.

As long as the economic individual acts rationally, benefiting from all the information necessary to him, there is no place for mishaps. Therefore, at the normative level, the neoclassical economic policies focus became to ensure a degree of market transparency as high as possible, to facilitate the access to perfect information for economic agents and to ensure, generally, the conditions necessary for the perfect competition to manifest. Such a framework guarantees, in neoclassical view, a rational behavior.

So, any economic behavior that does not result into a decision that stands between the theoretical parameters considered, falls into the category of "irrational" behavior. At a theoretical level, "irrational" behavior does not diminish the explaining power of the mainstream approach, due to its specific character of exception; at the normative level, this irrational behavior is examined in order to discover and diminish the causes that resulted into such behavior.

Some of the factors that enforced the recent economic and financial crisis were the positive expectations of economic agents about the continuous increase in the price level and about the permanence of the financial stability. From this point of view, the mainstream theory approaches the economic crisis with its own instruments and explaining mechanisms, from within, trying to make economic reality match with the model and not the other way around (Dow, 2012, p. 81). Irrational expectations that results into irrational behavior do not fit with the neoclassical approach; they can only be the result of some imperfect information or irrational behavior of other economic agents. The possible causes of irrational behavior are also judged within the theoretical framework of the mainstream approach: they can refer to the existence of asymmetric information and to factors that disturb one way or another, the correct information in the market ("lender of the last resort type of

government intervention) (Dow, 2012, p. 80).

The economic policies developed towards preventing future crisis and managing the current one followed the theoretical framework, focusing on perfect information and the decision optimization under quantifiable risk

The further development of the decision making process mechanisms under risk and uncertainty follows the tracks of the neoclassical theoretical approach, especially in what its modeling part is concerned. When the economic agent is confronted with decision under risk and uncertainty, the rational choice means quantifying different options risks and choosing the one option which has the lower risk. The Rational choice theory leads, thus, towards a process of mathematization of the economic decision under very strict parameters.

2. Behavioral economics inputs: challenges to the main theory's assumptions and responses from other nonmainstream theoretical approaches

In this context, the behavioral economic inputs provoke the neoclassical theory to revise its assumptions. Synthesizing, the neoclassical assumptions which were challenged by behavioral economics researchers are: the perfect rationality assumption; the stable preferences assumption; the perfectly informed individual assumption; the preferences order assumptions; the homogeneous goods assumption; the perfectly divisible needs and utilities assumption.

The first consistent reaction to perfect rationality assumption came from Herbert Simon in his book, "Administrative Behavior" published in 1947. Without abandoning the idea of rational choice, Herbert Simon broadens the "rationality" concept. Thus, instead of resulting into an optimal choice, Herbert Simon sustains that the decision making process based on rationality has as an outcome the most preferred choice after evaluating known alternatives (Simonsen, 1994, p. 4). He adds time as a limited resource and, as a consequence information as a limited resource to the budget constraint that gives specific shape to the individual choice. Limited by insufficient time and information, the individual will continue to act neoclassically rational trying to maximize his utility, but he is covering the gap resulted from insufficient information with mostly irrational heuristics. In other words, the rationality assumption still stands, the decision making process remains one governed by rationality, but, in uncertainty conditions; this transforms the principles that stand at the base of the decision making process into a "satisficing" one meaning that often, the individuals choose the "good enough" alternative (Simon, 1985, p. 295).

The bounded rationality opened the door towards other questions about decision under risk:

The neoclassical assumption about the process of decision making under risk is that the economic agents can assign probabilities to all future possible economic results. This implies that this process can be modeled so that the exact probability of future results of any options can emerge (Crotty, 1993, p. 3). In other words, uncertainty is not an option for the neoclassical approach. It is just an effect of limited information.

The irrational heuristics match the idea of conventional assumptions which stand at the base of the formation of expectations about the future in the Keynesian investment theory, but also the idea of conventions that support the creation of institutions invested with trust in institutionalists view. These conventions and heuristics represent a different point of view from the neoclassical approach, by suggesting, implicitly or explicitly that the uncertainty and bounded rationality represent constants of the economic behavior and hypothesis of founding a theoretical approach of economic behavior.

The neoclassical view relies, in building the theoretical ground of the decision making process under risk and of the rational expectations on knowledge of the future; assigning probabilities, mathematical modeling and experience of the past are “knowledge” that allows a mathematical model of the rational choice, by getting the uncertainty out of the equation (Crotty, 1993, p. 4; Dow, 2012, p. 84). On the contrary, in the Keynesian approach, uncertainty is a fact and the decision making process starts from there, forming expectations based on confidence in conventional judgments like extrapolating the past to the future and trusting the public opinion and the institutions (Crotty, 1993, p. 4).

The neoclassical approach leave out of the discussion institutional modification, market sentiments, and irrational behavior, thus limiting the explaining and predictive capacity of its models.

The “bounded rationality” assumption was the foundation from which Daniel Kahneman built (1979) and further developed the prospect theory, along with Amos Tversky (Kahneman, Tversky, 1979). The theory relies on cognitive psychology statements, integrating, in a complex manner, psychology researches with economic ones. Not only is the rationality assumption being challenged this time, but also the neoclassical preference stability. The “loss - aversion” assumption, intuited by Adam Smith in the XVIIIth century, was researched and empirically tested by Kahneman and Tversky: namely, it seems that people tend to dislike to lose goods from their consumption bundles more than they like to add goods in their bundles (Camerer, 2005, p. 16). The loss aversion assumption contradicts the stable preferences assumption by inferring that preferences depend on some reference point.

The incorporation of the behavioral elements into the mainstream theoretical approach had the meaning of an adapting effort from inside the theoretical framework, without essentially modifying,

though, the psychological base assumptions. From within, using the deductive method and the mathematical apparatus and keeping the main hypothesis, the mainstream approach made an effort of conceptualizing cognitive limitations and unstable preferences and of integrating them in the analysis as disturbing factors for the rational choice (Dow, 2012, p. 83). Thus, the theoretical and normative efforts remained focused still on diminishing the impact that asymmetric or limited information has on the capacity of making a rational decision.

Comparatively, the Keynesian and post-Keynesian views, but also the Austrian School and institutionalist approaches have starting premises which are more realistic from the psychological perspective.

Conclusions

The behavioral economics approach provokes to reconsider the neoclassical assumptions without, yet, denying their predictive potential, The behavioral economics researchers efforts seem to direct to building models and explaining theories for specific situations in which the rational behavior principle does not seem to function. The landmark is the mainstream neoclassical theory and the results do not necessarily converge towards replacing it, but rather to broaden and relax it's assumptions in a manner that could bring realism and accuracy to the models. From a historical perspective, the scientifically based psychological inputs in economics could be considered a necessary, natural evolution. Camerer and Loewenstein argue, for instance that, at the time when Adam Smith was writing his work, supplying economics with scientific rigour and coherence, psychology didn't exist as a discipline (Camerer and Loewenstein, 2004, p. 3). Indeed, the agglomeration of ideas and concerns in this field allowed psychology to rise and rapidly build scientific foundations at the end of the XIXth century and, stronger, in the first part of the XXth century. Once it happened, though, it truly was a matter of time since preoccupations in behavioral economics would appear.

Economic models and theories are meant to capture patterns of behavior which, in their turn can be used in order to predict future behaviors or evolutions of economic phenomena; the neoclassical theories fit this methodological belief. Yet, neoclassical theories and models rely on assumptions which are not always realistic. Whether the economic theories should rely on realistic assumption or not is still a question for scientific debate. Milton Friedman argued, in his work „The Methodology of Positive Economics”, that the realism of the assumptions should not be a measure of judging a theory (Friedman [1953], 2008). Behavior economics researches seek to increase the

assumptions realism, acting, in this way from a critical point of view in this specific methodological issue: the more realistic the assumptions of the model, the more accurate the predictions (Camerer, 2005, p. 2; Camerer and Loewenstein, 2004, p. 2).

In that sense, behavioral economics is trying to improve the capacity of the neoclassical models to supply valuable predictions by expanding the assumptions in a manner in which they can address and include psychological factors that give these assumptions a realistic dimension. For instance, interpreting the "perfect rationality" of the individual who acts as a consumer/producer in a different manner, by taking into consideration and analyzing the seemingly irrational behavior of individuals in different circumstances, widens the capacity of the consumer's theory to cover a bigger part of economic behavior, thus improving its capability of delivering accurate predictions.

Kahneman seems to realize that the behavioral approach relates to the neoclassical mainstream approach and, especially, on the assumption of rationality as the base of the economic behavior. Although the behavioral inputs have the merit of broadening the limits of the landmark model, the fundamental assumption of the latter cannot be subtracted out of the mainstream approach; they are there with a reason, Kahneman says: "they allow for tractable analysis" (Kahneman, 2003, p. 166).

As Kahneman puts it, (Kahneman, 2003, p. 166) "thus, it now appears likely that the gap between the views in the two disciplines has been permanently narrowed, but there are no immediate prospects that economics and psychology sharing a common theory of human behavior".

Yet, although the behavioral approach relates to the mainstream one, it has the merit of raising questions and reconsidering positions within other non-mainstream theoretical approaches. It seems like the theoretical approaches that start from the uncertainty assumption and do not base their model on a perfectly rational individual find, through behavioral inputs, new ground for increasing the generality of their models and their predictive capacity.

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CONCEPTUAL AND METHODOLOGICAL ANALYSIS IN THE STUDY OF REGIONAL DEVELOPMENT IN EU AND, IN PARTICULAR, IN ROMANIA

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Abstract: *Considering that political regionalisation should be more than the division of a territory into regions, its main aim being the regional development of a political entity, this paper seeks to provide answers to the following question: what is the most appropriate geographical scale to describe and support regional development in EU and, in particular, in Romania? In order to achieve this, guided by logical analysis and using data from specialised literature and from the studies of different national and European expert bodies, there are analysed the notions of regionalisation and regional development and brought up the issue of the institutional framework of regional policy instruments. These open new insights for future research. The study concludes that while the Nomenclature of Territorial Units for Statistics (NUTS) is used as a territorial analysis unit, the real local needs cannot be assessed in the same way. In fact, one aspect often overlooked is the importance of social, economic and cultural relations between economic actors, which are proper sources of agglomeration economies that enable a balanced development of the regions.*

Keywords: region; regionalisation; regional development; territorial analysis unit

JEL Classification: R10; R11

Introduction

EU regional development is characterized by disparities between member states and within them, for example, between the 8 Romanian development regions. *Regional disparities* (alternatively, specialised literature uses synonym terms such as *incongruities*, *regional inequities*, considering that inequities become disparities when they exceed a 30% amplitude) are not only the result of an uneven distribution of human capital and natural resources, or of social, economical, political and demographical inequalities, but also the result of the way regions interact during their historical evolution. Additionally, the proper management of structural funds has also been decisive in configuring the development hierarchy.

Besides its inter-regional disparities, Romania is also confronting major incongruities within its regions, where predominantly agricultural counties coexist with industrial, more developed ones (Marinas *et al.*, 2009). This phenomenon is the result of the restructuring of economic activities which, especially in mono-industrial areas, resulted in an increased unemployment rate. The '90s' economic growth did not reduce these inequalities, and the recent economic crisis has exposed them in a more visible way. The mosaic-like structure of economic development at the sub-regional level characterizes all the 8 Romanian development regions.

The current administrative-territorial reorganization of Romania is a controversial topic in politics and the media. The administrative reorganization of the country would mean replacing the

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existing 41 counties with 8, 9, 12 or larger counties or regions, the main reason for the change being that the current system, which has been maintained since 1968, is generating corruption and inefficiency in the use of EU money.

Proponents of regionalisation talk about benefits, such as: reduced bureaucracy, less administrative costs and expenses; the existence of a regional policy that goes beyond the boundaries of a county, elaboration of development projects on regions, which can result in increased access to European funds; also, previous positive European experience and the preference, in some states, for the territorial formula, are also advantages taken into consideration.

In contrast, opponents claim that this measure will affect the functioning of the state to such an extent, that it cannot be adopted without a transitional stage and careful preparation, based on public debate, information and broad agreement among social and political actors; an 'overnight' regionalisation would cause widespread chaos. Moreover, they expect the emergence of so-called regional 'mega-barons' who would control regional resources and have important influence on major decisions. Finally, cropping regions according to political interests rather than economic and social ones, would significantly distort the meaning of such an approach.

Despite all these arguments, we strongly believe that the regionalisation process of Romania should be part of a coherent regional development strategy that would include measures designed to support the *integration of the development area* rather than obtaining a *spatial equilibrium* in terms of economic growth. A number of European studies (Rodriguez-Pose, 1994, Martin *et al.*, 1996; Vickerman *et al.*, 1999) concluded that structuring a plan for economic growth does not necessarily lead to the consolidation of competitiveness within a certain area.

In this context, we ask ourselves whether it is more suitable for the studies on regional development in Romania to consider as analysis units the country's historical regions, rather than its currently development regions. Profile studies involve competitiveness assessments based on socio-economic indicators and assume – falsely – that the economic activity is able to evenly distribute the benefits of growth within a given territory. An often overlooked aspect is the importance of social, economic and cultural relations between economic actors, which are proper sources of agglomeration economies that enable a balanced development of the regions.

1. Concepts and methodology in regional development of EU

In recent decades, regions and regional development policies have occupied an increasingly important place on the list of economic and social development factors of Europe, being found on the

agendas of governments, central and local authorities, political parties and civil society.

The region is 'its own entity', 'characterized by a continuum whose populations have certain elements in common – language, culture, historical traditions and interests concerned with economic, social and cultural development' (Community Charter *for* Regionalisation, 1988). The definitions of the term 'region' found in both specialised literature and official EU documents, converge towards two directions: the first one acknowledges that regions may have defining features, in keeping with their historical, political, social or cultural characteristics and with the characteristics of their own population; the second direction highlights the institutionalization of the region in terms of its distinct political identity and its own administration.

Regional identity is a key element in the formation of regions as social and political bodies. Researchers (Keating, 2008, p. 99) identified three elements that must be considered when analysing regional identity: *the cognitive* aspect, that requires people to be aware of the existence of the region and its geographic boundaries; *the emotional* aspect, which refers to how people feel about the area and the extent to which it provides a common framework for identity and solidarity, which might be in conflict with other forms of solidarity, including social class and nationality; *the structural* aspect, when the region is used as a basis for mobilization and collective action seeking common social, economic and political targets.

According to The Explanatory Dictionary of the Romanian Language, 'to regionalize' means 'to divide an area into regions'. Regionalisation should be understood in opposition to *regionalism*. The latter is a 'bottom-up' process, where the region is perceived by its inhabitants as a homogeneous territory, being the symbol of their common interests and aspirations to participate in the management of these interests. In this sense we can speak of a 'regional consciousness' based on the belief that the state is too remote and too big to solve local problems. Thus, the state is accused of imposing a monopolizing model regardless of regional particularities. In this sense, regionalism expresses the deep desires of local communities to become responsible for resolving issues that concern them directly.

In contrast to this, regionalisation is a 'top-down' process, where the state perceives the region as a homogeneous territory with its own identity and ensures that regions participate in managing their own affairs. The starting point of regionalisation is connected with the awareness of regional imbalances. This awareness is followed by the intervention of national government structures or supranational entities, focused on regional decentralization of formerly central activities or skills. We are dealing, in this case, with administrative measures that express a central political will over local/intermediate structures.

These two different, but complementary concepts – regionalism and regionalisation – refer to two rather different things: the first one deals with the identity and actions of a group or community, while the second refers to space and its organization (Ricq, 1983, p. 123).

On the other hand, regionalisation is a component of territorial/spatial development, the latter meaning the geographical transformation of inhabited territories. This process relates not only to infrastructure, landscape, cities, but also to territorial structure and geographical distribution of population and human activities. Territorial development is a comprehensive concept, also used as an objective of public policies aimed not only at economic growth in those regions, but also at sustainability, with its economic, social, environmental and cultural aspects. In the current European context characterized by low growth rates and sharp regional imbalances, territorial development has become a general priority, designed to lead to increased employment and reduced regional imbalances.

The main goal of spatial planning is the harmonization, at territorial level, of the nationally and locally-adopted economic, social, environmental and cultural policies, to ensure a balanced development of the various regions of a country, aiming to increase the cohesion and effectiveness of their economic and social interrelationships. Spatial planning is therefore the spatial expression of the economic, social, cultural and environmental aspects of society.

Another concept often employed by academic and political debates is *regional development*. It aims at stimulating and diversifying economic activities, encouraging private sector investment, helping to reduce unemployment and increase quality of life. In our opinion, regionalisation should be more than a territorial division into regions; it should focus on the regional development of the national territory.

Regional development policy is an assembly of government measures aiming at supporting economic growth and improving living conditions through the effective use of regional and local potential. Its main objectives are: to reduce the existing regional disparities, with an emphasis on fostering a balanced development and revitalization of less developed regions (with delayed development) and preventing the creation of new imbalances; to prepare the institutional framework in order to meet the criteria of EU structures and to ensure easy access to social and cohesion funds; to integrate regional sectoral policies and to stimulate interregional cooperation (national and international) for the purpose of a durable socio-economic development.

These objectives are put into practice by adopting measures and strategies and by funding various projects and programmes. The following principles are found at the basis of their design and implementation: *decentralization* of decision-making by shifting from the central/governmental level

to the regional one; *partnership*, by creating and promoting partnerships between all actors involved in regional development; *planning*, to achieve the set objectives; *co-financing*, meaning mandatory financial contribution of various actors involved in implementing programmes and projects for regional development. These principles apply at national level and do not exclude or contradict the principles underlying the functioning of the community structural policy: the principle of programming, the partnership principle, the principle of additionality and the monitoring, control and evaluation principle. On the contrary, they direct the national policy towards accessing the financial instruments of EU regional development policy.

Regional development strategies should be based on proper evaluation of regional resources, capacities and skills, in order to develop the necessary resource configurations forming a regional competitive advantage. Some studies (Harmaakorpi *et al.*, 2003) discuss the concept of 'regional development platform', used as a tool to assess regional potential which might foster the competitive, sustainable advantage.

Regional policy has – in general – the intention to support the efforts of less developed regions in order to overcome their current difficulties and stimulate regional economic growth. If regional policy measures are successful, there will be a pronounced tendency towards economic convergence among regions, with the result of a greater degree of cohesion between them. There are many impact assessment studies based on various regional and cohesion policy instruments. But there are few investigations to date of the *institutional framework* of these instruments. Such studies should focus on the impact analysis of power division on regional policies, while highlighting the incurring outcome (interregional cohesion) and costs (economic efficiency).

In this regard, recent research (Rosenfeld, 2003) on the theory of fiscal federalism point out that all possible centralized or decentralized arrangements of regional policies are situated between two polar cases. At one pole, we have an arrangement in which only the central level of government (e.g. the EU) is responsible for regional policy, while there are no other regional, local units (e.g. EU member states) or assisted (less developed) regions capable of decision-making on the implementation of regional policy instruments. In this case, only the central government can finance regional policies, using its own resources. In contrast, we find an arrangement in which only regional or local government units, including less developed regions, can decide on regional policy and are responsible for funding.

2. The analysis unit of regional development

The Nomenclature of territorial units for statistics (NUTS) is used as a territorial analysis unit, but real local needs are not necessarily considered adequately in this way. For example, an assessment of the situation in Romania reveals that 'the NUTS II classification allows only a limited understanding of the development process' and should be complemented by other factors such as size of urban areas, market access or proximity (Government of Romania, 2007). This raises the following questions: **What is the most appropriate geographical scale to describe the level of regional development? What is the most appropriate geographical scale to achieve sustainable regional development?**

Some studies (Cojanu, 2010; Clipa, 2013) have shown that development can be viewed in a more realistic way using multiple-link spatial configurations, in which opportunities for growth are self-sustained, in other words, observing areas that are economically viable and independent.

European organizations have said that *regional* development has no operational significance in building a policy, as long as there is no economic concept applicable to the *region* (Eurostat, 2009, Council on Competitiveness, 2010). As a result, new terms were coined, such as *economic space*, *optimal competitive areas* or *socio-political space*, referring to functionally integrated territories, capable of maximizing their benefits for their residents.

In recent years, at international level, this practical requirement was a subject of interest for specialists, in an effort to promote economic growth in parallel with competitive development. In the current EU policies, this concern is reflected in the key concept of *cohesion and competitiveness*.

Projects such as the European Observation Network for Territorial Development and Cohesion (ESPON), allowed the use of some new concepts that describe the geographic scale of development, such as: Functional Urban Area (FUA), Metropolitan Economic Growth Areas (MEGA), Potential Urban Strategic Horizon (PUSH) or Polycentric Integration Area (PIA).

These attempts at defining the areas eligible for financial aid announce a future major change on the normative scale. Based on existing needs, the analysis should cover a growth model that emphasizes the role of competitive interdependencies that occur in a particular territory. Competitive development zones arise from a particular development context, which in turn is explained by the action of two twin concepts: *identity* and *functionality* (Cojanu, 2010). While the former refers to an identifiable common denominator for the development, the second is a functional model of territorial developments that affects the premises of temporal and spatial growth.

As suggested in studies conducted at EU level (ESPON, 2006), there are no clear borders

between competitive areas, as economic spaces appear in various forms of spatial and temporal boundaries. Spatial, because a development context is defined by an arbitrary combination of factors of geographical origin, such as distance, industry economics, decision centres, value chains, etc. And temporal, since the context is the historical depository of common issues, more or less tangible, such as traditions, beliefs and the feeling of belonging to a community, drawing a pattern of development characteristic for a certain period.

3. Romanian experience in regionalisation and regional development

Analysing the chronological evolution of Romanian territories from a historical point of view, a series of administrative characteristics can be identified:

- 1) *The interwar regionalisation stage*, represented by the 71 counties that were 'regionalized' according to different historical criteria, emphasizing territorial reality (ministerial directorates) or as a result of imposed policies (lands); this stage was characterized by a desire to strengthen the notion of territorial unity.
- 2) *The Soviet model* (1950-1968): the historical provinces were abolished in favour of the newly-created 'regions' of Soviet origin; it proved to be 'an illusory, deviant political goal because Romanian territories were unstable during that period, and the frequent zoning and regionalisation affected the idea of regional ownership' (Covasnianu, 2011, p. 49).
- 3) *The communist 'administrative calm'*, between 1968 and 1989, saw the return to the former districts and their transformation into functional structures. Although a number of historical districts disappeared or were merged, the new administrative units and their county capitals (Vaslui, Slobozia, Alexandria) benefited from massive investments in infrastructure and administration, to the detriment of traditional urban centres, such as Barlad, Calarasi, Turnu Magurele). Emerging trends of excessive industrialization and extensive agriculture imposed new administrative changes (the creation/reorganization of existing counties, as well as the formation of 23 new urban centres, in 1989).
- 4) *The post-revolutionary and the post-EU accession stage* brought a new configuration in the territorial settlement system, shown amid the transition and change of political regime, and kept the existing counties. European integration imposed a new territorial configuration, as the political desideratum imposed a 'quasi-regionalisation', so that regions eligible for aid could benefit from the structural funds.

The concerns regarding Romania's regional development have intensified since the sixth decade

of the twentieth century. The National State Plan adopted in 1976 aimed explicitly at reducing development disparities between the counties, through industrial development. The pursuit of this economic objective had serious consequences acutely felt in the last two decades.

In terms of spatial and regional development, Romania currently has some distinctive features. Firstly, county capitals are also the largest cities in each county, generally concentrating more than 50% of all economic activity in the area. Secondly, small towns generally had a mono-industrial profile, set without much relation to the economic potential of the area, which contributed to rapid industrial failure and the occurrence of acute social problems. Thirdly, economic development has been conducted based on egalitarian criteria. The industrialization process has failed to create an industrial identity for each county, which raised a very diversified and amorphous industrial structure. Fourthly, in each county there are significant economic differences between large urban areas and small towns, as well as between urban and rural areas. Fifthly, these inter-county incongruities are reported as being insignificant by the officials, but they are important in measuring specific indicators and the quality of life (Marinas *et al.*, 2009).

Under these circumstances, it was impossible to shape articulated development regions, capable of grouping areas with the same level of development and economic identity. Romanian development regions are built on the principle of spatial proximity, through the voluntary association of neighbouring counties, without an administrative and territorial identity or legal personality. They have got an average of 2.5 million inhabitants and no specific characteristics. The regions are:

1. North-East: Bacau; Botosani; Iasi; Neamt; Suceava; Vaslui
2. South-East: Braila; Buzau; Constanta; Galati; Tulcea; Vrancea
3. South: Arges; Calarasi; Dambovita; Giurgiu; Ialomita; Prahova; Teleorman
4. South-West: Dolj; Gorj; Mehedinti; Olt; Valcea;
5. West: Arad; Caras – Severin; Hunedoara; Timis;
6. North-West: Bihor; Bistrita – Nasaud; Cluj; Maramures; Satu Mare; Salaj
7. Center: Alba; Brasov; Covasna; Harghita; Mures; Sibiu
8. Bucharest: Ilfov; Bucharest

It should be noted that these regions do not coincide with the Romanian historical provinces, and their capitals sometimes do coincide with their former historical ones (Alba Iulia, Bucharest, Craiova, Timisoara and Cluj-Napoca), whereas sometimes they do not, being chosen according to the 'logic of decentralization' (Piatra Neamt, Braila, Calarasi).

Although the current development regions were only created to implement the regional development policy, and also for the purpose of collecting statistical data (in accordance with the

Eurostat, regulations on NUTS II classification), their boundaries are also accepted and followed by public institutions and non-political bodies.

The 8 regions created in 1998 have failed to take root in the public consciousness because of the failure of regional policy, but also due to memories of the significance of historical provinces.

The role of the historical provinces in the territorial construction process is also being felt through the characteristics of the urban system. It is considered as the result of generations of towns located within the regional entity's strong historical identity (Ianos, 2007). Romanian traditional regional capitals – Iasi, Timisoara, Cluj-Napoca, Bucharest, Constanta, Craiova, Galati, Brasov –, although partially found on the list of capitals of the new developing regions, have still remained polarizing centres. Their regional spheres of influence strengthened over time, despite the efforts taken during the years 1970-1990 to develop county systems, centred around county capitals. In our opinion, the strong position held by regional capitals within territorial structures and within the hierarchy of regional identity elements, could strengthen their coordinating role in the regional development process, while helping to keep regional identity alive in the public consciousness.

Final remarks

The conceptual analysis of regionalisation and regional development policy has enabled us to bring up the issue of the institutional framework of regional policy instruments. It is important that such studies focus on the impact of skills distribution within regional policies, while measuring the outcome – interregional cohesion – and incurring costs in terms of economic efficiency. The central questions that need to be answered are: Do regional authorities (compared to the central government) have a tendency to neglect their less developed subregions? What is the impact of information and asymmetric information costs on choosing the level of authority for certain (sub-) responsibilities? To what extent does the central influence stimulate – or paralyse – the initiatives of financially aided regions? Searching for answers to these questions will constitute important research topics for future studies.

The stated aim of this paper was to find the most appropriate geographical scale to describe and support regional development. In this regard, a number of conclusions have emerged:

- The attempts at defining the areas eligible for financial aid at European level have triggered the necessity of a growth model that emphasizes the role of *competitive interdependencies* that occur in a particular territory. Competitive development zones arise from a particular development context, which in turn is explained by the action of two twin concepts: (1)

identity, defined as an identifiable common denominator for the development, and (2) *functionality*, perceived as a functional model of territorial developments that affects the premises of temporal and spatial growth.

- Studies undertaken in the EU have shown that *there are no clear borders between competitive areas*, as economic spaces appear in various spatial and temporal forms. Spatial, because a development context is defined by an arbitrary combination of factors of geographical origin, such as distance, industry economics, decision centres, value chains, etc. And temporal, since the context is the historical depository of common issues, more or less tangible, such as traditions, beliefs and the feeling of belonging to a community, drawing a pattern of development characteristic for a certain period.
- Under these circumstances, it was impossible to shape *articulated development regions*, capable of grouping areas with the same level of development and economic identity. Although the current development regions were only created to implement the regional development policy, and also for the purpose of collecting statistical data, their boundaries are also accepted and followed by public institutions and non-political bodies.
- The 8 regions created in 1998 have failed to take root in the public consciousness because of the failure of regional policy, but also due to memories of the significance of historical provinces. We believe that the strong position held by regional capitals within territorial structures and within the hierarchy of regional identity elements, could strengthen their *coordinating role* in the regional development process, while helping to keep regional identity in the public consciousness.

As a result of these findings, we are asking ourselves whether it were more appropriate that the Romanian historical regions would be used as analytical units of regional development – and operational – instead of the existing development areas. Profile studies involve competitiveness assessments based on socio-economic indicators and assume – falsely – that the economic activity is able to evenly distribute the benefits of growth within a given territory. An often overlooked aspect is the importance of social, economic and cultural relations between economic actors, which are proper sources of agglomeration economies that enable a balanced development of the regions. However, despite the new openings that such a study could provide, current research is circumscribed by the limitations of the available data, which do not allow regional analyses in comparable terms.

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THE EUROPEAN UNION'S GENERAL BUDGET- AN INSTRUMENT FOR ECONOMIC GOVERNANCE

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Abstract. *The European Union is an unprecedented institution in the world, and therefore the general budget of the European Union is a specific budget, different from the national public budgets or the budgets of different organizations. This article studies the peculiarities of the European Union general budget, its essence and role in the economic governance, as well as the position of this budget in European financial system. The article is based on a complex analysis of the revenues and expenditures of the general budget of the European Union and of the interconnections between the general budget and the budgets of the Member States, in order to ensure the sustainability of public finances in the European Union at present.*

Keywords: European financial system; EU general budget; economic governance

JEL Classification: F36; F42; H87

Introduction

An economic crisis is a test that enables the identification of weaknesses within the economy. The global economic crisis, which started in 2007, degenerated into a sovereign debt crisis in the Member States of European Union (EU) in 2009. It has demonstrated that there are certain problems regarding the functioning of the European financial system that need to be solved. European authorities' response to the crisis was to tighten fiscal discipline in the Union. Subsequently, today the European Union's economic governance framework aims to detect, prevent and correct problematic economic trends such as excessive government deficits or public debt levels, which can stunt growth and put economies at risk. The support of the European economies that were facing difficulties was the second item on the anti-crisis measures' agenda. Only in 2010, two years after the economic crises had started, the EU responded to the sovereign debt crisis by setting up temporary support mechanisms for its Member States, which was replaced by the permanent European Stability Mechanism (ESM) in 2013. Why did this happen? The explanation resides in the fact that the European public finance is a unique, but still an emerging construction, that first of all needs to be enhanced. One characteristic the European financial system is the small size of the EU general budget, which did not allow the European authorities to intervene more promptly and hence has led to a delayed reaction to the crisis. Another important peculiarity is that the budgetary policies of the Member

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States are decentralized. This aspect of the European public finance is particularly important for the sustainability of the entire European construction as Governments of the Member States that are included in the euro zone have already given up monetary policy instruments to influence the economy and this means that abandoning fiscal policy instruments would violate states' sovereignty.

Economic governance reflects how decisions regarding the European economy are taken and implemented by the Community's authorities. It is well known that the public budget is the main instrument through which governments regulate the economic life within a state, but as it was stated before, the EU general budget is much smaller than the national budgets. According to the European Commission Report on the execution of the EU budget, the budget's expenditures in 2013 amounted approximately 143,8 billion euro. Comparing to total national budgets of 28 EU member states, which according to Eurostat in the same year amounted over 6,4 trillion euros, it is a small sum (more than 44,6 times less). Reported to Member States' GDP the EU budget was of about 1,1% at the end of 2013, while the size of the Member States national budget is almost half of GDP (according to statistics, ten countries out of 28 Member States recorded a level of public expenditure exceeding 50% of GDP in 2013, while this indicator for the entire EU area was of 49,1%). The small size of the EU general budget raises concern about the impact of fiscal and budgetary decisions on the European economy and questions about the role of the general budget in the EU economic governance. For example, Tache (2014, p.18) argues that the low level of EU budget reflects the limited role of public finances in the European economic governance and the strong significance of regulating public finance of the Member States. That is why the main question addressed in this paper is whether the increase of the EU general budget's size could be a good solution to enhance the European financial system? The response to this question is given by analysing the genesis, the main features and the structure of the EU general budget.

1. Literature review

EU general budget is constantly in the center of public opinion and is an important subject for academic studies because it is the most important public financial fund in the EU. Most studies and analyses dedicated to this subject are the publications of the European Commission. The seminal paper of the European Commission is the handbook on European Union Public Finance (2014) that contains comprehensive information about the evolution of the European Public Finance, including the genesis of the general budget of the EU, the general budget's revenues and expenditures, the system of own resources, budgetary principles and the budgetary process at the EU level. Many academic researches

are inspired from this paper, but examine narrower aspects on the European budget: Covalschi (2014), Firtescu (2013), Popa *et al.* (2012) etc.

The sovereign debt crisis of the EU Member States has raised concerns about the need to reform the European public finance system, including the European budget. These conclusions can be found in many scientific works, like those of Dabrowsky (2013), which examines the general EU budget as one element of European fiscal integration, the research conducted by the Center for Financial and Monetary Research, „Victor Slavescu”, by Padurean *et al.* (2012), which examines the sustainability of the budget's expenditures, or the study of Lazea *et al.* (2012) on reforming the system of own resources and the opportunity to introduce a Community tax.

Despite the fact that there were previous researches devoted to the European budget this paper complements this literature as we aim to study the EU general budget more indepth, namely as a part of the European financial system and as an instrument of the economic governance mechanism at the EU level.

2. Methodology and data

The study performed in this paper is based on the statistical data of the European Commission's from the EU budget Financial Reports and the information published on the Commission's official website. This article assumes a comprehensive study on the evolution of the Community budget since 1958 until nowadays. In this paper the revenue and expenditure indicators of the EU budget were analyzed. As analytical methods, synthesis, deduction, graphical method, structural and system analysis were used.

As Pietras (2011) stated, it is not appropriate to apply the same methodology to analyze the EU budget as the one applied to national budgets. A simple analysis of the structure of budget revenues and expenditures used to assess national budget or the budget of an international organization is not enough because the EU budget is different. This is why in this paper we have applied a special approach by analyzing the budget in line with the development of the main European public policies.

3. The genesis and essence of the European Union general budget

In order to support the implementation of the European policies and to exist as a separate subject in terms of international law, EU needs financial resources, reflected in an EU budget that provides substance to the European integration. The EU general budget was established following the

development of the EU as a political and economic space. Since the establishment of the first budgets for the organizations that later have founded the EU, the tendency was to unificate the budgetary instruments in a single budget, giving birth to the general budget of the EU. Hence, the creation of the EU budget was a long and gradual process (Table 1).

Table 1 - The evolution of the EU budget

Dates	July 24, 1952	January 1, 1958	July 1, 1967	January 1, 1971	July 23, 2002
Event	The entry into force of the Treaty of Paris	The entry into force of the Treaties of Rome	The entry into force of the Merger Treaty	The entry into force of the Luxemburg Treaty	The expiry of the Paris Treaty
Budgets	ECSC operating budget				
	ECSC administrative budget		EEC general budget	EEC general budget	EU General Budget
		EEC budget			
		Euratom administrative budget			
	Euratom research and investment budget				

Source: Elaborated by the authors

Thus the budgets of the communities that have preceded the EU stood at the base of the EU general budget. The EU budget was formed by the merger of the budgets of three communities: European Coal and Steel Community (ECSC), the European Atomic Energy Community (EAEC, better known as Euratom) and the European Economic Community (EEC). Today we can say that „the EU general budget is a document that stipulates and authorizes the estimated amount of revenues and expenditures required for the functioning of the EU each budget year” (Saguna and Tofan, 2010, p.115).

At the same time the EU budget can be seen as a unit of Community’s financial funds necessary to finance measures and actions included in common policies. However, the Community’s system of financial funds consists of two categories of funds: budgetary funds to cover general budget expenditures and annex funds that are apart from the EU budget. At present extrabudgetary expenditures are included under the European Development Fund, the only extrabudgetary fund. All the other funds that in the past existed apart from the EU budget were gradually integrated in the general budget.

Although it is smaller than a national budget, the planning the EU budget is a much more laborious process, involving several institutions. The European Commission prepares the draft budget. Subsequently, the budget is decided by politicians elected in the European Parliament and the Council, where all Member States are represented. European public expenditures are planned on a long perspective. EU’s annual budget is prepared respecting fixed budget ceilings for certain periods

of time, as preparation of annual budgets is preceded by the adoption of the „financial perspectives”. Originally EU spending projections were made for three years, since 1984 multiannual forecasts included a 5 years time period and since 2000 „financial frameworks”, with duration of 7 years are being developed.

4. Revenues of the general budget

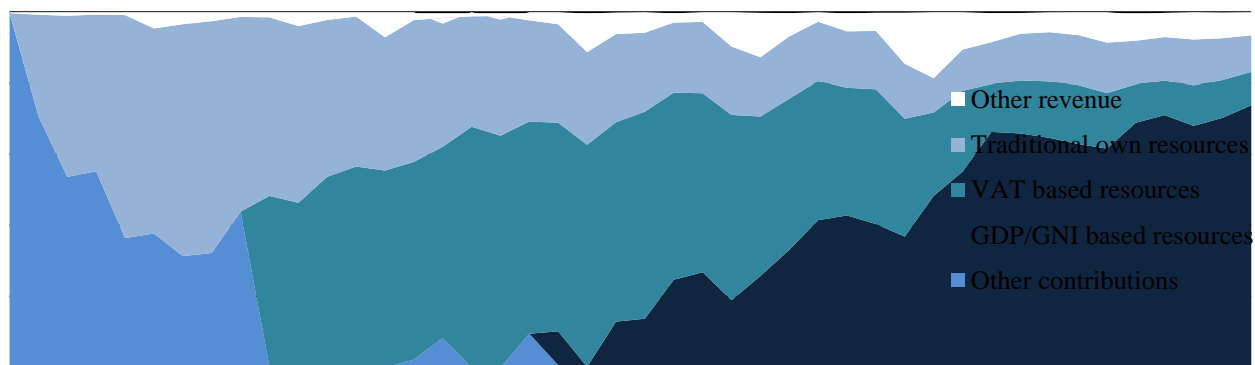
In order to talk about the role of the general budget as a management instrument at the Community's level it is necessary to analyze the essence of this financial fund by observing the way it is formed and subsequently distributed, the typology of net contributor and recipient countries.

As regarding to the Community's budget revenues, „at the beginning of the European Community the budget represented a financial instrument similar to the one of traditional international organizations” (Tache, 2014, p.16). At present unlike a state budget, which is financed mainly from tax revenues, the EU budget is financed largely from resources based on gross national income (GNI), which represent a contribution of Member States to the EU budget basing on their economic power. However, unlike classical international organizations, which as a general rule obtain their resources from the contributions of their member states, the EU budget's resources are supplemented from the revenues collected from its own tax system, introduced since 1971 called the system of own resources. This resources include „traditional” own resources (customs duties and agricultural levies), resources based on GNI and VAT-based resource. So, in terms of revenues, EU budget can be considered a hybrid budget between a national budget and the budget of an organization.

Unlike the structure of the resources that form national budgets, the Community's budgetary resources do not include resources from loans, so that every euro spent from this budget is not spent in advance. This means that the principle of budgetary balance is strictly observed. Unlike the budgets of the Member States, where the budget deficit can go up to 3% of GDP, the EU general budget must be balanced or in surplus. Thus, the elaboration of the EU budget starts from estimating costs, after which revenues collected from customs duties, agricultural levies and VAT- based resources are calculated. The uncovered balance between own revenues and total expenditure is splitted between all Member States in the form of a percentage of GNI. Subsequently, GNI contributions are included in the drafts of the national budgets by each Member State and then paid to the EU budget. In order to examine the role of each group of resources in financing the UE budget we will further examine the structure of the EU general budget revenues basing on Figure 1.

As it can be seen in Figure 1, in the last years, own resources, excluding GNI based resources, are far from being enough to cover the total budget expenditures and their importance in financing the Community budget has declined significantly since their establishment. Thus, traditional own resources had covered more than half of the EU budget in the '70 (reaching a peak of 62,7% in total revenues in 1974). Lowering taxes on international trade has led to the gradual reduction of their share in the budget. The VAT-based resource was initially of 1% from the national VAT but it was gradually reduced to 0,3% (and less for states who are granted rebates). VAT-based resources have provided the largest share of the EU budget revenues during the period between '80 –'90. The largest contribution of the VAT resource of 67,7% in total revenues was recorded in 1986. At present the GNI resource is the main resource in the general budget.

Figure 1 - Revenues of the EU general budget in the 1970-2013 period



Source: Prepared by the authors basing on data from the European Commission Financial Reports for 2008 and 2013

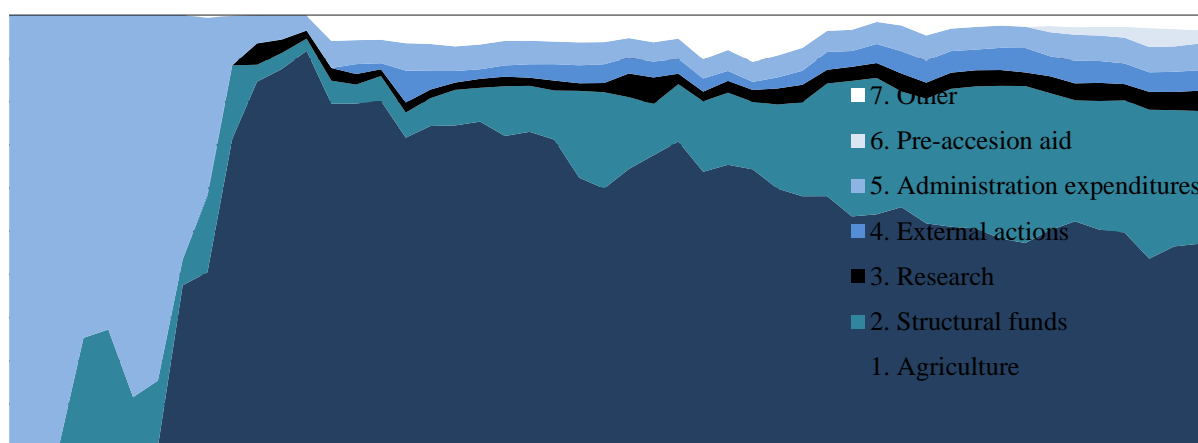
The structure of revenues of the adopted budget for 2014 keeps the trend of the last years. In 2014 traditional own resources represented 12,04% of the approved budget financing, the VAT resource was planned to cover 13,20% of the budget, while 73,63% of the budget revenues were estimated to be obtained from collecting GNI resources. The conclusion is that this kind of revenues's structure reflects a dependence of the European budget on the national budgets of the Member States and thus could create tensions among Member States. That is why we agree with the opinion that the introduction of a new tax resource is absolutely necessary to solve this problem.

5. Expenditures of the general budget

Regarding the expenditure side, the EU budget represents the financial base for the initiatives and projects in areas where all EU countries have agreed to act at the Union level, the common policies. An analysis of what the EU spends can say a lot about European integration priorities. The

economic and financial crisis, which has led to a slowness in the economic growth, opened a new stage in the evolution of the EU budget expenditure's structure. Like it was said before the EU general budget can be seen as a system of funds designed as financing instruments for common policies in different areas. Consequently until 2006 the classification of the budgetary expenditures reflected the main funds destined for financing different actions. For example the general budget included expenditures for the European Agricultural Guidance and Guarantee Fund – Guarantee Section, designed to sustain the Common Agricultural Policy (CAP) and the Structural Funds destined to finance the Regional Policy. Besides them the budget included expenditures for research, external actions, administration, pre-accession aid and other expenditures. Within the 2007-2013 financial perspectives the EU countries have decided to devote a considerable part of the joint efforts and of course of the EU budget for sustainable growth, which at present has become one of the main priorities of the Union. At the same time it involved a reform concerning the general budget expenditures. New categories of expenditure substituted the traditional ones. This new expenditure grouping expresses ambitious objectives of Community's policies like competitiveness for growth and employment; cohesion for growth and employment; preservation and management of natural resources, citizenship, freedom, security and justice; the EU as a global player and administrative expenditures. For this reason the analysis of the EU budget's expenditures was performed for two periods of time, namely the period before and after 2006. The analysis of expenditures in the period 1958-2006 can be conducted basing on the data from Figure 2.

Figure 2 - The expenditures of the EU general budget in the 1958-2006 period



Source: Prepared by the authors basing on data from the European Commission Financial Report for 2008

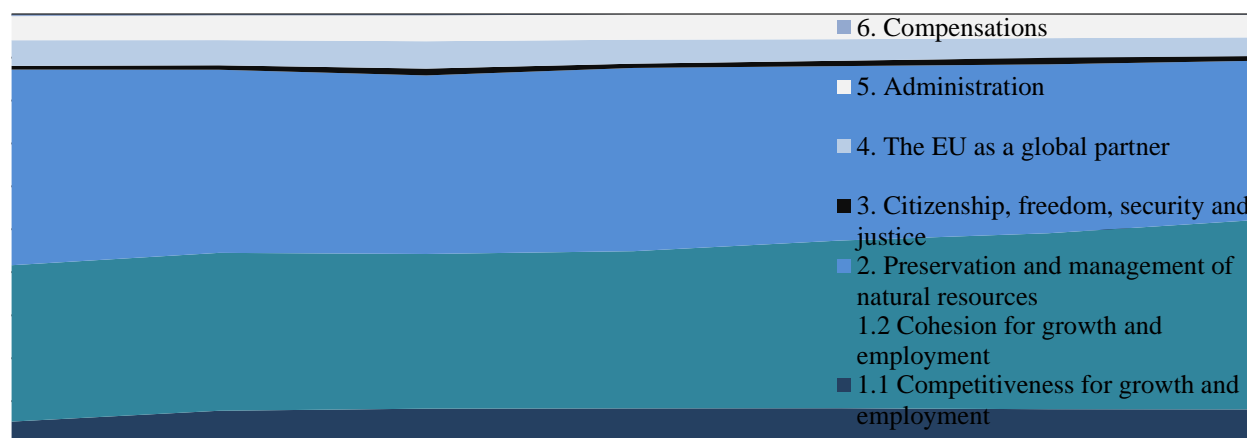
From the figure above we can see that the most important policy areas financed by the EU general budget until 2007 were the Common Agricultural Policy and the Regional Policy, the amount

of the expenditures for these politics represented about 78% of budgetary expenditures in 2006. Agriculture was the sector that has absorbed most of the budget resources for a long period of time because it was the area for which a common policy was applied since early stage of European construction, as it was born in 1962. Under this policy the money is spent to ensure affordable food for EU citizens and a fair standard of living for farmers. Expenditures for agriculture recorded the highest share of total spending in 1970, when they accounted for 91,8%. This fact has created important problems in relations between Member States and has led to the rebate that was granted to the United Kingdom by the the Fontainebleau European Council in 1984. Afterwards it gave rise to a series of associated correction mechanisms to placate objections from other member states and that have made the financial relations with the EU budget very complicated. At present these expenses decreased as a percentage as new common policies developed, but also due to a revision of the CAP. According to the information published on the official website of the European Commission direct aid to farmers and agricultural market accounted only 30% of the budget in 2013, and rural development expenditure 11%, that is 41% as a sum, comparing to 47% in 2006. The downward trend is planned to be continuing in the next years. According to Boulanger and Philippidis this (2015, p.119) for the 2014–2020 period the nominal expenditure cuts will be of 13% in pillar 1 (market measures and direct payments) and 18% in pillar 2 (rural development measures).

Another important area of EU budgetary expenditures is represented by the structural funds, aimed to sustain the regional policy, also known and as the cohesion policy. Regional Policy is delivered through three main funds: the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF). Together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), they make up the European Structural and Investment (ESI) Funds. In 2006 these funds amounted almost 31% of total budget expenditures. This policy aims a real convergence between economies and regions undergoing the integration process and ensures optimal functioning, balancing and promoting a harmonious development in terms of minimum economic and social costs. Thus, even if the EU's general budget has a small budget size, expenditure on cohesion policy makes it very important. The Regional Policy is also the EU's main investment policy. According to the information published on the official website of the European Commission for 2007-2013, cohesion policy has created nearly 600,000 jobs and supported close to 80,000 business initiatives. It has invested in 25,800 kilometers of roads and 2,700 thousand km of railway lines. This policy helped 5,7 million people find jobs and 8,6 million to obtain qualifications.

The recent evolution of the Community's budgetary expenditures is presented in Figure 3. The analysis of data for this period of time allows us to conclude that during the past seven years the largest part of EU budgetary resources were destined to finance the expenditure for stimulating economic growth, jobs creation and reducing economic disparities between different regions of the EU. Agriculture, rural development, fisheries and environment expenditures have also important quotas. The same policy priorities will be followed and in the next seven years. Thus according to the adopted 2014-2020 financial framework the structure of the Community's budget expenditure is the following: competitiveness and cohesion (47,0%), followed by spending on sustainable growth (38,9%), administrative expenses (6,4%), EU presence in the world (6,1%) and expenditure on security and citizenship (1.6%).

Figure 3 - EU general budget's expenditures in 2007-2013



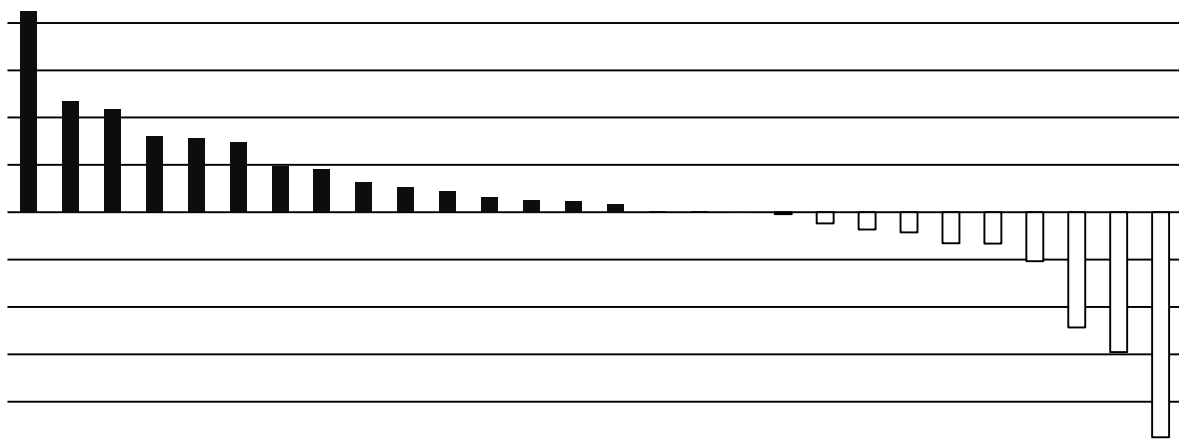
Source: Prepared by the authors basing on data from the European Commission Financial Report for 2013

In conclusion we can say that since 1958, when the entire EEC budget was intended only for administrative expenses, today's EU budget structure is very diverse and finances actions such as energy, transport, information and communication technologies, climate change, research etc. There are other areas where the EU countries decided not to act at Union level. For example national social security, health or education are funded by national governments, regional or local. Therefore we can say that the budgets of the Member States and EU general budget form together a real budgetary system with co-ordinated inter-relations. The revenues of the EU general budget are based on the resources transferred from Member States' budgets and are used to finance those policies within the Union that bring returns to scale. However, the fact that a wide part of the budgetary revenues come from GNI resources basing on the countries' economic power and the fact that a large part of the EU budget is destined to finance the Regional Policy that aims to support less developed regions leads

us to the thought that the EU budget is dominated by transfer of funds between countries. To sustain this finding we will further analyze the net contributors and beneficiaries, by examining the average operating budgetary balance for the last 7 years (Figure 4).

From the data in the Figure 4 we can see that Poland, Greece, Italy, Portugal and Spain are the main beneficiaries of the EU general budget, while Germany, France, Britain and the Netherlands are the main contributors. Thus it is clear that the EU general budget performs the redistribution of finances among European countries. However, the waves of enlargement in 2004 and 2007, which increased the economic diversity of the Member States, the economic crisis that started in 2008 and has deteriorated the condition of national public finance, as well as the constraints imposed by new austere regulations of national public finances, made this redistribution to be criticised by the states that are contributors to the budget.

Figure 4 - Average operating budgetary balances for 2007-2013, mil. Euro



Source: Prepared by the authors basing on data from the European Commission Financial Report for 2013

The Member States are often tempted to just calculate the costs and benefits related to the EU budget without taking into account the economic benefits created by the consolidation of the European single market. Despite the fact that there are no loser states of EU integration, because even the net contributors obtain much more benefits from the consolidation of the single market, this fact creates tensions among Member States. That is why the EU general budget growth in size could give more power to European authorities to intervene in the stabilization of the European economy, but it is a real challenge. More than that, we believe that modern democratic governance does not mean taking decisions from the center, but it is rather a down to top approach. We believe that strengthening the coordination mechanism of national public policies is a much more adequate solution rather than centralizing the power.

Conclusions

In conclusion we can say that the EU general budget is a reflection of the evolution of the idea of European integration. Since 1958 it has gradually increased in size, due to the consolidation of European financial funds and the growth of the size of the European area by incorporating new members. EU general budget underwent major transformations, both on the revenue and the expenditure sides to strengthen its position in the financial system of the European Union. However the EU budget remains dependent on the resources of Member States' budgets and it is also too low to be the most important instrument of economic governance. However, small doesn't mean unimportant. The cohesion policy that is supported from the EU general budget makes this budget to represents a symbol of solidarity among European countries, but it also creates and difficulties in relations between Member States. The existence of inter-relationships between Member States' national budgets and EU general budget through the GNI based resources as well as and the differences in the expenditures's structure of the general budget comparing to national budgets allows us to see that these budgets are actually complementary and interdependent as they form an EU budgetary system. We believe that the raise of the EU general budget is a very difficult issue that could be realized only as a long term goal, as not to generate conflicts and tensions among Member States. It should start first of all with neutral tax revenue at the EU level. Until then we believe that it is important to promote fiscal cooperation that would exclude nationalism and competition among Member States. In this context, recent reforms to strengthen economic governance in the EU, through the practical application of the European Semester instrument is an important step forward.

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ECONOMIC CRISIS AND ECONOMIC DISPARITIES IN EUROPEAN UNION

Rodica CRUDU*

Abstract: *The impact of the economic and financial crisis is still being felt. It started as an acute crisis of the banking system, but then quickly affected the real economy, causing a substantial slump in business investment, household demand and output. The current economic crisis has affected almost all European countries but the countries of the European south and the former eastern socialist republics have suffered the most. The objective in this paper is to quantify economic disparities as expressed by several growth indicators, such as GDP per capita, employment/unemployment rates, labour productivity rates and use them to compare the economic performances before and after the crisis. EU took several measures to recover from the economic crisis. Nevertheless, its ability to adjust to widely diverse national and local contexts that have been impacted differently by the effects of the crisis, and to support the different patterns of economic growth that will result from it, is yet to be seen.*

Keywords: Economic disparities; Economic and financial crisis; GDP per capita; labor productivity; employment rate; unemployment

JEL Classification: R11

Introduction

European Union is a heterogeneous economy with outstanding economic and social differences between countries and regions and with unbalanced territorial allocation of economic activities resulting in different standard of living of their population. For a long time, competitiveness and cohesion had been determining the development of European Union. While direction to competitiveness determines EU position in a global world, the cohesion policy is evoked by the existence of disparities between countries, regions and social groups. One of the goals of cohesion policy is to identify the size, structure and level of disparities and undertake different measures to narrow them. Cohesion policy that has to ensure a convergence between rich and poor countries and regions within European Community is one of the main goals of European integration from its beginnings in the fifth decade of the twentieth century.

The crisis has had a major impact on countries and regions across the EU. Regional economic disparities which were narrowing have stopped doing so, while unemployment has risen rapidly in almost all EU countries. Nevertheless, the impact of the economic crisis is not the same in all the countries throughout the European Union. This is due to several endogenous and exogenous factors that led to recession, ones specific for the whole Union and ones specific for different countries and regions. The European official statistics confirm these statements.

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In the present article are analyzed the most recent data regarding the most important and relevant indicators in order to achieve the main goal of the paper: to assess the effects of the economic and financial crisis on the economic disparities between EU member states.

The methodology used in this article includes the analysis and presentation of the basic indicators that are used to express disparities in this area traditionally, such as: GDP, economic growth, labour productivity, demographical trends and other relevant indicators.

1. Literature review on disparities

The theoretical literature on disparities and regional development has expanded enormously in recent years. The reason for this increasing interest in regional disparities is twofold. From an applied perspective, it is an undoubtedly issue of political priority in European Union (EU) and in most of the development and integration schemes of the nation states, as the existence of considerable regional disparities is considered to be detrimental for the success of supra-national integration projects. From the academic perspective, the studies on regional disparities and, in particular, of regional convergence are an indirect way of testing the validity of different and competing theories of economic growth and international trade.

The etymology of the word disparity comes from the Latin *disparitas*, which means divided. Most of the dictionaries approach disparity as inequality or disproportion of different phenomena. According to the Free Dictionary, there are two meanings of disparity, and namely: „1. the condition or fact of being unequal, as in age, rank, or degree; 2. unlikeness; incongruity”¹. The same definition is given by other dictionaries, adding some directions of the difference (i.e. wages, income, economic performance etc.)

Other definitions are those given by OECD, according to which regional (spatial) disparities express the scope of difference of intensity manifestation of economic phenomena under investigation observed within regions of given country (OECD, 2002). According to OECD, „territorial disparity indicates the scope the intensity of given economic phenomena differs to between regions within given country” (OECD, 2003). In the context in which OECD distinguish between territorial and income disparities, it can be mentioned that the definitions provided by OECD are mainly limited in analyzing and measuring economic regional disparities met inside the countries.

Other studies focused on the analysis of disparities are those of Meliciani and Peracchi (2006) or Higgins B. and Savoie D.J. (2009). The main conclusions of all these studies are that disparities

¹ see <http://www.thefreedictionary.com/disparity>

have been registered decreasing trends until the late eighties - early nineties, but afterwards these trends appeared. Nevertheless, these disparities are lower (and have decreased at a higher rate) when observed with productivity than with per capita income.

Karin Vorauer (2007) approaches regional disparities as „deviations from any conceptual reference division of characters taken as relevant, in association with different spatial benchmark levels (region borders). Regional disparity means unbalanced spatial structures in some region or in different regions” (Vorauer, 2007). According to the author, the regional disparities are conditioned by several factors linked to the unequal economic and development potential in different regions.

The analysis of inequalities turned indeed important especially in the last two decades this thing being visible preponderantly in the increased number of empirical studies regarding convergence.

Numbers of papers study the regional disparities of the EU-12 or EU-15, but more recent studies pay, also, attention to the new members, and namely Central and Eastern European Countries. By and large these papers conclude that there is convergence between them; however there are sharp differences about whether these countries have converged, or not, with the rest of the EU (Matkowski and Próchniak, 2007). Heidenreich M. and Wunder Ch. (2007) conclude that economic inequalities are increasing in most of the European Union (EU) member states, while between-nation inequalities in the enlarged Europe are declining in the last years. The economic differences between East and West Europe are gradually diminishing and the EU is becoming a relatively homogeneous economic, legal, and political field, which promotes social and economic cohesion in Europe (Heidenreich and Wunder, 2007).

Some researchers consider that as the number of EU member countries was increasing, the disparities became more obvious, and appeared certain studies focussed even on the analysis of the regional disparities inside the countries (Kluxankova-orawska, 2007; Kuscherauer *et al.*, 2010; Antonescu, 2014 etc.).

Therefore, disparities are frequently used within comparative economic analyses regarding regional development theories, but this is not the objective of the present paper. In this article, the focus will be concentrated on the identification of factors determining the disparities, rather than theories explaining them, as well as the analysis of the economic disparities between the country in the context of the economic and financial crisis.

The specialty literature highlights the following determinant factors of disparities' trends, and namely:

- Tendencies to approach in different ways the disparities, as well as different understandings of convergence and divergence (see Barro, Sala-i-Martin, 1995; Sala-i-Martin, 1996 or Blazek and Uhler, 2006);

- What is the degree of socio-economic disparities between compared countries or regions? For example, the economic growth rate in the low developed countries provides us a different information compared to relative low economic growth rates in advanced economies;

- Territorial ranked level and comparable data. When the countries or regions are compared the same indicators should be used, otherwise it could bring non concluding remarks.

- Time and period character is the factor that could show us the convergence development tendencies. While comparing disparities, it is very important to use the same time periods, otherwise the measurement of disparities would not result in identification of solutions to narrow them.

- There are marked differences in spheres hardly quantifiable that have a high impact on countries and within them. Some authors refer to inequalities that could appear in the field of social notoriety and its role and impact on society performance (Blazek and Uhler, 2006).

Taking into consideration all the factors that could outcome in some disparities, Kutscherauer at al. (2010) classify all the disparities through two perspectives: vertical and horizontal. „*Vertical perspective*, representing geographical dimension is more generally specified as disparities at the European level, disparities at the national level and disparities at local level” (Kutscherauer at al., 2010).

From *horizontal perspective*, disparities could be social, economic and territorial. Social disparities refer to the quality of life, standard of living, old age, crime and other factors that tend to increase social inequalities. Economic disparities relate to the economic performance (economic structure, productivity, manpower etc.) of the countries or regions analyzed. And finally, territorial disparities are directly linked with the geographical or locational factors.

The main objective of this article is to identify the disparities of economic nature and to see how the financial crisis had influenced these disparities at the European level. Thus, from the vertical perspective are analyzed disparities at the community level, but from the horizontal perspectives, the focus would mainly concentrated on the economic disparities.

2. Assessment of impact of economic crisis on economic disparities in the European Union

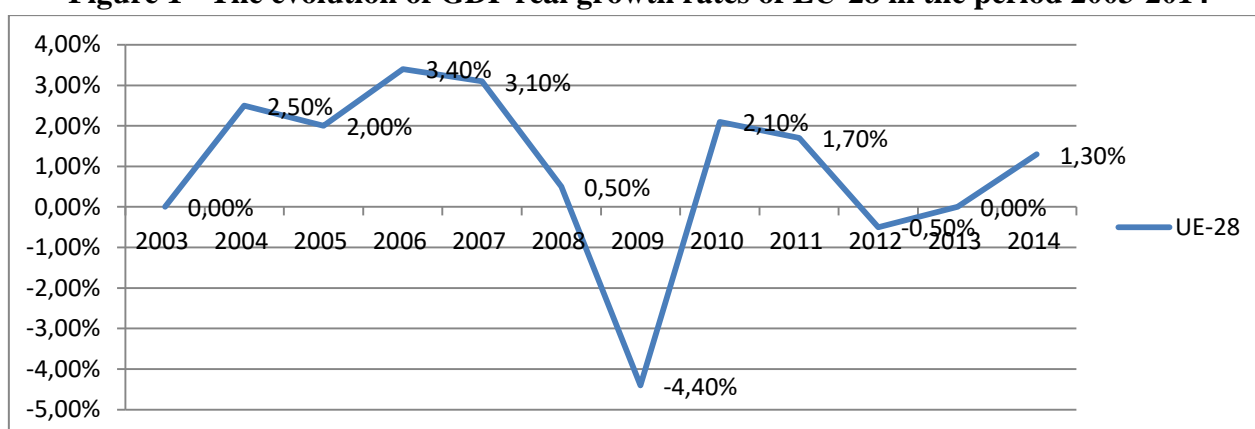
The quality of life in EU countries is affected by many factors which condition each other. While analyzing and measuring disparities it is very hard to identify the contribution of social or

economic factors separately. An economic factor could be co-generated and catalyzed by a social one and vice-versa. For example, an enterprise could not activate without manpower. The income of the company determines the level of wages and, thus, the level of living of the population in the region. The social climate of the population directly influences the level of consumption and the economic performance of the region analyzed. Thus, several indicators are used to measure social and economic inequalities at the same time.

GDP per head is probably the most important indicator for the welfare of the regions, first of all, because it is decisive for domestic economic well-being and, secondly, because it is highly correlated with other important aspects of well-being that affect to individuals of any community (labour, social or public well-being)

The EU entered a recession in the second quarter of 2008, which lasted five quarters. Since the recession, overall growth in terms of GDP has been sluggish. The EU's GDP contracted again in the last quarter of 2011 and the first two and the last quarter of 2012. The overall impact of the crisis on GDP in the period 2008-2012 led to sluggish decrease of its growth rate. Due to the global crisis, the growth rate of the EU-28's GDP appeared considerably in 2008 and the total GDP decreased substantially in 2009. In 2010, the EU-28 GDP registered a recovery, but this was slowed in 2011 and 2012. The recovery trend was re-launched in 2013 and consolidated the EU-28 GDP registered a recovery, but this was slowed in 2011 and 2012. The recovery trend was resumed in 2013 and consolidated in 2014 (Figure 1). In constant prices terms, the total GDP increased by 2% in 2010 and this was followed by a further gain of 1.6 % in 2011. Subsequently, GDP contracted 0.4 % in 2012 and was relatively stable (up 0.1 %) in 2013 (Eurostat, 2014a).

Figure 1 - The evolution of GDP real growth rates of EU-28 in the period 2003-2014



Source: Elaborated by the author according to Eurostat data (Code: tec00115)

In the analyzed period, the real GDP growth varied substantially among the EU member countries. In 2009, all the member states, except Poland, registered negative growth rates of GDP. However, in 2010, the plenty of rescue packages applied by the governments contributed to the recovery of economic growth rates in 22 Member States, a trend that was consolidated in 2011 when 25 of the EU Member States were registering positive real GDP growth rates. Nevertheless, the efforts of the countries to overcome the effects of the global crisis were not long-term oriented, that is why in 2012 this positive trend was reversed and, as a result, as only half of the EU-28 Member States reported economic expansion, while in 2013 this number rose to 17. In this context, it can be mentioned that the global financial and economic crisis decreased the economic performance of EU member states. This idea is supported also by Gaki *et al.* (2010).

Focusing on the Euro area (EA-18), it can be mentioned that the average growth rate decreased in 2013(0.8%), compared to 2003 (1,1%). The highest growth rate was registered in Slovakia and Lithuania (both 4.2 % per annum), followed by Poland (4.0 %), Latvia (3.7 %), Estonia (3.6 %), Romania (3.5 %) and Bulgaria (3.3 %) (Eurostat, 2014a). Negative growth rates, in the analyzed period, were registered in Greece, Italy and Portugal. The Cypriot economy contracted more strongly in 2013 (-5.4 %) than it had in 2012 (-2.4 %), while the reverse was true for Greece, where the 3.9 % contraction in 2013 was milder than the contractions in the two previous years (both around -7 %).

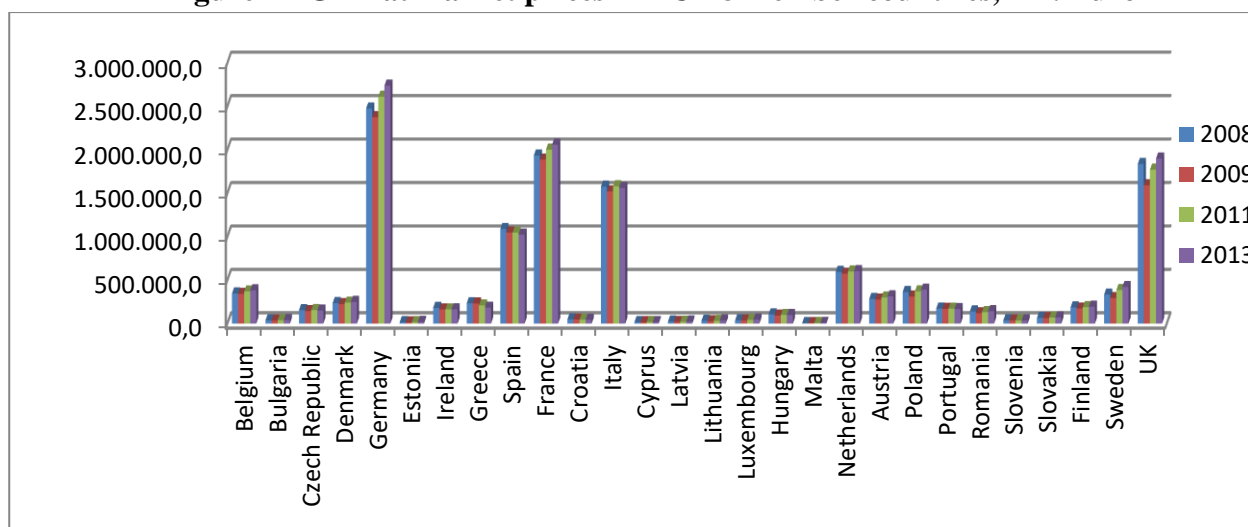
From the total EU-28's GDP in 2013, the contribution of the five largest economies (Germany, France, the UK, Italy and Spain) accounted for 71.0 %, while the contribution of all EA-18 members was 73.4 %. Nevertheless, the comparisons among countries must be made accurately, as the nominal GDP is influenced by the notably exchange rate fluctuations for those EU Member States which have not adopted the euro. (Figure 2)

Initially, the powerful industrialized countries and their banking system were among those mostly affected. Many countries in the European Union felt, at this stage, relatively safe and unaffected. Nevertheless, the economic and financial crisis hardly hit all EU member states, in 2009 all of them registering decrease in their GDP. Even if in 2011 most of the countries registered performances of GDP higher than its pre-crisis levels, 11 countries faced barriers in recovering its economic growth.

Summarizing, it can be said that economic all the EU member countries managed to recover from the crisis, even if some of them could not yet achieve the pre-crisis growth rates. However, disparities in growth may not be harmful in the short run, as long as growth across the EU is still robust.

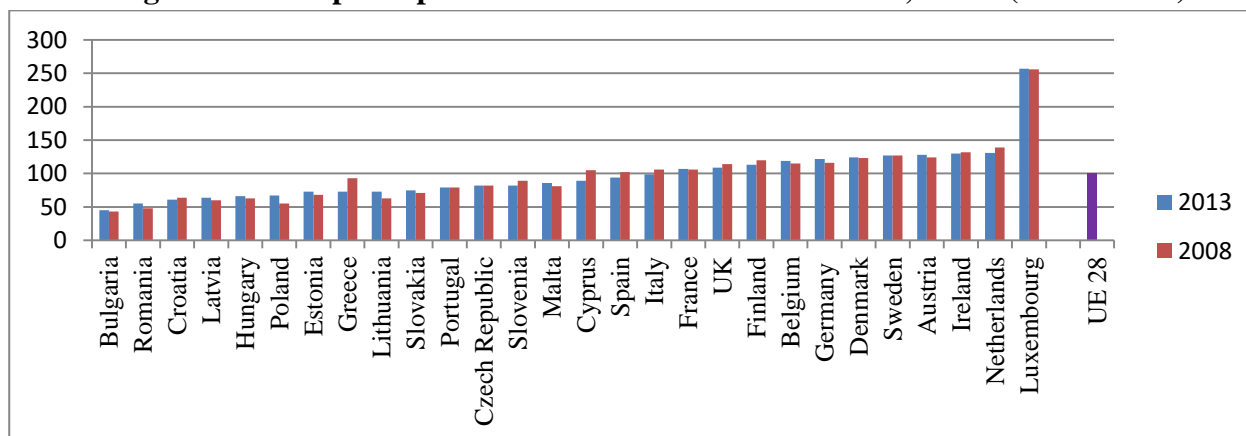
In order to assess the level of living, it is more appropriate to use GDP per capita in purchasing power standards (PPS) that mean taking into account the differences in price levels across countries. According to Eurostat (2014a), "the average GDP per capita within the EU-28 in 2012 was PPS 25 500, slightly above the peak (PPS 25 000) reached in 2007 and 2008 prior to the effects of the financial and economic crisis being felt. The relative position of individual countries can be expressed through a comparison with this average, with the EU-28 value set to equal 100" (Eurostat, 2014a) (Figure 3).

Figure 2 - GDP at market prices in EU-28 member countries, mil. Euro



Source: Elaborated by the author according to Eurostat data (code nama_gdp_c)

According to Eurostat (Eurostat, 2014a), Luxembourg recorded the highest relative value among EU Member States, where GDP per capita in PPS was more than 2.6 times the EU-27 average in 2013. This high value is partly explained by the multitude of cross-border workers from Belgium, France and Germany. On the other extreme, in 2013, Bulgaria registered the lowest GDP per capita in PPS, followed by the Romania and Croatia (the last three countries joining the EU). (Figure 3)

Figure 3 - GDP per capita in EU-28 member states in PPS, Index (EU28 = 100)

Source: Elaborated by the author according to the Eurostat data (Code: tec00114)

Even if the PPS data should, in fact, be used for comparisons among countries in a single year, rather than over time, the message of these data, despite some barriers imposed by the global crisis, is that the member states that joined the EU in 2004, 2007 and 2013 moved closer to the EU average standard of living, and thus, some convergence occurred.

According to the Eurostat, in 2013 compared to 2008, some countries, such as: Luxembourg, Germany, Sweden and Austria moved further ahead of the EU-28 average, while other member states, such as UK, Italy, Ireland and France, moved closer to the EU-28 average (Eurostat, 2014a). From the countries situated below the EU -27 average in 2008, Lithuania, Poland, Romania, Latvia, Slovakia, Estonia and Bulgaria registered the highest growth rates towards the EU-28 average by 2013, whereas Greece and Portugal registered in 2013 even lower performance in comparison with 2008.

The analysis of the GDP per capita in EU member countries before (2008) and after (2013) the economic and financial crisis, shed the light over the fact that some of the countries were considerably affected by the crisis, and registered in 2013 a GDP (PPS, Index EU-28=100) lower than in comparison with 2008 (i.e. Greece, Cyprus, Ireland, Spain, Italy etc.). Thus, it can be stated that economic crisis widened the economic and social disparities among member states.

It is also noticeable that production structures around Europe, even within countries, are extremely heterogeneous, and for this reason productivity gaps must be seen cautiously in order to distinguish differentials in productivity from differentials in economic structures.

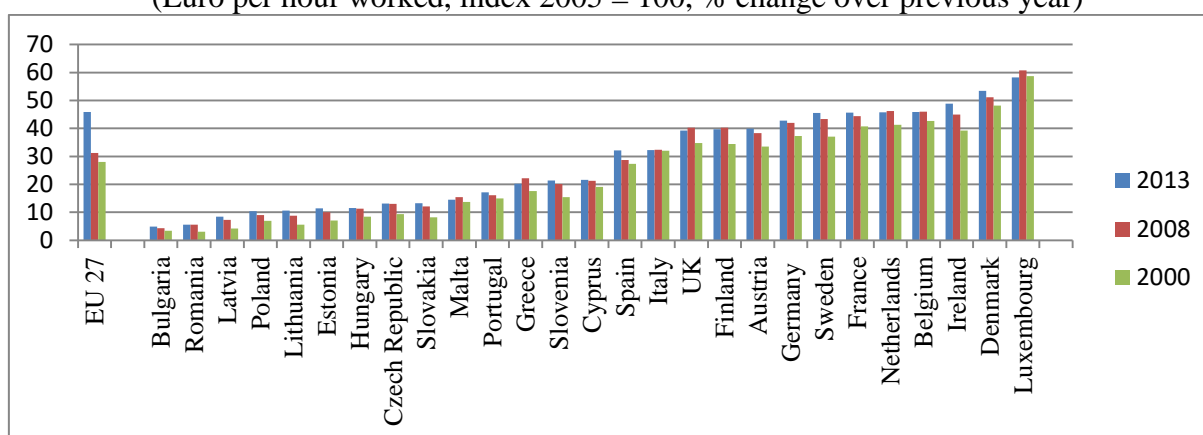
An analysis of labor productivity per employee during the period of 10 years from 2003 to 2013 show increases (in current prices) for all activities, ranging from 17.4% for commercial distribution services, transportation and accommodation and food services to 35.9% in industry; information and communication services (4.4%) and business services (8.0%) occupy lower positions in the ranking.

In particular, labor productivity per employee in Lithuania increased from 49% to 74% of the EU-27 between 2002 and 2012; also, Latvia, Romania, Slovakia, Estonia and Poland have made substantial progress in terms of proximity to the EU-27 average. Instead, the UK, Italy, Belgium and Greece have declined considerably in terms of labor productivity per person in relation to the EU-27 average.

The global economic and financial crisis stopped the constant growth of labor productivity registered in the period of 2000 and 2007. In spite of the fact that productivity recovered in 2010 and continued to grow in the coming years, the perspectives on the long run will be determined by the manifestations of the labor market.

Although productivity levels increased in all member states in the last decade, there is still considerable variation in terms of productivity in different EU countries. In 2013, Luxembourg, Denmark and Ireland have the most efficient workers, producing 58.2, 52.7 and 50.4 euros per hour, respectively. On the other hand, labor productivity in the 11 Member States was less than 20 euros per hour. (Figure 4)

Figure 4. Labor productivity in EU member state in 2000, 2008 and 2013
(Euro per hour worked, index 2005 = 100, % change over previous year)



Source: Elaborated by the author according to Eurostat data (Code: tsdec310)

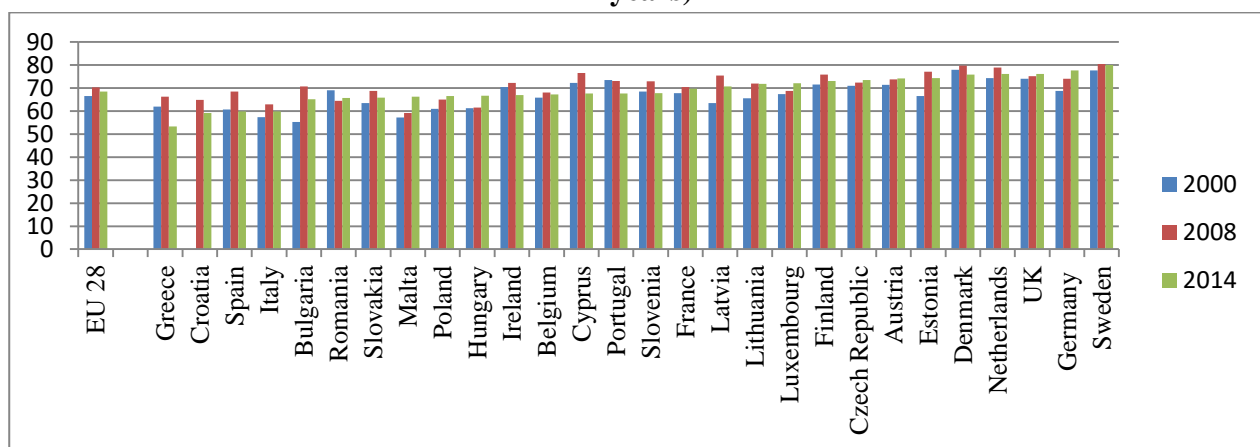
The analysis of the Figure 3 and 4 highlight the fact that there is a strong interrelation between the level of GDP and level of productivity. However it is worth to be mentioned that countries with the lower productivity level register the higher productivity growth rates after the crisis. Nevertheless, in order to prove the correlation between the two indicators, the employment needs to be analyzed.

Even though the employment rate in EU augmented from 66.6% in 2000, 70.3% in 2008, the financial crisis changed the trend and by 2014 the employment rate has remained around 68.5%. The EU removed from achieving the 75% target of the Europe 2020 strategy. According to Guichard S.

and Rusticelli E. (2010) the regional disparities in employment in the EU decreased by 2.1 percentage points. Progress has been canceled by the economic crisis, which gradually brought back regional disparities in employment in 2000 (13.3% in 2012).

There is a substantial difference in employment rates across the EU. In 2014, Sweden, the Netherlands, UK, Germany and Denmark have exceeded the employment target of the EU average of 75% (Figure 5). Nevertheless, other countries were more than 15 percentage points behind the EU average target.

Figure 5 - Employment rate in the EU 28 in 2000, 2008 and 2014 (% of age group 20-64 years)



Source: Elaborated by the author according to Eurostat data (Source: Elaborated by the author according to Eurostat data (Code: tsdec310))

The lower end of the spectrum was dominated by countries in Southern and Eastern Europe: Greece, Croatia, Spain and Italy that have the lowest average employment rates of 53.3%, 59.2% and 59.9% respectively. These low rates are likely to reflect differences in economic development, demographic trends, labor market structure and economic policies and the asymmetric impact of economic shocks.

Concluding, it can be said that economic crisis had a direct impact on the labour market in general, and on employments rate in particular. Even if the employment rate increased in the period of 2008 - 2013, better tendencies were registered in the case of the three soft forms of unemployment. As Eurostat reports, „ the proportion of underemployed part-time workers in the labour force has grown slightly from 3.1 % in 2008Q1 to 4.0 % in 2014Q3. The percentage of persons available but not seeking work followed the same trend, reaching 4.1 % in 2014Q3. People seeking work but not immediately available has remained close to 1 % over the whole time span, showing no noticeable change since the start of the economic crisis” (Eurostat, 2014b) .

Several factors led to this situation, but two of them were more obvious:

- The three soft forms of unemployment have softer requirements than unemployment itself, because they are referring to the groups of persons who do not simultaneously fulfill all the criteria of the International Labour Organisation unemployment definition. These requirement aspects make these indicators more stable and less volatile;

- Psychological and dynamic factor. Most of the persons in underemployment and those available for work, but not seeking they believe no work is available. Also, it is referring to the dynamic groups with high rotation (for example students seeking a job for summer or those seeking a job before the end of their studies).

The crisis then led to sharp increases in unemployment. Unemployment in the EU rose from an average of 7.1% of the population in 2008 to 9.7% in 2010 and 10.5% in 2013. Estonia, Ireland, Latvia and Lithuania experienced the largest increases in unemployment between 2007 and 2010, from relatively low levels of around 5% in 2007 to around or over 15% in 2010. Currently, the unemployment is falling in all the Baltic countries.

Both the decline in GDP and the loss of employment vary greatly between the countries, ranging from a decline of less than 5% in both GDP and employment in Cyprus to about 40% GDP decline and 21% employment loss in Latvia (de Beer, 2012). In countries such as Portugal, Greece and Spain, unemployment has also risen to very high levels as a result of the crisis and continues to grow, reaching 16%, 24% and 25% respectively in 2012. Long-term unemployment levels have quadrupled in many of these countries, while youth unemployment has reached rates of over 50% in Greece and Spain. The statistical analysis highlight the fact that there is a direct relation between the GDP growth rates and unemployment. More than this, the economic and financial crisis made this relation more obvious.

Conclusions

Observing in detail the current heterogeneity in GDP per head in the EU countries shed the light over the fact that some part of the gap is due to productivity differentials, but an important part is connected with the differentials in the employment and employment rates, the persistence of old production structures and over-employment in the primary sector activities. The latter may make us conscious, once again, that in order to increment employment is necessary to reach a lasting and vigorous rate of growth of income per head.

Also, the economic crisis affected mostly developed countries with an increased involvement on the international financial markets and almost all southern European countries, suggesting that countries with pronounced vulnerabilities and a higher degree of financial integration tended to be affected more severely. The effects of the crisis on the Baltic States were particularly strong. Latvia experienced a drop of GDP of 13.1% and an increase in unemployment, up to over 12% in 2009. Previous high-growth economies, such as Estonia and Lithuania, are also expected to suffer with a projected drop in GDP respectively of 10.3% and 11%, and their unemployment rates exceeded 10% in 2009. Hungary's 6.3% GDP fall and close to 10% unemployment rate is also substantial.

Labour market regulation plays a crucial role in analyzing the heterogeneous effects of the crisis on countries. As suggested by de Beer (2012), in countries where it is relatively easy for employers to reduce the workforce, by laying off either permanent workers (such as in Denmark) or temporary workers (as in Spain), the crisis results in a strong increase in unemployment and has created a sharp dividing line between those who lose their job and those who remain employed and hardly suffer from the crisis at all. On the other hand, where employers are not able to adjust their workforce quickly and therefore have to resort to internal flexibility, by either reducing the number of working hours (as in Germany and Slovakia) or cutting real wages (as in the UK), the consequences of the crisis are more evenly spread among the workforce.

However, the redistributive effects of the crisis are not only dependent on the level of unemployment and their analysis therefore needs to also take account of policy responses to the changes in the labour market and to the distributional effects of the crisis, which provide an even more heterogeneous picture of the changes. The several efforts of the EU to strengthen the convergence were banned by the economic crisis, which means that countries need to reform their growth strategies and restructure their production processes.

Cohesion policy has made a significant contribution to spreading growth and prosperity across the European Union, while reducing economic, social and territorial disparities. Undoubtedly, without cohesion policy, disparities would be greater. The impact of the crisis on economic cohesion cannot be analyzed solely through a national dimension and needs to be complemented by a regional perspective. As highlighted in the 8th progress report on economic, social and territorial cohesion, the crisis has hit the EU territories in a period of progressive regional convergence. These differences have to be explained both in terms of the economic background of each NUTS 2 region (and therefore their resilience against the crisis shock) and in terms of their ability to smooth the downturn, but these will represent the task of future research.

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THE ECONOMICS OF “BIG FIVE” EUROPEAN FOOTBALL LEAGUES

Teodor DIMA*

Abstract: *European football is a business with more and more attractive numbers for investors, shareholders or partners all over the planet. It has significantly changed especially over the last 20 years, following an intense procedure of acquisitions and marketing, a process that has brought important sums of money in this industry. This paper presents the overview of the “big five” European football leagues (England, Germany, Spain, Italy, France). The study is primarily focused on economics, but is also considering various social or cultural aspects (media, social media followers). The case-study on the five major leagues corroborates the theoretical underpinning. The paper investigates also the roots of financial regulation divergence in Europe and underlines the main issues regarding the UEFA financial fair-play rules.*

Keywords: economic outlook; football leagues; financial fair play; social media

JEL Classification: L83; M21; J31

Introduction

European football market value has seen an upward trend in the last two decades, reaching 20 billion euros in 2014 (Deloitte, 2015). The revenues of the national competitions represent a significant percentage of the total market. The cumulated income of the five strongest domestic competitions ("big five") represents approximately 10 billion, i.e. half of the total value. This explains the emphasis shown to the economies of these competitions as well as the challenges and opportunities faced.

For this academic study, I have used documentation as a proper method of research in this field following the usual steps of a scientific research:

- Revision of the UEFA official documents and documents of the institutions that manage the organization of the strongest leagues in Europe - financial reports, organizational documents, market analysis;
- Sourcing of data from documents prepared by Deloitte & Touche: Annual Review of Football Finance for the period 2003-2014;
- Critical analysis of scientific materials, books and research articles addressing topics of importance for European club competitions and current trends in the field;
- Analysis of revenue growth, cost and market value of the strongest players in domestic competitions.

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Going through the research conducted in this niche field of sports management highlights the academic interest for the debate on the economic dimension of European football and its social impact. As such, the scientific focus on the economic segment is aimed at topics such as: the types and sources of income dynamics in European football (Dobson and Goddard, 2011); high cost of labor (Capasso and Rossi, 2013), whose dynamic is higher than revenue (Baroncelli *et al.*, 2004); alarming increase of the debt recorded in soccer (Rossi *et al.*, 2013). The social dimension aims to maximize the satisfaction of supporters (Madden, 2012), the methods used by sports organizations to increase the involvement of the fans (Ioakimidis, 2010) or using social networks and the efficiency of using this instrument (Kuzma *et al.*, 2014).

1. Economic outlook of the „big five” football leagues

Current economic debates pertaining to the strongest European football championships are mostly focused on their business performance, high cost of labor seen both in nominal value as well as value relative to the business size and the estimated value of the lots of football players. In this regard, research has focused on presenting and interpreting the following: volume of revenues, the ratio of wage costs to total income, and the market value of the players of this elite championships.

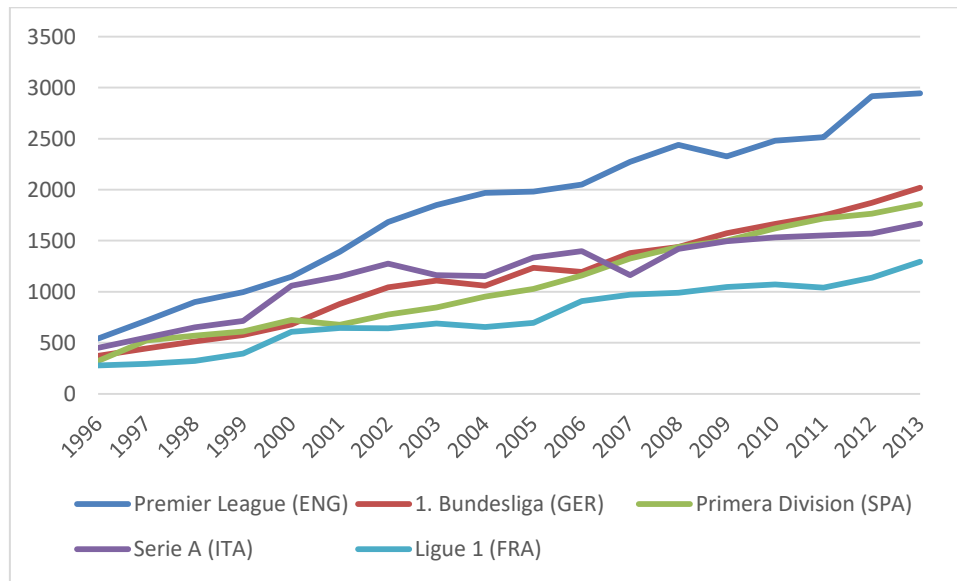
To measure the business value of a national sports competition, the relevant parameter is the turnover of the first division. This is determined by adding the income obtained by the participating clubs, plus the budget of the organization that manages the national competition. In this study I used data from the Annual Review of Football Finance, conducted by consulting company Deloitte & Touche for more than two decades.

The current revenues of sports companies do not include the proceeds from transfers which are considered exceptional revenue. In order to calculate the turnover of the top five championships the consulting company used data from the audited financial results of the clubs or directly from the annual reports of sports companies. The figures are converted to the same currency (Euro) and sometimes slight adjustments are applied to give a true and easily comparable dataset for the competitions (Deloitte & Touche, 2014).

Analysis of the period in question reveals that the five championships obtained in 1996, the first year under review, a total aggregate revenue of nearly 2 billion, the amount increasing about five times to nearly 10 billion Euro in 2013 (Figure 1). We can see the obvious supremacy of England for this criterion, with almost 3 billion in revenue and the continued presence of France in the last position, which only in the last five years has exceeded 1 billion in revenue per season. Between the

two extremes, the other three championships stand very close to each other, with revenues ranging from 1.6 to 2 billion Euro (2013). From the point of view of dynamics, the highest rate of multiplication of total revenues was obtained by the first Spanish league, 5.7 times, and the lowest belonged to the Italian championship, 3.68 times.

Figure 1 - Total revenue - “big five” leagues (1996-2013)



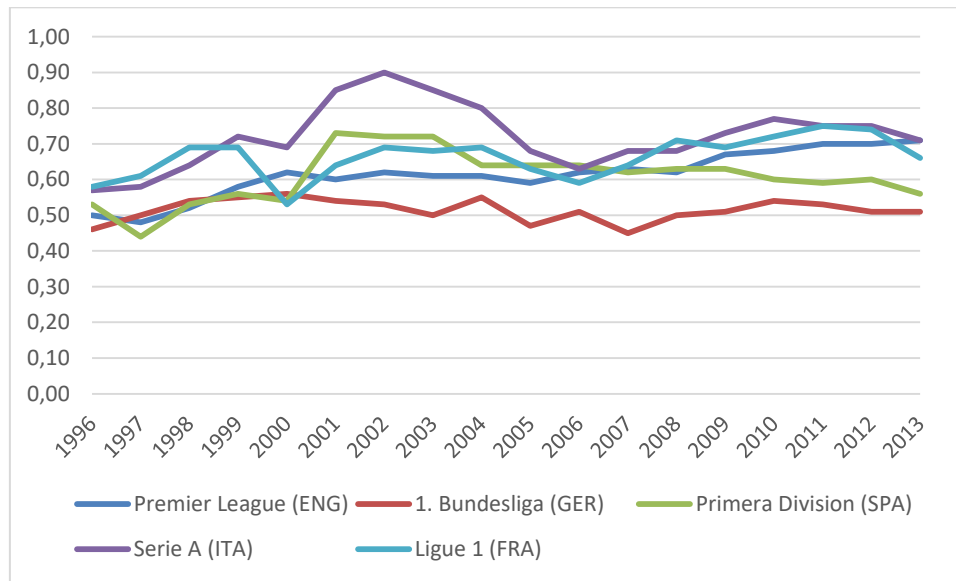
Source: author's processing based on data from Deloitte & Touche – Annual Review of Football Finance (ed. 2003-2014)

Controlling labor costs is one of the academic debates of this niche research and at the same time, one of the priority concerns of the management of sports entities. Capasso and Rossi (2013) stress the high cost of labor in this industry, and Baroncelli *et al.* (2004) analyze the higher dynamics of the wages compared to the dynamics of revenue. We used data from Deloitte’s Annual Review of Football Finance, on the percentage of wage costs in total revenues at the level of the strongest championships. The cost of wages includes both athletes, technical management and administrative staff (Deloitte & Touche, 2014).

Figure 2 illustrates the superiority of the German championship in keeping labor costs under control, being the only top national football competition which manages to keep about 50% of revenues for expenditures other than salaries. Interestingly, the trend for the first part of the review period was one of increasing the share of labor costs, but after 2010, we observe a preoccupation for decreasing the percentage of revenue earmarked for the payment of salaries in almost all championships. Italian Championship measured the highest values of this parameter (between 0.8 and 0.9 between 2001 and 2004). English Championship, the richest in Europe, as evidenced by the

analysis of income, is the only one following an ascending trend of the share of wages to revenues in the last five years. Growing labor costs in the Premier League are reflected in much higher salaries compared with the other championships, but this maintains a competition that generated and can still generate significant economic imbalances.

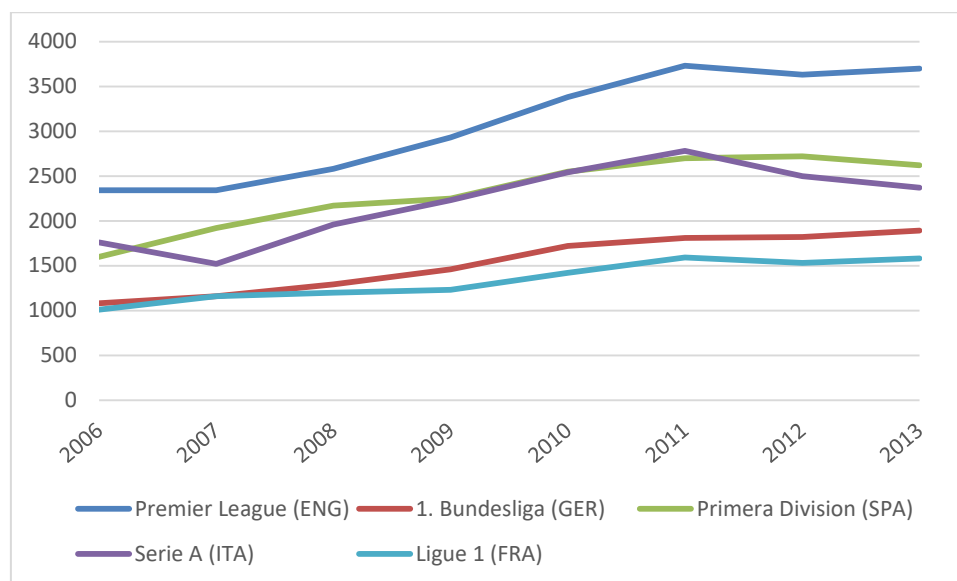
Figure 2 - The share of wages in total revenue - "big five" leagues (1996-2013)



Source: author's processing based on data from Deloitte & Touche – Annual Review of Football Finance (ed. 2003-2014)

The market value of players in a league is a parameter that contains economic, sporting and social aspects. In this respect, the economic component is given by the value of intangible assets represented by players, the sports component reflects the fact that the value of each player is influenced by his athletic performance and his current form and the social component shows the direct relationship between the players values and the fans interest in the team. Data available for this parameter spans a shorter period than previous analyzed parameters.

We note the English championship's leading position with a total value of the lots of players approaching 4 billion (Figure 3). It is followed at a notable distance by the first Spanish and Italian leagues, who switched the positions 2 and 3 over the 8 years analyzed for this parameter. Germany ranks fourth for the entire period, with the market value of players closing in 2 billion euros. France occupies the last position being the only of the "big five" championships to have an average lot of players value under 100 million euros.

Figure 3 - The market value of the squad of players - “big five” leagues (2006-2013)

Source: author's processing based on data from Transfermarkt (for further details see: <http://www.transfermarkt.co.uk/wettbewerbe/national>)

2. Current challenges and tendencies of „big five” competitions

The challenges and trends of the strongest European championships are influenced by various aspects. We opted, in this respect, for a detailed presentation of the impact of placing regulations of financial fair play and the opportunity of using social networks for the sport domain. These have the capability to change the way of thinking and the relation with the European football industry.

2.1. Financial fair play

Financial Fair Play rules represent the main change in the governance of football, producing the first effects in 2013/14, with major implications for the entire management system in European football. On the one hand, many clubs have repeatedly reported significant deficits, have experienced liquidity shortfalls and failed to pay on time their debts to other clubs or to its own players, and others have gone into insolvency, judicial reorganization procedures or even bankruptcy. On the other hand, private investors with great financial power took control of professional football clubs and have spent huge amounts of money in order to create strong teams.

These two market tendencies threaten financial stability and disturb the competitive balance, both between clubs and the European football championships. To ensure the financial stability of the

industry and to restore competitive balance, UEFA introduced new Financial Fair Play regulations. They mainly state that teams can only spend in proportion with their revenues, the "break even" rule.

In the first step, UEFA asked for clarifications and additional financial documents from the 76 clubs that have qualified for European competitions in the 2013/14 season and have recorded a deficit of over 5 million euro in the monitored period. Also in May 2014, 9 clubs were sanctioned for breaching financial fair-play. The most severe penalties were received by Manchester City and Paris Saint-Germain (Table 1), the other clubs found in breach of the rules being Zenit St Petersburg, Rubin Kazan and Anzhi Makhachkala from Russia, Galatasaray, Bursaspor and Trabzonspor from Turkey and Levski Sofia in Bulgaria.

Table 1 - Penalties for Manchester City and Paris Saint-Germain

	List of sanctions
1.	They lose 10 million of the money that they ought to receive for participating in the Champions League 2013/2014 season and another 10 million from participating in UCL's next season.
2.	The value of maximum acceptable loss is reduced for the next two seasons from 30 million to 20 million (first season) and 10 million (2 nd season).
3.	The team for Champions League season 2014/15 can only use of a batch of 21 players.
4.	The maximum expenditure for transfers in the next mercato period, the summer one, is limited to 60 million euros plus the money from eventual sales.
5.	The total salaries of members of the club (both players and staff) for the 2014/15 season should be the same as in the 2013/14 season. It is important to note that performance bonuses may be paid outside of these limitations.

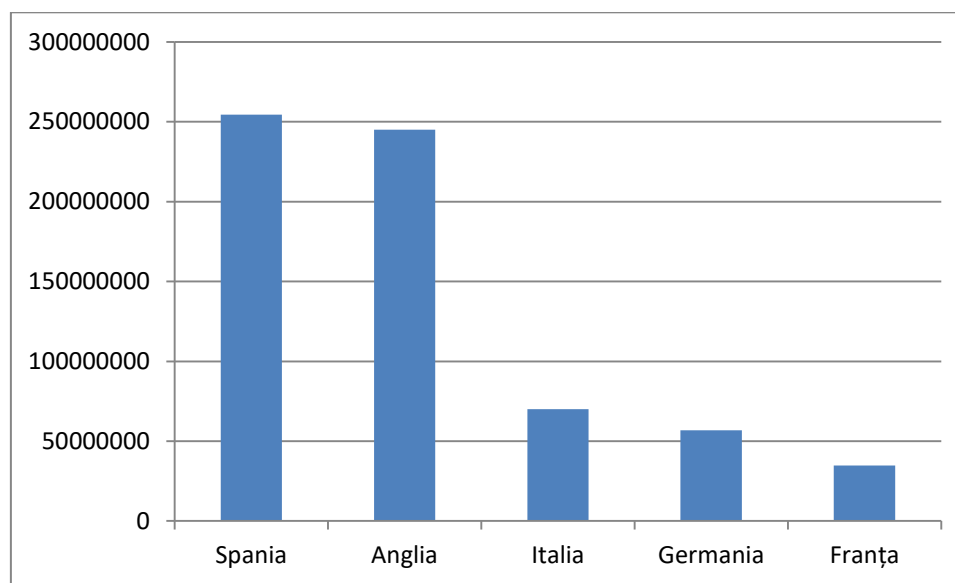
Source: CLFFPR, 2014

2.2. Social media in football

An important opportunity for the football industry is the use of social media. Social networks have enabled football teams to develop a closer relationship with their fans around the globe. Moreover, clubs are able to use this marketing tool for the development and expansion of their brand at regional and global level. The large value of clubs' digital reach at the end of 2014 and their trend for the last season shows that companies understand and capitalize on the benefits of social media in sports.

The interest in football can be globally measured by the attachment expressed on the internet on various social networks. Adding the values provided by Sports Digital Media (2014) representing the number of digital fans of each of the "big five" teams, I constructed a ranking of football fans for each of the strongest leagues (Figure 4).

Figure 4 - National competitions ranking – digital fans (2014)



Source: author's processing based on data from Digital Sports Media (2014)

Thus, we can see that Spain and England sit comfortably in the top two spots, each having about 250 million digital fans. In Spain, FC Barcelona and Real Madrid fans represents 90% of total, the internal competition being divided between the two world football powers and the rest. England is also a championship with a high degree of concentration in which 90% of fans are supporters of five teams (Manchester United, Chelsea, Arsenal, Liverpool and Manchester City). Far from the first two competitions are Italy with over 70 million fans (71% say AC Milan and Juventus), Germany with about 57 million (97% Bayern Munich and Borussia Dortmund fans) and France with almost 35 million (over 50% support Paris Saint-Germain). Therefore, the increased popularity enjoyed by clubs with worldwide recognition is a landmark of current realities and further proof of the polarization of some of the strongest domestic competitions, Germany and Spain being the most eloquent examples.

Conclusions

The "big five" economy is a highly complex topic, involving numerous perspectives, variables and interpretations. I did not try to exhaust the subject, but only to present the most important and

current aspects of this niche of sports management industry. In this respect, the analysis of three relevant parameters for this market (level of income, the wage to revenue ratio and market value of players) indicates the supremacy of English football with a higher business value. The first German league is distinguished by the better control of labor costs. Spanish and Italian championships occupy positions 2-4 for the analyzed criteria and the French championship is the last one.

Management and shareholders of Europe's top football businesses must adapt to the principles and mechanisms introduced by the "financial fair play" regulations. At the same time, they can capitalize on the economic, social and cultural opportunities represented by the exponential growth in the number of digital fans using various social networks.

This research covers only a part of the theme and the economic implications of the strongest leagues in Europe. It can be continued with academic research on other significant parameters for the industry, or even by integrating the most relevant indicators in a composite index to synthesize the highly complex dynamics of this area.

Acknowledgements

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THE JEWISH PAST OF EASTERN EUROPE

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Abstract: *In Transylvania, buildings with a high quality architecture have been constructed along the centuries. The purpose of the present study is to document the built heritage of Transylvania, particularly the Jewish buildings and especially those that had been neglected over the last years. The article is the continuation of the article about the Jewish architecture in Transylvania, with a case study about the Jewish girls' school in Satu Mare. The research domain is interdisciplinary because it links History, Architecture, Art history and the problem of Globalization as well. The niche in this domain remains the fact that the buildings are not identified, rehabilitated, or promoted. Previous studies have mostly focused on synagogues and prayer houses. Most of the other precious buildings have been left aside. This study offers a new approach to change the point of view of the people who live in Romania, and helps them appreciate the heritage they have received.*

Keywords: Jewish building; heritage of Transylvania; transnational dialogue; identity; globalisation problems

JEL Classifications: O18; O34; R14; R21

Introduction

Globalisation, one of the issues of today's world also affects architecture, as well as all the other domains of life (Liane Lefaivre, 2012). Globalisation functions, it is not a failed project, because it is a wanted trend, it is human, natural, and humanity benefits from it (Wolf, 2004). Although considering all of its positive effects, some areas suffer because of it (Liane Lefaivre, 2012). One of its effects is the fact that in the image of the European area everything becomes uniform. In the last decades, many multinational companies have appeared and most of the products are sold everywhere worldwide and as such the image of a country cannot be displayed so vividly, whether we talk about its unique lifestyle, food or architecture. This diagnosis is becoming more and more clear.

1. Jews – those who have defined the image of East European cities

A speck of colour which enriched the identity of Romania and especially that of Transylvania was the mosaic community. The presence of Jewish population in Europe and especially in Eastern Europe meant more than just a simple existence. It was a transnational system which, through its entangling nature and form, created links which cover this area, regardless of the boundaries created by national borders. Jews are in contact with each other, they cooperate, communicate and thus create their own invisible network. The Jewish population created by the diaspora has reached various

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countries since they were forced to begin a new life in a new country and in a new community, where there were new rules and customs than those to which they were used to which have put their own mark and thus enriching unforeseeably the life of the community to which they would come to belong (Csirák, 2001).

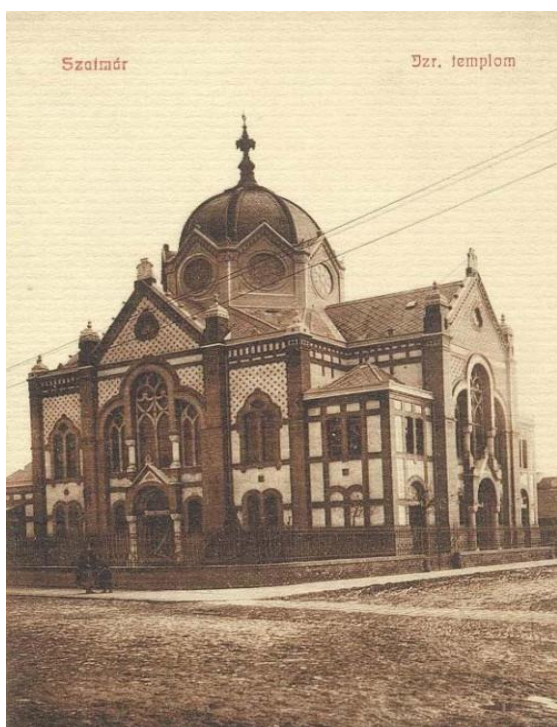
Traveling around, in most of the cities, a synagogue, a Heider, a ritual bath, a prayer house or a house where the Schlachter lived and worked can be found. All these are traditional, easily recognisable buildings. But research also involves other buildings with a Jewish background which are worth talking about. The list continues with Jewish hospitals, schools, houses and cemeteries. This way, a wide range of sources are called upon. Some of the existing buildings are historic monuments today, but most of them are not included on the List of Historical Monuments, although they should be. These are beautiful, valuable buildings, which represent a past that is sadly, not recognised by people.

The challenge of integration and cohabitation with other citizens however does not represent such a big problem for them. It is true that they have brought a different culture, characteristic customs and an unusual lifestyle, but they were qualified people who have also brought with them the trades which they have learned, the wisdom and the will to work and thus they have succeeded in a very short time span to be tolerated and accepted (Csirák, 2001; Csirák Csaba, 2012), by the citizens of the communities where they have arrived. The majority of them have contributed with something valuable to raise the standard of living and culture of the community where they have come, their presence being beneficial and valuable (Csirák, 2001). The laws introduced by the government at those times were mostly anti-Semitic (Gyémánt, 2004), and made life and the adaptation of the Jews much harder into the integration of the European region. There are various examples of government ordinances in Romania as well (Gyémánt, 2004). Against all odds however, the Jews managed to survive and throughout the years slow and steady to gain rights, and became more and more accepted. The period before the First World War is considered to be the apogee of Jewish contribution to the cultural life of Eastern Europe (Aristide Streja, 2012; Csirák, 2001; Klein, 2014; Lugosi Lugo László, 2002; Perczel, 2008). A lot of literature, music and architecture managed to see daylight in this period thanks to Jewish contributions (Mayo, 1940). The majority of buildings from the built Jewish patrimony is from this period (Aristide Streja, 2012; Riczu, 1992). There are buildings from this period which still stand today and radiate the beauty of that era and talk about the unique character of the zone in which they were built. Through their presence, these buildings enrich the parcells, areas and cities with beauty, history and compositional harmony. Sadly, some of them do not exist anymore (Riczu, 1992). There are a series of causes: they were left to be destroyed by time (Csirák, 2001);

they were not restored (Csirák, 2001); they were demolished intentionally because they were in the historical centre (Peltz, fara an), where the land was expensive and for the purpose of building something new but maybe something less valuable, they were demolished; they were demolished by time or by the will of others simply because they were not known (Csirák, 2001), in the sense not being catalogued, taken into account, photographed or included on the list of Architectural Monuments and thus as a case of not being known they remained unprotected. These problems and other similar ones represent challenges in all countries, for example Hungary (Perczel, 2008).

The built space is sterilized more and more and the values are not dealt with accordingly. Because of globalization, the risk of losing the enchanting image of the old Jewish buildings, which are extremely representative of the cities of Transylvania, or in other words, the *genius loci** is slowly annihilated (Csirák, 2001).

Figure 1 - Status-quo Synagogue



Source: Private collection

Figure 2 - Building of the Police in the place of Satu Mare



Source: www.jurnaluldenordvest.ro

On the two images above the same parcel of land can be seen. The first image is of the Status-quo synagogue built in 1905 and demolished in 1965 while the second, the existing building, the main

* The distinctive atmosphere or pervading spirit of a place.

headquarters of the County Police built in its place. This way the city had lost a masterwork of Architecture.

2. Intrinsic importance of the problem

Identity is the key word for it opens the lock of the problem and it underlines its importance, the identity of a nation, the specificity and uniqueness of a community even if it lives on in a faraway country. The identity is the primordial dilemma of a country or a nation, because this is where their source is, and if its foundations are not correctly placed, they are unclear or unrecognized, everything else built on an unstable foundation can't be stable. The discussion leads to the collective memory of a community, which are personal, unique and unrepeatable. It is important for a community to know well its own history, values tangible and intangible alike, and these values to be correctly remembered and used by the leaders of a nation.

The importance of the problem is relevant economically, politically and socially as well. Economically: if these buildings would be restored and put in function in the right way once again, it would be a lot more attractive for tourists and they would become a source of considerable income for a country. Not only that but as a whole they would raise the quality of the cities of Transylvania (most of these buildings being situated in the historical centre of the cities of Transylvania). Politically it is important for each government to constantly keep in mind, protect and defend the buildings which have the value of historical monuments, since these have representative national and international value as well.

Socially a return to the idea of identity can be accomplished. The specificity of historical Transylvania is defined by multiculturalism and a large ethnic diversity – long before the European community – being able to be perceived as a predecessor of it, not just as an integrated part. From this cultural diversity an important part is the built Jewish patrimony. If this problem is not taken seriously, these buildings day by day will be destroyed and will vanish, together with the past of the community.

Figure 3 - House on Petőfi street



Source: Foto: Dohi Trepszker Lilla

Figure 4 - Place of demolished house on Petőfi street



Source: Foto: Dohi Trepszker Lilla

On the images above the same parcel of land can be observed, on the address of 9 of Petőfi Street. The house with the number 3, in 2012 (the year when the photo was taken) still stands. This is a Jewish house, information taken from the list of nationalized houses (Csirák, 2001). Today in 2015, it looks like Figure 4. A clear evidence, what the fate of these buildings is, which could be classified and protected by their new status of historical monuments.

3. Proposals and case studies

The goal of this study is to raise awareness and make these buildings known, it is important, for these buildings to be seen and known, that the issue at hand to be on the daily agenda, to be current, discussed, and acquainted. The proposed solution would consist from a taxonomic summarization and revelation of these buildings. Continuing the tradition to reveal and explore all the architectural treasures that can be found in Transylvania, recognition studies allow the extraction of relevant data. This would mean, more precisely, the completion of the existing evidence lists, with those buildings, that are not included on these lists yet. Another important step would be the marking of the buildings on a map, with a legend, in which the following are represented:

1. All of the Jewish buildings that existed

2. Buildings which still exist today, and the categorization of their status
3. Rebuilt buildings
4. Demolished buildings

For the existing-ones a revelation from the architectural, structural, and art historical point of view is necessary, and a Land Book Extract in-extenso (this shows clearly who the owners of the land, on which the building stood over the years, were). For the creation of the case studies, buildings have been measured, redrawn, archive research was done, and finally a proposal plan for their restoration process was created. Further research will allow a better interpretation of the buildings by including them into different categories of rehabilitation. The measuring and drawing techniques, used today, offer a great potential for such an analysis. The proposed city for the case study, is Satu Mare. The buildings can be categorized according to functions, such as: hospitals, schools, churches, prayer houses, ritual baths, ritual slaughterhouses, factories and residential houses. From all the categories, the largest is the one of residential houses. Among these, many examples can be found, which are extraordinary. The residential hoses can be divided in subcategories: ground floor houses, one-story houses, undecorated/elementary houses, adorned houses, houses with only residential function, houses with residential and commercial function, etc.

For a short case-study a parallel presentation of two types of houses is desired, both of them valuable, one being from the historical and compositional point of view, and the other mostly from a historical point of view. Residential houses are the most common Jewish buildings, which have been built in the city of Satu Mare, this is why it is a lot easier for a parallel to be drawn between different types of buildings from this category.

Figure 5 - House on Hasdeu street



Source: Foto: Dohi Trepszker Lilla

Figure 6 - House on Brancoveanu street



Source: Foto: Dohi Trepszker Lilla

The pictures from above represent two residential houses: first on Hasdeu Street, and the second one on Brancoveanu Street, both of them being located in the city of Satu Mare. The volumetric and height regime is similar: ground floor building, with an open gable roof, and the entrance is from the same zone in the case of both houses. The one thing that differs though is the architectural way of approaching the façade. The rhythming of the windows is similar: in a symmetric way, on five axes. In the case of the first building it can be observed, that the decorations are vaster and realized in a late-secession style. The forms of decoration are concentrated in the zone of the window framings and in the zone of the cornice. In the case of the building from Brancoveanu Street, a more simplistic approach can be observed, a simpler treatment of the adorning elements of the façade: here the façade is an eclectic-one, much more simplified. The forms are geometric-eclectic-ones.

Proposal for changing of destination: in the case of both buildings it is recommended to return to the original compartmentalisation, in order to get an authentic picture about the past of these buildings. In the case of the first building, since it is located in a residential zone, and used as a residential one-family house, as it was in the past, the proposal is that in the future for it to be used in the same way, respecting the above conditions, which refer to the compartmentalization, and with the condition that the small, periodical repair works to be done on the downspout and gutter system, which collects the rainwater. The case of the building on the Brancoveanu street is different: it is located in the historical city centre, and back then it was used as a residential house, however today the residential houses disappeared from the surroundings and the zone had transformed into a commercial and services zone. The building is uninhabited. The proposal consists of the change of function of the building, by changing the destination from residential house to a commercial building in which commercial activity or services take place, in compliance with the ideas mentioned above for the compartmentalization and periodical reparations. For both buildings the rehabilitation of the façade is recommended, preserving the existing decorative elements and using a range of colours (maximum two colours) which can represent more vividly the beauty and the value of the architectural details.

4. Analysis, interpretation, conclusions and proposals

The proposed solution would bring an addition to the prior studies made in this domain (Aristide Streja, 2012) (Riczu, 1992) (Perczel, 2008) (Lugosi Lugo László, 2002). The additions would be similar to the ones described above. These aim to enter more profoundly in the research of the mentioned buildings, for better and more detailed knowledge. The solution, in conclusion, would

consist in a proposal of rehabilitation, change of function, and reintegration of the buildings in the urban tissue, and into the life of the community. The proposal would be created in such a way, for the final solution to be a viable and sustainable one, which serves and answers the needs of the community, raises the quality of the services in the zone in which it stands, and within the range of possibilities, respects the original compartmentalization. The beauty of the rehabilitated, buildings with their changed functions will also raise the quality of tourist attractions in the country.

Acknowledgement

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SUSTAINABLE STRATEGIC DIRECTIONS OF REGIONAL DEVELOPMENT IN ROMANIA IN THE CONTEXT OF EUROPEAN INTEGRATION

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Andrei-Marius SANDRU**

Abstract: *Sustainable development represents an equitable development model for which the main concern is achieving a balance between economic growth and raising the quality of life through the use of natural resources within the planet's tolerable limits. The sustainable development of community spaces is in the pursuit of preserving the right to access resources for future generations through their equitable use, keeping the excavation rate lower than the regeneration rate for renewable resources, and the excavation rate of non-renewable resources not exceeding their substitution rate. On the other hand, regional development implies the diversification of economic activities by supporting investments in the private sector with the purpose of lowering the unemployment rate towards increasing quality of life using different measures in field like: developing the small and medium-sized enterprises sector, the transfer of knowledge and education, rural development, quality of the surrounding environment, health and infrastructure. The regional development policy encourages the stimulation of a balanced growth of our territory by lowering the existing imbalance between regions at the current moment and by reducing the possibility for it to appear. Furthermore, the regional and rural growth of Romania in the context of sustainable development is a short term process. Due to the specificity of Romanian agriculture, predominantly subsistence farming, the inadequate structure and main factor that limits agricultural competitive growth, it implies a closer look over the social sector. Therefore, two major action plans are asserted, firstly developing connective activities in the rural space and the integration into the labour market of the people engaged into agriculture, and secondly the growth of agribusinesses by supporting measures that target the creation of associations towards increasing the efficiency of Romanian agriculture.*

Keywords: sustainable development; regional development; natural resources; region, development

JEL Classification: O2; Q0

Introduction

Starting with 1998, with the pre-accession program to the European Union, Romania was divided into 8 development regions, each engulfing 4-7 districts, the exception being the 8th region, Bucharest-Ilfov, which contains the Bucharest municipality and Ilfov County. These regions represent groups of counties which were created through voluntary association with the purpose of better implementing future strategies and sustainable development projects of the Romanian space. Each of these 8 regions is administrated by the Agency for Regional Development. These agencies have the purpose of supporting the development of local communities and provide the link between State institutions and EU institutions. Regional Development Agencies supervise and ensures the implementation of projects using European Funds, assesses and selects projects for funding, offers information to applicants and their beneficiaries.

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Figure 1 - Romania – development regions



Source: www.cursdeguvernare.ro

As stated under the Law no. 315/2004 regarding the regional development of Romania, “underlying principles for the realization of regional development policies are: subsidiarity, decentralization and partnership” (Law no. 315 from 28th of June 2004 regarding regional development in Romania, art.2, paragraph 3) and it pursues the reduction of regional imbalances, stimulating inter-regional, internal and international cooperation, resource capitalization, supervising and implementing investment projects, towards the sustainable development of our land.

1. European Union’s strategy for sustainable growth.

The studies conducted during the last 50 years underline the fact that the sustainable growth of our land has to become a basic objective towards establishing policies for States around the world. At the European Union’s level, the Maastricht Treaty (February 7th 1992) brings significant change. Besides the fact that along with the signing of the treaty the foundations of the European Union as we know it today were set, other topics like sustainable development are being brought up. Subsequently, after ample critical appraisals of current situations in the member states, the basis for a Sustainable Development Strategy are put in place; strategy that must be applied in all member states. The Strategy for Sustainable Development brings forth many objectives that focus on the continuous improvement regarding quality of life, for current and future generation by creating tenable communities, rational use of resources, eco-friendly innovation and by protecting the environment and social cohesion.

Environmental protection is one of the key objectives of the sustainable development of regions in the European space and it targets measures designed to reduce the negative impact of economic activities on the environment. On the other hand, social cohesion with directives towards promoting

cultural diversity, equality, combating discrimination or social inclusion form the principle of another key objective of the Strategy for Sustainable Development. Furthermore, the EU's strategy for a sustainable development of the European territory also takes into account incentives designed to stimulate investments in innovation, promoting knowledge, informing citizens, creating new jobs, the abolishing of poverty and growing democratic societies.

The targeted principles by the Strategy for Sustainable Development of the European space turn their gaze upon the individual firstly. Measures are being taken by reuniting multiple action methods, among which we can find the increase of life expectancy, reducing poverty by creating new job and ensuring financial support for under-privileged areas, promoting gender equality, combating discrimination and social exclusion, offering possibilities for professional conversion and access to information among citizens by involving them in decision making processes. On the other hand, the environment is another key point towards sustainable development by trying to create an environment where future generation are not in jeopardy. Action measures are being put in place in the field of Biodiversity Conservation, lessening greenhouse gases, keeping the quality of water, ground and air resources in normal parameters. The sustained use of resources brings up another point addressed by the territorial equitable development through recycling waste and by the smart use of renewable and non-renewable resources.

The sustained development comprises not only a certain type of economic growth consistent to the principles regarding the respect for the environment and the fair use of resources with the purpose of ensuring the future for generations to come, but also brings to the fore a balanced regional development. Looking at it practically, sustainable development encourages the process of change, the process of rejuvenating old practices used in resources exploitation, a new concept meant to preserve and save diversity.

The key issue of the regional sustainable development consists in the economical growth in the context of ever growing citizen needs, the consumption required for meeting these needs without having an impact on life standards, as opposed to the limits imposed by the planet's resources and the continuous degradation of the environment.

A major issue can also be identified in the program for sustainable development of the European space. The challenges of economic growth contradict the challenges of sustainable development on many counts. The free market and competition, the existence of industrial and trans-national giants in the terms of an environment more and more affected by their practices towards acquiring assets and resource exploitation, will cause major damages and sustainable measures even harder to be put into practice. Also, opening up markets for the entire European community carries the risk of

encouraging much stronger and competitive regions to the detriment of weaker and under-privileged ones. Hence, regional development flounders and by the integration into the EU of ex-communist states the risks emphasizing the disparity on a regional level will rise.

Regional Development and Sustainable Development are long term processes. Evaluating tendencies and the continuous reappraisal of policies are the methods through which Equitable Development in the European space is reached.

2. Romania in the regional development program setting and the principles of sustainable development

January 1st 2007 marks the historical moment when Romania became a member state of the European Union, along with Bulgaria. Romania, a state located in Southeastern-Central Europe, with an average size in the Union, becomes a member with full-rights of the European Community. Europe's future will assume the improvement of citizen's quality of life and the disparity reduction through lining to the member states' standards.

2.1. Regional development in Romania

The regional development policy depicts one of the most ample and complex policies of the European Union and its main purpose is the down-sizing of socio-economic disparities in the European space. Thought of as a solidarity policy, a policy that targets the development of less thriving regions within the EU by allocating considerable funds with action paths towards the following fields: education, agriculture, developing SMEs, social inclusion, attenuating poverty, professional growth, increasing quality of life, will bring to our country the novelty element.

In Romania, regional development is still in its early stages. Our country has little experience in this field being an ex-communist country with a centralized economy, with poorly allocated resources followed by a long transitional period, the integration in the EU and lining to its standards bringing a major change.

Our country was divided into 8 development regions in order to create a frame for the future elaboration, implementation and evaluation of regional development policies. EUROSTAT classifies Romania's regions as being a NUTS II level in the Nomenclature of Territorial Units for Statistics. The NUTS classification of Romania according to EUROSTAT, is:

Table 1 - NUTS classification of Romania

NUTS level	Unit	No. of units (April 2004)
I	Romania	1
II	Development Regions	8
III	Counties and Bucharest Municipality	42

Source: Chapter 21. Regional Policy and Coordinating Structural Instruments

The regional development policy is a part of national economic medium and long term strategies and aim towards improving the regional situation through achieving a balance regarding the equitable development both economically and socially.

One of the functions of the regional development policies implies the elimination of the problems that caused a region's poor development. Most of the time, this option is recommended because it's easier to prevent than treat the effects of a regional poor development.

Among other regional issues encountered in Romania, we can mention: the lack of infrastructure in the rural area; poorly developed regions due to inhabitant's migration to other areas; the lack of job especially in the rural areas; a high unemployment rate; poorly developed SME's sector; low degree of entrepreneurship culture.

The current crisis amongst development regions in Romania is generated by three main factors: changes at an institutional level, population migration to cities and the lack of jobs.

For the implementation of regional development policies in the EU, the Regional Operational Programme (ROP) was created. Therefore, between 2007 and 2013, the purpose of ROP was to support the balanced growth of all the country's regions, not necessarily through the allocation of financial resources, but by ensuring that all the regions benefit from a minimum level of business infrastructure, social and human capital with the goal of economic growth.

The main measures checked by the 2007-2013 ROP were depicted by: supporting the sustainable development of cities, improving the social infrastructure mainly in the fields of education, social services, emergency situation interventions, rehabilitating polluted areas, supporting small enterprises and promoting tourism.

For the next cycle between 2014 and 2020, ROP aims to ensure the continuity of Romania's regional development following the same guidelines set in place by the previous agenda, with addition of the newly discovered problems. So, it is confirmed that the needs identified for the period 2007-2013 are still present, but have also improved, given the fact that our country went through a financial

crisis. The impact of the financial crisis brought to light serious implications regarding the level of economic growth, level of employment, healthcare system, education, quality of life and tourism.

The new bearing set by the next cycle target the support of SME's and investments towards professional conversion, ensuring a link between the business environment and the educational system by correlating the need of the workforce market with the employers need for trained staff. Our country still describes numerous disparities regarding regional economic growth in contrast to regions from other EU member states, having an inappropriate foundation for ensuring growth as well as a low competitive business environment. The recession had negative implications regarding the roads infrastructure, diminishing the investments levels for transportation, thus affecting employers from different regions by the excessive degradation of roads, as well as the development of tourism.

The key element in supporting a sustainable economic growth is depicted by the human capital. Only through investments in education, healthcare and social services we can fight poverty and unemployment amongst minority groups, people from rural areas and the youth. Also, the urban scenery must be revitalized. It is a known fact that city centers are great polluters, therefore imposing such investments with the purpose of lowering greenhouse gases emissions, regenerating green spaces or better waste management. Taking into consideration the fact that urban centers are the biggest polluters by the number of people living in cities, the number of enterprises and the number of public and private means of transportation, a series of measures targeting the reduction of polluting agents like taxing for access to crowded areas, developing bicycle lanes, blocking car access to city centers and transforming them into pedestrian areas should be implemented.

2.2. Sustainable development in Romania

The concept of sustainable development focuses on achieving a balance between social, economical and ecological aspects. In short, sustainable development targets environmental problems, but taking into account the speed at which climate changes affect the quality of life, sustainable development expands over to socio-economical elements, especially the human-society, human-environment relations. The deterioration of vital environmental factors for maintaining life (water, air, ground) brings forth the problem of sustainable development. In this sense, diverse strategies are being outlined worldwide with the purpose of resource conservation in order to not compromise the possibilities of future generations. Creating a sustainable society is a highly discussed topic nowadays by all of the economy's sectors. Currently, any decision at a social or economical level is based on an analysis of its effects on sustainability.

The major objectives of sustainable development pursue:

- A healthy financial growth;
- The fair distributions of financial benefits to all inhabitants;
- Realising a political system that ensures abidance to all human rights;
- Protecting the environment.

One of the main coordinates of sustainable development is the fight against poverty. Although the European Union is one of the wealthiest regions of the world, only 17% of its citizens manage to satisfy their primary needs. By investing in the social services sector, a lower number of people be affected by poverty will be assured. For this to be true, measures towards creating a market for under-privileged people, promoting gender equality, eradication of discrimination and social exclusion, welfare, caring centers for the elderly and children are put in place.

Another main aspect targeted by sustainable development implies changing consumption and production patterns. An increase in investments within the non-polluting production sector will be supported, through investments in eco-friendly production lines and a financial support for producers adopting technologies using alternate energy sources.

At the level of our country, the strategy for sustainable development outlines short, medium and long term strategic objectives regarding the integration of all the sustainable development means and strategies as a consequence of joining the European Union is towards lining to the sustainable development indicators in other member states.

Sustainable development can be looked at as an interdependency between three systems, as follows: the financial system through developing investments and technologies, the environmental sector through the many ways of exploiting resources and the social system.

Monitoring the demands provided by the Strategy for Sustainable Development is done based on the analysis of some sustainable development coefficients depicted by: education, healthcare, population structure, environment and climate change, rural development and agriculture.

The human capital represents the most important component that needs to be taken into account when planning the best implementation of the sustainable development strategy. Romania's and Europe's demographic situation suffers from stagnation, ageing of the population becoming a worrying situation. (Government of Romania (2008), "National Sustainable Development Strategy for Romania", pp. 29-32)

Romania understood that through a good enforcement of the guidelines instated by the development plans, the effects cannot be maintained on the long-term if the environment and the

future generations access to resources are not taken into account. For this desideratum to be accomplished, multiple measures were taken into account for each of the eight development regions.

Sustainable development implies multiple plans of action, each plan taking into account specific criterions:

- social plan – increasing social cohesion, increasing regional power, alignment to principles, European social standards;
- financial plan–increasing the number of jobs, increasing the financial power of the region, alignment to principles, European financial standards;
- environmental plan – increasing ecological cohesion of the citizens, keeping a balance between industrial growth and pollution(reducing local/regional pollution),alignment to principles, European environmental standards;
- information and communications technology–increasing citizens access to information, increasing the individual technological connectivity, increasing the technological power of the region (infrastructure, growth of IT&C regional indicators), community management. (Albu, 2006, p.67)

2.3. Romania – between regional and sustainable development

New concepts emerged in the final decades of the 2nd Millennium, regional and sustainable development underlining new directions to consider for the preservation of the future of mankind. From our point of view, they must be addressed interdependently from one another, because both development directions are centered on ensuring the quality of life by the fair division of resources and the development of a balanced financial, environmental and social space,

On the other hand, the application of the principles foreseen by the sustainable growth on a regional level is much more practical, due to much more flexible regional structure, and the continuous monitorization, adaptation and improvement of sustainable development practices of the area are much easier to apply and quantify.

Furthermore, between the two concepts, regional and sustainable development, there are as many similarities as there are differences. The sustainable growth implies the application of principles at a worldwide scale, while the regional development has a narrower range of application, at a European level.

Regional development surmises the reduction of territorial disparities for the member states and different adjacent regions and it mainly addresses the financial differences.

Sustainable development has a wider range of applications, its fields engulfing the financial aspect, as well as the social and environmental ones.

The common interest of the two development policies is depicted by the environmental aspect. Both development policies are based on measures targeting the down-sizing of negative influences caused by man and industry on the environment.

At the level of our country and the level of the whole European space, the equitable administration of natural resources, increasing livelihood, agriculture and modernizing transports infrastructure represent some of the measures targeted by the tow development policies.

According to the principles stipulated in the European Strategy for Sustainable Transport “a sustainable transport policy should handle traffic intensity and rising congestion level, noise and pollution ad to support the use of less environmental damaging means of transportation, like internalized social and ambient costs. It is necessary for actions to be taken in order to obtain a significant dissociation between the increase in transportation and financial growth, developing alternate means of transport to private vehicles and freight road transportation and by fairly distributing costs. A special interest is given to the necessity for the conducting a more rigorous tracking of environmental behaviors in the transportation sector, by consolidating the TREM (Transport and Environment Reporting Mechanism) tracking system and by setting (when possible) some quantifiable objectives in transport policy.” (European Comission, 2005)

Transportation depicts a branch that engulfs a wide variety of activities. From the transportation of raw materials for industry, to the transportation of products to consumers a series of activities unveil posing new challenges for both territorial development policies. Fossil fuel resources are limited, extracting and manufacturing these cause lots of damage to the environment. In Romania, the lack of a proper transportation infrastructure carries with itself loads of disadvantages amongst which we name road congestions, lost time, rising levels of harmful and greenhouse gases or destroying natural habitats.

Agriculture is a branch of the national economy and a key field in financial development. Agricultural Sustainable Development offers a series of solutions regarding the preservation of natural elements to normal parameters to ensure a fair development of the European space. The concept of sustainable agriculture implies realizing and maintaining a balance between the used natural resource, the preservation of cultural space and regional development.

Practicing sustainable agriculture comes with its own challenges in using the methods on Romanian farms. By reason of practicing an intensive production system for such a long period

of time in our country, the existence of major discrepancies amongst the wealthy and poor regions of Romania and the lack of detailed specialized research into the adaptation plant species and breeds to the pedo-climatic conditions and requirements of different regions, cause a series of problem in the application of sustainable production methods.

There is a series of strong points identified in the Romanian Agricultural Sector, namely: the existence of willing work force, fertile grounds, optimal pedo-climatic conditions towards development and modernization and the existence of programs supported through non-refundable funds from European financing, these are just some of the found realities.

However, a series of weak points slow down the agricultural modernization process and the application of sustainable practices, caused by the lack of financial resources, antiquated mentalities and reluctance towards associations.

Romania benefits from prolific lands meant to ensure the internal agricultural products requirements. Contrary to that fact, our country is yet to be successful in lining itself to the standards provided by the sector's sustainable development principles. A major problem in the case of Romanian agriculture is created by self consumption and the high number of family farms where the applied practices are out of date, and the reluctance and lack of funding further impede the change process. Maintaining the same antiquated production system and use of natural resources, the continuance of this trend bring forth serious risks for the sustainability of economic growth, and the consequences are assessed to be negative on the environment and on the future development of human capital.

Conclusions

Meant to downscale the existing disparities amongst the regions of the European space, the regional development policy comes to the aid of member states with a series of measures promoting real opportunities to all its citizens. The fair development of all the regions moves towards reducing the differences between them, ensure socio-economical cohesion and promoting a balanced development for the whole European space

In the case of our country, the regional development policy moves for the improvement of the transportation infrastructure by modernizing roads and access ways, increasing the internal economic competitiveness, raising employment rates, the development and proper use of the human capital. Downscaling disparities and deficiencies regarding the qualification level of the human capital that

benefit from real non-refundable financing, given the fact that man is the engine of financial activities and the creator of added value.

According to the regional development principles, the sustainable development policy moves towards applying conservation methods of the natural capital in order to ensure the continuous access to resources for future generations. The novelty elements of the sustainable development policy bring forth man and the environment. By the use of measures meant to preserve natural space and equality between generations, the sustainable development policy confronts a series of difficulties due to the ever-changing aspect of the environment.

In conclusion, the sustainable regional development of the endemic space implies sustainable strategies and measures through the responsible and direct involvement of the state towards promoting sustainable consumption and production patterns and methods, and all the targeted measures by the documents provided by the European Union for aligning ourselves to its standards and creating a sustainable space for future generations.

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THE LABOUR AND ECONOMIC COMPETITIVENESS OF REPUBLIC OF MOLDOVA IN THE EUROPEAN CONTEXT

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Abstract: *The economic competitiveness of a country is analyzed from several perspectives, including through the labor of the land available, gifted people's skills and abilities, the level of employment, the standard of living and the level of population welfare. Currently, according to international hierarchies on competitiveness drawn up by the World Economic Forum (WEF), Republic of Moldova is in the second half of the league, failing, than with some small exceptions, to move towards more favorable positions. This is due to a set of factors whose action is felt for a long time, and improve prospects hierarchical position requires major revisions mentalities, policies, strategies and means of action. This article aims to analyze the theoretical and practical aspects on the role of labor, along with other factors in ensuring economic competitiveness of Republic of Moldova in the process of pre-accession to the European Union and integration into European economic structures. Efficient investment in human capital through education and training system should be an essential component of the country's strategy to ensure a high level of sustainable economic growth and employment knowledge-based workforce that provides both personal fulfillment and increased welfare and national competitiveness.*

Key words: economic competitiveness; employment; work relationships; European Union

JEL Classification: J21; J53; M54

Introduction

"There is no single nation in the world that has succeeded in a sustainable way without preserving the prosperity of its people. Competitiveness refers to such objective: it determines how countries, regions and companies manage their competencies to achieve long-term growth, generate jobs and increase welfare. Competitiveness is therefore a way towards progress that does not result in winners and losers: when two countries compete, both are better off." (Arturo Bris, Director IMD World Competitiveness Center, *n.a.*).

Our paper analyze issues concerning the labor and economic competitiveness of Republic of Moldova in European context, starting from a short overview of literature in the field of competitiveness and economic efficiency, also taking into consideration the points of view offered by the World Economic Forum in its official reports, concluding about the necessity to increase the force of human resource, as strategic element for the economic development (Bercu, 2012).

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1. Literature Review

Although in recent decades the concept of competitiveness has become a widely discussed topic in the circles of scientists, so far there is no clear definition of it, and no model has been developed to formalize its contents. At the same time, it is important to understand its essence to identify determining factors and therefore intervention levers to be used by the State and the private sector to maintain and increase competitiveness, both on the national and internationally. In order to create a broad vision on this concept, we will expose some of its definitions:

- Competitiveness is a complex phenomenon which refers to the ability of a country compared with others, to form and to ensure a level economic, social, and political, to support the accelerated creation of added value (Stratan, 2011).

- More broadly, the competitiveness can be addressed in terms of economic performance and the standard of living; in the narrow sense, it is the ability to sell products on the market in terms of cost and price differences (Durand *et al.*, 1998).

- Competitiveness is a potential that is characterized by an edge over competitors in the market your access. Competitiveness is often confused with so financial indicators such as profitability and productivity, not only some partial measures of competitiveness (Ternisien and Diguët, 2001).

In the literature, competitiveness is seen either at company level or at the level of national economy. The competitiveness of a nation that represents the country in free and fair market conditions, produce goods and services that meet international market tastes simultaneously maintain and increase the real incomes of the population in the long term (Chartrand, 2002).

The Competitiveness Advisory Group appointed by the European Commission, the concept of competitiveness implies elements of productivity, efficiency and profitability and is an important means of increasing living standards, social welfare and income levels of individuals in a non-inflationary manner (Ciampi, 1995).

In another sense, competitiveness is a way of increasing employment and eradication of poverty (Ciampi, 1995). The main factors of competitiveness at national level are:

- Comparative advantages and benefits competitive
- Provision of resources (natural, material, informational, human etc.)
- Systems research and innovation;
- The level of entrepreneurship;
- Infrastructure and transport services and communications;
- The existence of functional markets (financial, currency, labor etc.);

- Competent human resources.

2. European Competitiveness of Romania and Republic of Moldova

According to the IMD World Competitiveness in 2014 (IMD, 2014), Romania recorded an increase in national competitiveness position, ranking it 47th (against 55th in 2013). Top places in the ranking are occupied by the US, Switzerland, Singapore, Hong Kong and Sweden. The analysis is performed based on 60 countries worldwide.

Figure 1 – Overall ranking evolution 2013-2014 according to IMD World competitiveness

IMD WORLD COMPETITIVENESS YEARBOOK 2014 - OVERALL RANKING							
Country	Rank			Country	Rank		
	2014	2013	Change		2014	2013	Change
USA	1	1	—	Chile	31	30	→
Switzerland	2	2	—	Kazakhstan	32	34	→
Singapore	3	5	→	Czech Republic	33	35	→
Hong Kong	4	3	→	Lithuania	34	31	→
Sweden	5	4	→	Latvia	35	41	→
Germany	6	9	→	Poland	36	33	→
Canada	7	7	—	Indonesia	37	39	→
UAE	8	8	—	Russia	38	42	→
Denmark	9	12	→	Spain	39	45	→
Norway	10	6	→	Turkey	40	37	→
Luxembourg	11	13	→	Mexico	41	32	→
Malaysia	12	15	→	Philippines	42	38	→
Taiwan	13	11	→	Portugal	43	46	→
Netherlands	14	14	—	India	44	40	→
Ireland	15	17	→	Slovak Republic	45	47	→
United Kingdom	16	18	→	Italy	46	44	→
Australia	17	16	→	Romania	47	55	→
Finland	18	20	→	Hungary	48	50	→
Qatar	19	10	→	Ukraine	49	49	—
New Zealand	20	25	→	Peru	50	43	→
Japan	21	24	→	Colombia	51	48	→
Austria	22	23	→	South Africa	52	53	→
China Mainland	23	21	→	Jordan	53	56	→
Israel	24	19	→	Brazil	54	51	→
Iceland	25	29	→	Slovenia	55	52	→
Korea	26	22	→	Bulgaria	56	57	→
France	27	28	→	Greece	57	54	→
Belgium	28	26	→	Argentina	58	59	→
Thailand	29	27	→	Croatia	59	58	→
Estonia	30	36	→	Venezuela	60	60	—

Source: IMD World Competitiveness Yearbook 2014

And the European Union has been progress by Member States to improve the competitiveness of their economies, but many challenges still remain.

Competitiveness Report prepared in 2014 shows that the EU has seen a recovery in exports and a rise in productivity in most countries. However, many factors still hamper competitiveness developments namely: lack of investment, poor access to finance and access to markets, especially for SMEs, high energy prices etc.

In this respect, as the competitiveness of member states are categorized into four groups:

1. High competitiveness, growing trends - Netherlands, Germany, Denmark and Ireland.
2. High competitiveness, with decreasing trends - Belgium, United Kingdom, Austria, France, Italy, Luxembourg, Sweden and Finland.
3. Average competitiveness, growing trends - Estonia, Spain, Latvia, Czech Republic, Hungary, Poland, Portugal, Romania, Slovakia and Greece.
4. Competitiveness average with decreasing trends - Slovenia, Bulgaria, Croatia, Malta and Cyprus.

In accordance with the general criteria used by the Global Competitiveness Report - GCR published by the World Economic Forum, Moldova is placed in the transition from an economy based on inputs to one based on efficiency (2014-2015). Based economies competing factors based endowment with production factors - primarily natural resources and low level of qualification of labor (mainly fertile arable land in the Republic of Moldova) - and compete based on price, market products and raw materials; low productivity reflected in low wages. For such economies, maintaining competitiveness depend primarily to the operation of public and private institutions, a well-developed infrastructure, a stable macroeconomic environment and an effective and competent workforce.

In the process of transition to a new economy based on efficiency development stage, it must develop more efficient production processes and improve product quality (because wage growth may lead to higher prices for basic goods, typically based economies the factors of production).

Now, national competitiveness is increasingly driven by quality in higher education and training, efficient goods markets, dynamic labor markets, developed financial markets, the ability to exploit the benefits of existing technologies and a large market internal or external. These considerations are reflected in the Competitiveness Roadmap (2014-2015)¹, which pays special attention to the pillars that have greater relevance for economies based on factors of production (primarily institutions that appear in many of the proposed measures, infrastructure and education) and those based on efficiency (higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness and market size).

¹ More information available at <https://www.imd.org/uupload/.../Roadmap.pdf>

According to the ranking of economic competitiveness compiled annually by the World Economic Forum (WEF), Moldova has experienced in the last year, an advance of 7 positions, from 89th to 82nd place (Global Competitiveness Report – GCR, 2014-2015).

If we talk about the three general criteria of analysis, namely basic requirements, efficiency and innovation, the Moldovan economy is the best in Chapter efficiency, ranked 88 in the world, and quite poorly in terms of innovation position 131.

When referring to each criterion of classification in detail, we see that our country has arrears on innovations for business (131) soundness of banks (124) clusters (144), anti-monopoly policy effectiveness (133) Road infrastructure (140) etc.

The most important factors that impede business development in Moldova are high levels of corruption, better regulation of the currency market, unskilled labor, inflation and instability legislative policy.

3. The Workforce - Increasing the Competitiveness in Republic of Moldova

In order to assess the competitiveness of Moldova in the process of pre-accession to the European Union and integration into European economic structures we analyze the role of the labor force. It is known that education and training is the key driver of national competitiveness. However, we must recognize that the advancement of international competitiveness rankings in Moldova in 2010-2013 at 94-87 place has not been determined human capital because in this reference period was characterized by demographic decline and exodus labor and talent. By 2050, they expect a 25% decrease in overall workforce in the country. Investing in quality education cannot be dealt with only through the means allocated, or education budget is only one factor in the equation transforming knowledge into growth. For the immediate prospect is a need to develop a strategic framework for skills development sectorial competitiveness, development of effective mechanisms for ensuring the quality of education, creating intelligent information system and labor market analysis skills required, ensuring access to lifelong training life, appreciation and promotion of best practice. Following the identification of the main challenges for national competitiveness has identified a series of reforms that are to be made immediately and medium perspective (Ministry of Economy of Republic of Moldova, 2013).

According to OECD (2011) estimates the estimated cost of skills shortages may constitute about 7% of GDP or may impact the productivity annual decrease of about 1%. The problems and

constraints faced by Moldova on the transition from education to working life today are well reflected in the reports of international competitiveness evaluation, namely:

- Low quality of the education system with the deepening downturn trend (GIC 2012/2013, 103/144 instead of countries downgrading by 7 positions compared to 2010/2011)
- Irrelevance of education: the mismatch between supply and demand for skills;
- Inability to respond quickly to market needs and there is a structural imbalance of specialization graduates;
- Insufficient skills and abilities to use new technologies and communication techniques, entrepreneurial culture, managerial and financial knowledge poor foreign languages;
- Lack of a public-private partnership on educational and professional training of human resources in the labor market;
- Limited access to skills development programs to reintegrate the unemployed;
- Inadequacy of education and science impact on economic growth and welfare.

In the analyzes carried out on the labor market have been identified following key issues in current conditions, requires the search for new solutions both in the medium term as well as long term and the involvement of consolidated efforts and significant resources:

- The large number of jobs with low productivity and wage levels insufficient, unattractive working population;
- Large share of the population employed in agriculture;
- High unemployment among young people;
- Migration abroad of skilled labor;
- Economic agent's un-specialization in the training of the workforce;
- Passive participation of traders to declare vacancies state structures;
- Unfavorable demographic trends manifested in the decrease and population aging, intensified labor migration;
- Lack of a proper system of monitoring and forecasting labor market;
- Lack of interest and limited access to training;
- Moonlighting and unattractive working conditions;
- Lack of occupational standards and occupational classifier existence of outdated etc.

Conclusions

In order to develop human resources and efficient use of them, in the following years, the Ministry of Education will achieve vertical reforms throughout the system. Some of these are already

approved or to be developed in a number of sectorial strategic policy documents namely: Development Strategy of vocational / technical for the years 2013-2020, 2020 Education etc. The new legal framework of education provides for the creation of national institutions responsible for ensuring the quality of professional education at all levels. On some segments of problems in human resources development will connect the Ministry of Labor, Social Protection and Family, Ministry of Economy and line ministries to ensure the development of specific competences of each sector. Largely efforts to reform and modernize the education system will be geared towards enhancing the competitiveness of human resources and to achieving the goal of European integration that is contained in the EU-Moldova Action Plan, sub-priority 3.2.4 "labor market and education reform".

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EU'S POLICY OF DISARMAMENT AS PART OF ITS NORMATIVE POWER

Roxana HINCUI*

Abstract: *This article argues that EU's policy of Disarmament, Non-Proliferation, and Arms Export Control can be conceptualised into the framework of the normative power. Despite the EU strategies on this policy, such as EU Strategy against the proliferation of Weapons of Mass Destruction (2003), or Strategy to combat illicit accumulation and trafficking of Small Arms and Light Weapons (2005), the EU is far from being a unitary actor. In the international arena most actions on Disarmament and Non-Proliferation are enhanced by the United Nations and individually by each country that is a nuclear power. The measures taken by the EU in the international forums on Disarmament are analysed with a short historic overview on the issue and with a closer view on the EU's actions within the United Nations and those taken unilaterally.*

Keywords: disarmament; normative power; non-proliferation; foreign policy; security

JEL Classification: F5; F6

Introduction

The first ever nuclear power in the world was the United States that dropped atomic bombs on Japan in August 1945. Four years after this event, the Soviet Union detonated its nuclear bomb. Afterwards, the series of nuclear powers spread: the United Kingdom (1952), France (1960), and China (1964). The first treaty that sought to prevent nuclear proliferation was the nuclear Non-proliferation Treaty (NPT) in 1968 with 190 states that signed it. India, Israel, North Korea and Pakistan have never signed the treaty although they possess nuclear arsenals. In the 1970s the Soviet Union and the United States convinced each other that it was less risky to limit offensive weapons through the Strategic Arms Limitation Talks and ban anti-ballistic missiles (ABM) than to continue an arms race to gain first-strike advantages. In the 1980s the superpowers embarked on substantial reductions of offensive weapons systems (the Strategic Arms Reduction Talks), even declaring the goal of a world free of nuclear weapons.

The “nuclear genie cannot be put back into the bottle” (Grieco *et al.*, 2015, p. 233) and therefore, regardless of how they are delivered, the distinctive feature of nuclear weapons is their unprecedented destructive capacity. Never before in history have humans created a weapon that could destroy property and people so easily and quickly, with little discrimination between combatants and civilians. For much of the Cold War, the inability to verify the terms of prospective arms control agreements precluded them from being negotiated and implemented. In 1960, however, both the

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United States and the Soviet Union began launching satellites that could take photographs and monitor events in other countries. This development provided the capability that US and Soviet policy makers needed in order to gain the acceptance of arms control agreements in their respective countries.

Thankfully nuclear weapons have not been used since the attacks on Hiroshima and Nagasaki. But the nuclear club of nation-states, believed to have possession of nuclear weapons, has grown gradually to include nine members. The United States possesses the world's most diverse and technologically sophisticated nuclear arsenal, totalling over 7,000 nuclear warheads, of which about 2,100 are active or operational (Grieco *et al.*, 2015, p. 211). Although its former Cold War capacity has been diminished, Russia remains a major nuclear power with a stockpile of about 8,500 warheads, of which about 1,800 are operational. It inherited the nuclear arsenal of the former Soviet Union; former Soviet republics such as Belarus, Ukraine, and Kazakhstan transferred nuclear weapons left on their territory after the collapse of the Soviet Union to Russia during the 1990s. Great Britain, France, and China were the third, fourth and fifth nation-states to test a nuclear weapon, in 1952, 1960, and respectively, 1964. Each country currently possesses an arsenal of several hundred warheads.

1. EU- a normative power

From a theoretical standpoint, EU's normative power is the base of the European integration. Although EU is elite-driven and treaty based, EU's foreign policy is also considered normative as it "disposes of reduced military resources and its status on the international arena is in line with soft power" (Manners, 2002, p. 241). The elements of EU's normative power is the centrality of peace, democracy, rule of law and human rights.

The predominant view as presented by Gerrits (2009, p. 5) is that "normative power and military power are mutually reinforcing in the case of the European Union". This perspective constituted the foundation on which efforts to prevent the spread of nuclear weapons was built.

Whitman (2011, p. 11) argues that the normative power argument relates strongly to the presence and capability of the EU in world politics. In discussions of the European Union (EU) as an international actor, there is a wide range of interpretations in the literature. The Union is seen in general as a "civilian" or "normative" power (Whitman, 2011, p. 12). Although questions of norms and normativity are always present in the study of international relations, the role given to them can vary significantly.

Europe tends to extend to the rest of the world the governance through norms that it experiences within its own borders. Therefore, Europe makes the assumption that global governance goes through an increase of norms and that such governance through norms is the most suitable political model for an interdependent world, since it constitutes a factor of equalisation of power. Europe is structurally inclined to impose norms on the world system in order to counter two difficulties. The first is to prevent global norms from being less exacting than European ones so as not to place Europe at a comparative disadvantage. The second is the lack of power- in the sense of hard power- to impose norms on reluctant actors. When Europe discusses global issues such as disarmament with the main world actors, it needs the support of the international system to advance its own interests.

What the EU is matters, but so does what the EU says and does. The conceptualisation of normative power as a discursive dimension is very important as it allows for the distinction between the EU and others. During the 1990s, the main instruments for the promotion of these norms were economic in nature (economic, humanitarian and technical assistance), meaning that the EU remained a civilian power in the classic sense of the concept during this period.

For many member states, the EU is as a power committed to norms, including the rule of law and respect for human rights, democracy and multilateralism, still privileging civilian means, but ready to use military instruments to promote those norms when necessary. Military developments within the EU would not challenge the building of a civilising power, since these are seen to be in the service of its foreign policy objectives: restoring good government, fostering democracy, establishing the rule of law and protecting human rights' and developing a stronger international society.

The international role of the EU is thus no longer perceived as one of a pure civilian power, yet, for many policy-makers the objective is not to build a military power either. The EU is commonly seen to be in a unique position to make a significant contribution to complex crisis management due to the broad range of civilian and military instruments at its disposal.

2. EU's achievements and challenges of Security, Non-proliferation, and Arms Control

Policy makers and scholars alike view nuclear deterrence and arms control essential elements for the international security. The first means of preventing proliferation was the establishment of the non-proliferation regime founded on the Non-Proliferation Treaty (NPT) first signed in 1968. This was primarily a diplomatic approach spearheaded by the US Department of States does. The NPT established three inter-locking bargains. Non-nuclear weapons states agreed to forgo the development of nuclear weapons: 1) in return for assistance in developing nuclear energy for peaceful purposes;

2) as long as nuclear weapons states worked to achieve disarmament; and 3) as long as other non-nuclear states did not develop nuclear weapons.

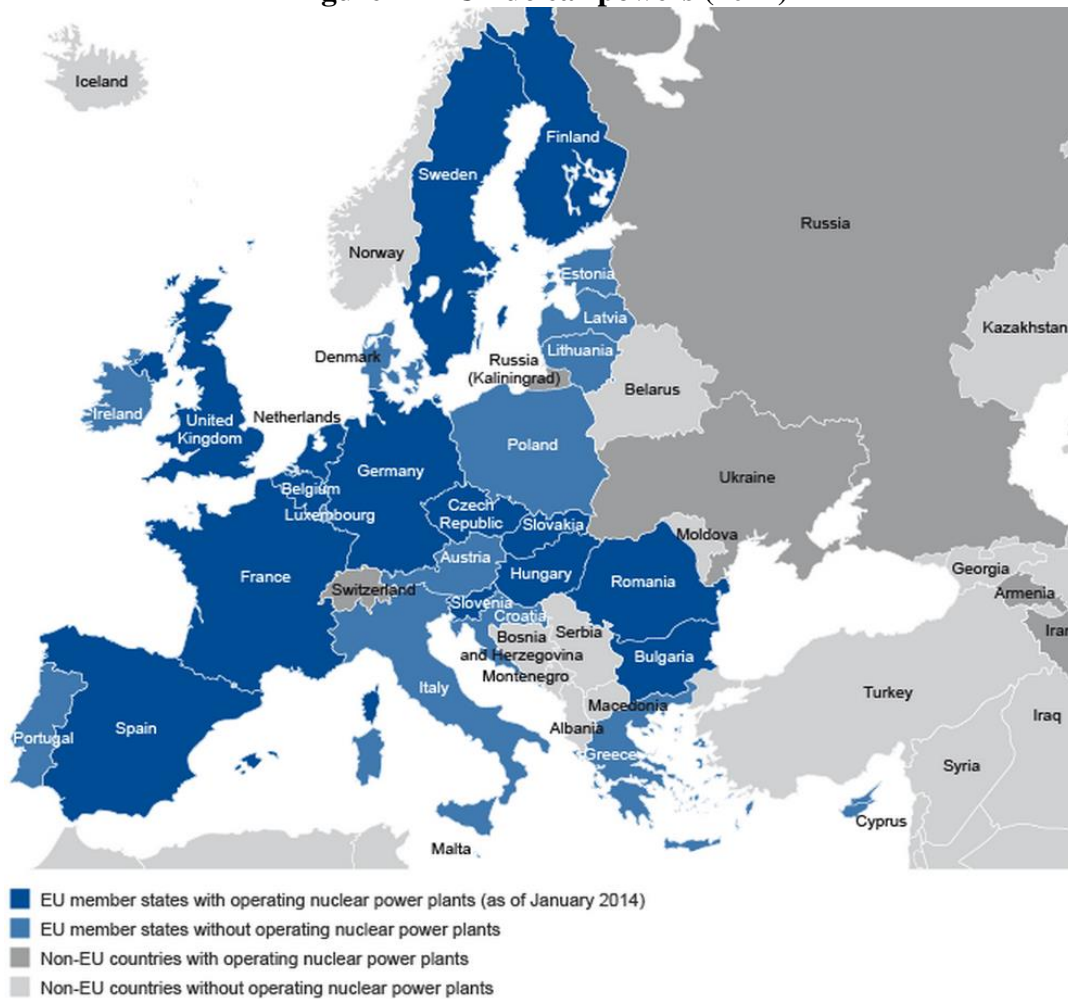
Far friendlier to arms control, Barack Obama campaigned on a promise to try to eliminate nuclear weapons. Once in office, the Obama administration actively negotiated a follow-on to the START I Treaty which expired in December 2009. In March 2010, the American and Russian governments announced that they had reached an agreement calling for a reduction of bombers, ICBMs, and SLBMs from 1,600 to 800 and total warheads from 2,200 to 1,500 within seven years (Reif, 2015).

Today's most sophisticated nuclear arsenal belongs to the United States, and contains an array of compact and miniaturized nuclear weapons that can be delivered from land, sea, and air. In addition to the necessary ingredient of uranium or plutonium, the nuclear shopping list would include air pressure measuring equipment, detonating heads, explosive charges, fuses, lead shields, neutron deflectors, and a team of scientists who could put it all together without destroying themselves and their facility in the process. Countries that already possess nuclear weapons do not sell them to others on the open market. They also guard their nuclear arsenals carefully, so weapons are not lost or stolen.

Nuclear disarmament around the world is yet another field in which the European Union has deployed its normative power. EU firstly addressed the issue of non-proliferation through the European Council by adopting its first Strategy against the proliferation of Weapons of Mass Destruction at the Thessaloniki Summit in June 2003. Also, the European Security Strategy adopted by the Council of the European Union in December 2003 (p. 6) recognizes the "unprecedented destructive capacity of nuclear weapons and their influence on modern international relations".

The EU Non-Proliferation Consortium is formed by four leading think-tanks: La Fondation pour la recherche stratégique in Paris, the Peace Research Institute in Frankfurt, the Stockholm International Peace Research Institute, and the International Institute for Strategic Studies based in London. This network also comprises over 60 think-tanks from all over Europe.

Figure 1 - EU nuclear powers (2014)



Source: World Nuclear Association, “Nuclear Power in the European Union”, <http://www.world-nuclear.org/info/Country-Profiles/Others/European-Union/> (accessed 22 March 2015)

The Non-proliferation policy developed by the European Union is found at the very basis of its formation through the European Atomic Energy Community (EURATOM) established by the Rome Treaty, 1957. Although the purpose was to create a specialist market for nuclear power in Europe by developing nuclear energy in the civilian nuclear industry.

According to O’Hanlon (2010, p. 50) although nuclear, chemical, and biological weapons are commonly lumped together under the heading of weapons of mass destruction, the significant differences across these categories should be recognized. Most importantly, nuclear weapons are qualitatively different in terms of their destructive power because a few weapons can do so much damage to lives and property.

Müller (2015, p. 2) noted that Europe could be a new nuclear-weapon-free zone (NWFZ) as “it goes over the Treaty on Non-Proliferation of Nuclear Weapons (NPT) 2010 Action Plan with an innovative approach”. Europe, together with Northern America, the Middle East, South Asia, Russia,

East Asia, is one of the regions without a nuclear-weapon-free zone (NWFZ) treaty. De Vasconcelos (2009, p. 10) notes that EU's guiding principle for non-proliferation of weapons of mass destruction is multilateralism.

Conclusions

This article deals with the topic of disarmament, reviewing key developments, strategies and actions of the EU. Weapons of mass destruction in the hands of numerous nation-states are a cause of great concern in international politics. EU is an active and visible actor in international relations with regard to nuclear disarmament. In order to transform Europe into a nuclear-weapon-free zone, the main nuclear powers must be brought together. Nuclear weapons may have an important stabilizing effect- they discourage great powers from fighting the kind of all-out wars that characterised the pre-nuclear history of the international system. The spread of nuclear weapons to a number of additional states and potentially to non-state actors, however, raises a host of concerns about the potential for international conflicts to escalate in truly destructive ways. The existence of nuclear weapons makes war less likely, yet potentially more catastrophic should it occur.

For the first 40 years of the nuclear era, the possibility of all-out nuclear war between the superpowers preoccupied international relations scholars and practitioners. Today, the more important concern is the spread of nuclear weapons and the possibility that, as more actors obtain them, nuclear war becomes more likely either by accident or design. It is difficult to make precise estimates of the holdings of other members of the nuclear club. Much has been done to increase international security, limit the proliferation of weapons of mass destruction, and impose quantitative and qualitative limitations on a wide variety of weapons.

Acknowledgement

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IMPLICATIONS OF BANKING SUPERVISION ACROSS THE EUROPEAN MONETARY UNION, A SOVEREIGN DEBT CRISIS UPDATE

Simona Elena IAGAR*

Abstract: *The current paper analyses the latest measures taken by the main European governing bodies with regard to the banking supervision across the European Monetary Union (EMU) following the 'sovereign debt crisis' phenomenon and its continuing effects throughout the Euro zone for the last five years. Officially preaching financial integration in order to ensure stability of the European banking system, most often the European governing bodies amplify the exact phenomena they expect to reduce doing more harm to both creditors and depositors and ultimately leading to a more fragile business banking environment. The importance of banks is acknowledged at European institutional level as main channel through which the monetary policy is triggered across EMU, therefore active measures have been taken in this regard. Questioning the extent to which these measures are legitimate and meet the purposes that they claim, constitutes the aim of the present paper. Another close linked purpose is a better understanding of what stability means, why it is important and what makes stability occur in a banking system. Having understood and set the theoretical grounds, it therefore follows easily to analyse through this glance the latest actions pursued by the European financial governing bodies focusing on the ones addressing supervision of the banking sector within EMU. The paper concludes and provides a set of recommendations by reminding the nature and role of banks for the real economy, the same objective the European financial governing bodies' target, but which they consistently fail to meet.*

Keywords: banking supervision; banking stability; European Monetary Union (EMU)

JEL Classification: F33; F36; G21

Introduction

The purpose of the current paper is mainly two-fold: on one fold is to lay the theoretical grounds of what stability means in the banking system and how can it be achieved and on the second fold, to analyze the current banking supervisory framework within EMU through this glance in order to be able to conclude with recommendations in this regard.

Over the past five years, since the burst of the sovereign debt crisis, the struggle for liquidity much needed for covering alarming public deficits across EMU, has set the stage for even more banking regulation and supervision coming from the European governing institutions. The European sovereign debt crisis has seen experts from a wide range of fields cite many different factors that were responsible for the ensuing failures of the financial system. Several explanations revolve around inconsistent regulation and supervision of the financial sector, and particular loopholes that allowed financial intermediaries to exploit regulatory arbitrage opportunities. Less often discussed, is the overarching structure of financial supervision and the role this might play, if any, in promoting or

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exacerbating a financial crisis. Set under the clear purpose of helping build a resilient banking system, able to face financial market instabilities, the European governing bodies aim to construct yet another pillar towards financial integration, namely the banking union. In order to achieve this, an institutional supervisory architecture, described in more details in section 3, is now in place, eager to achieve a greater financial integration than other previous recent institutional undertakings at European level (e.g. obliging banks to meet the Basel III Agreement provisions). Along with shedding light in what truly gives banking stability, the aim of the current paper is also to deconstruct a series of misconceptions built around the banking system currently perceived to be a “wolves arena” (Ferguson *et al.*, 2010), an unjust perception that has not brought any honor to the financial and particularly, to banking system from the burst of the global financial crisis in 2008, continuing with European sovereign debt crisis ever since the present days.

1. Stability of the banking system

This section draws the principles and factors underlying soundness of a bank considering that it is the cumulus of individual banks solvency that gives the overall stability of the banking system. The line of argument follows confidently the principles set by the Austrian School of Economics, through which governmental intervention finds no place in running the business of banking, but rather the sole market auto-adjusting nature and principles.

Amongst these principles, one place is reserved to competition, of importance here and understood in the following sense: banks lend their available resources (usually of deposits provenience) to those creditors that prove high rates of returns among the many that compete for these funds and invest to those projects providing the best risk-return profile by closely and permanently assuring that contractual obligations are being met with the ones that trust that these resources are on good hands (deposit owners), else risking bankruptcy. Contrary to this approach, worth bringing into attention is the recent bail-out trend, named amongst the financial crisis exit measures envisioned by policymakers worldwide, an undertaking that, sadly, comes to undermine the above described process by reducing the banks motive to struggle for finding eligible clients and projects to which to direct liquidity to. A bailout programme is mainly designed to maintain the solvency of certain commercial banks, also known as “too big to fail”. In the words of Prychitko:

Big players create big unintended consequences as they, too, act only under conditions of uncertainty and ignorance. The Greenspan Put (now evolved into the Bernanke Put) serves as a stark example. By announcing in the midst of the housing

bubble that speculative investment banks could retain their extraordinarily high profits and count on the possibility of loss-floor, those firms evolved into Big Players themselves. They placed higher bets as the discipline of profit and loss – especially loss in this case – was systematically weakened. The unintended consequences behind the Put – the moral hazard – became all too clear (Prychitko, 2010, p. 201).

Simply put, if the banking sector does not have the same constraints as any other business has, it would be difficult to achieve the economic development the public authorities preach for. Competition within the banking system would also means leaving banks compete on all levels, European and non-European and also the access to liquidity to be possible for all types of stakeholders, be them private or public entities, inside or outside EMU, European or non-European for that matter. Quite often the counterargument for free market banking competition is that it would result in the abandonment of prudential behaviour by the banks although the author of the current paper finds no risk for such behaviour if borrowed resources are 100% backed up. There is, indeed, the possibility to abandon prudence and incur losses but all these are due to the inability to align to market signals or bad management decisions as happens within any other business. The author envisions no possibility for banking stability outside competition among banks, a competition that is currently impeded by existing supervising framework on which the ECB operates, one which is closely analysed in section 3 of the current paper.

The argument highlighted so far does not praise a concept of absolute stability as even banking activity is subject to change but rather introducing the most imperative objective of the well-functioning of the banking system, and not, as Tsionas mentioned, “any metaphysical or empiricist notion of never changing or policy-induced-changing” (Tsionas, *The Euro and the International Financial Stability*, p. 171) within European banking system. It is therefore the subject of the next section to conclude whether supervision is necessary in such context and to also deconstruct a series of other reasons calling for banking supervision.

2. Theorising around banking supervision

Banking supervision, generally defined, implies state regulation and control of the banking system to allegedly secure its soundness. The main reasons calling for banking supervision from public authorities have always been officially communicated as protection of depositors from unsecure banks or asymmetric information on one side and protection of banks in engaging in unsafe and dangerous credits, on the other side. Additional reasons are to ensure that banks retain enough incentives to lend in order for the business environment and real economy not be affected by lack of

liquidity, much needed for investments and for the overall economic development as such. Strictly speaking, the tool to achieve all these is by consistently monitoring bank`s balance sheets for items like non-performing loans (NPL). It is the task of the current section to argue against the above mentioned motives around banking supervision.

In a financial playing field lacking the activities of supervision and its corollary, regulation, if banks engage in giving loans to clients proving weak capacity of returning the borrowed resources, this further translates into the classic risk of doing the business of any kind. The over-expansion of bank credit will not occur in a market that adjusts itself in a natural way, comprising all actions of involved stakeholders: customers and providers, altogether. As mentioned, there is a series of motives brought by public authorities that allegedly call for banking supervision and close control and those are, amongst other, the asymmetry of information and the moral hazard that, in fact, characterize any financial transaction. To start with the first, the literature mentions that:

Asymmetric information is a situation in which one party to a financial contract has much less accurate information than the other party. For example, borrowers who take out loans usually have much better information about the potential returns and risks associated with the investment projects they plan to undertake than do lenders (Mishkin, 2001, p. 2).

Asymmetric information therefore would lead to two loopholes in the financial system: adverse selection and moral hazard. Prior to conclude on why these do not hold relevancy in a free of supervision banking system, these concepts will be subject to a more in depth analysis.

Adverse selection is indeed an asymmetric information phenomenon, one created with each financial transaction when borrowers that most need financial resources but prove a low credit return profile, are willing to pay the highest interest rate; thus, according to mainstream interpretation of the adverse selection concept, credit is granted to “adversely selected” borrowers producing an undesirable outcome for banks, financial system and ultimately to economic development. In order to minimize adverse selection problem, the lenders shall be closely supervised and required to better analyze credit risk profiles.

The second aspect relates to the creation of moral hazard which occurs after a transaction takes place, when the creditor is exposed to a hazard imposed on him by the borrower who uses the granted resources in ways that defy the creditor`s requirement for returning the loan. The phenomenon happens due to an increased borrowers` appetite to engage in riskier projects – if the investment proves successful, the borrower claims the gain while if it proves unsuccessful, it is the creditor who will bear the loss.

Both asymmetric information and moral hazard defined as above allegedly result into suboptimal levels of lending and investment therefore calling for close banking supervision and intervention when identified. A counter argumentative point is worth noted, specifically that:

At the gross market rate which prevailed on the eve of this disturbance, all those who were ready to borrow money at this rate, due allowance being made for the entrepreneurial component in each case, could borrow as much as they wanted. Additional loans can be placed only at a lower gross market rate. It does not matter whether this drop in the gross market rate expresses itself in an arithmetical drop in the percentage stipulated in the loan contracts. It could happen that the nominal interest rates remain unchanged and that the expansion manifests itself in the fact that at these rates loans are negotiated which could not have been made before on account of the height of the entrepreneurial component to be included. Such an outcome too amounts to a drop in gross market rates and brings about the same consequences (Mises 1998, pp. 549-50).

The underlying argument here is that adverse selection and moral hazard assume a counterbalance between different types of contractual arrangements between creditors and borrowers weighing both costs and benefits by the parties involved. The misleading argument on asymmetric information described above is that it targets the data related to the object of the contract and not focusing on the context framed by the regulations. The information provided by the markets, the sole at hand, is the only suitable one when analyzing a contractual deal by both parties` prior to engaging in it. Making use of the profit and loss statement, banks can find the most appropriate available means to deal with these informational problems.

3. EMU banking supervisory architecture and its implications

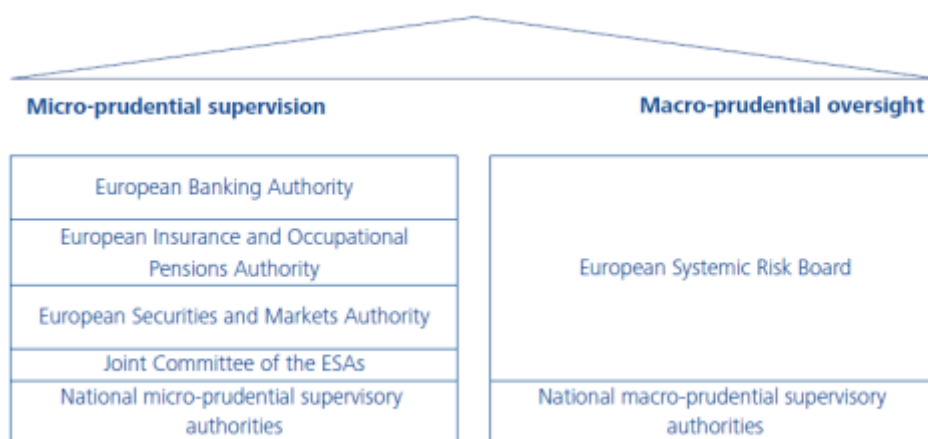
European policymakers themselves recognize that the effectiveness of monetary policy across EMU depends on a well-functioning banking sector as operating through the bank lending channel. In recent years, efforts have been made to control this channel and policymakers agreed to establish a banking union with the European Central Bank (ECB) assuming supervisory responsibilities within it. By financial supervisory structure the reference is made here to the number of regulators that European Union (EU) employs to monitor the three most important components of its financial system, the banking, securities and insurance sectors. Officially named the European System of Financial Supervision, ESFS is a framework comprehending supervision all across areas of the EMU financial system with the implementation of active institutions set to closely monitor each of these streams. The aim is to go further and much closer towards financial integration and harmonization

across the EMU, rather than encouraging the competition of decentralized supervision of different countries models.

Envisioned as an answer to financial and sovereign debt crisis, the European Union (EU) has chosen to dramatically shift its banking policy of the EMU area by transforming its supervisory set-up – more specific, EU took action to redirect the banking supervisory authority from banks to supranational level. Entrusting ECB with exclusive banking supervision powers did not only diluted the nature of the central bank as previously understood, namely governing the EMU, but opened the door for building an extensive banking union with a single resolution authority and fund. In order to understand the significance of such a step, this in the literature banking union is often called one of the most significant developments in European integration since the Maastricht Treaty (Howarth and Quaglia, 2014). It was in June 2012 that the finance ministers across EMU countries agreed to the creation of the European Stability Mechanism (ESM) as well, thought to directly recapitalize fragile banks without further liability for the sovereign countries that further shaped the banking union along with its common supervision, single rulebook, harmonized national deposit insurance and a resolution mechanism, set to be the source of common funding between 2014 and 2022 (Rynck, 2014).

Starting in November 2014, ECB has been granted additional authority being now the institution exclusively entrusted to issuing and withdrawing banking licenses and allowing acquisitions or release of shareholders. Moreover, the ECB replaces national authorities for the direct supervision and dispute settlement of approximately 130 institutions representing 85% of bank assets.

Figure 1 – The European System of Financial Supervision (ESFS)



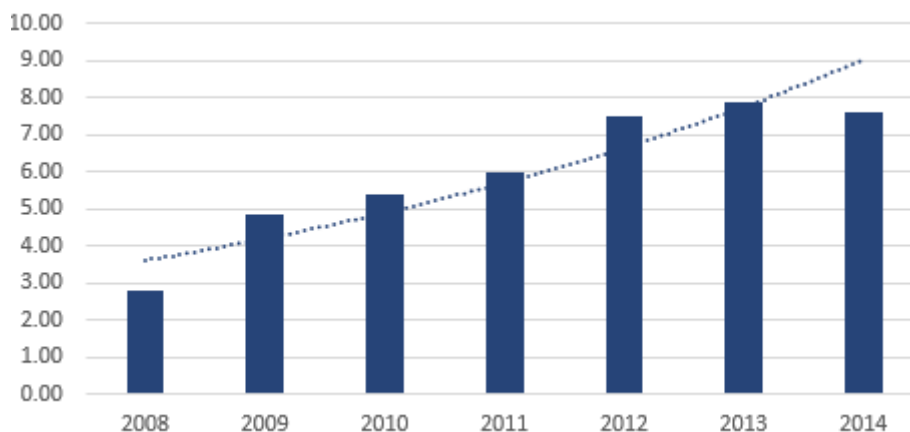
Source: ECB Annual Report on supervisory activities 2014 (ECB, 2014a)

Banking supervision in particular is the subject of the exact above mentioned SSM, which has three main objectives, namely to: ensure the safety and soundness of the European banking system, increase financial integration and stability, and ensure consistent supervision (ECB, 2014b).

But does this supervisory structure corresponds to an improvement of the banking sector? According to certain opinions in the economic literature, it should be the target of the governing bodies to call for an even more integrated supervising structure, as it has happened: if not a single one, then a closer collaboration and a standardized set of objectives bringing together the existing ones (Ubide, 2013). Following the same line of argumentation, others categorize the general framework of financial supervision as concerning (micro) prudential supervision and business conduct, each of which addresses a type of market failure, asymmetric information and market misconduct, respectively (Cihak and Podpiera, 2008).

The implications of previously mentioned supervisory actions are analysed by having a close look at the banks performance over the last five years, since the burst of the sovereign debt crisis, in order to assess the improvements or, in the contrary, the damages resulted following these actions. One banking sector performance indicator is the nonperforming loans ratio (NPL).

Figure 2 – EMU Bank nonperforming loans to total gross loans (%)



Source: Author’s perspective, based on data taken from IMF Global Financial Stability Report, 2014 (IMF, 2014)

Defined as an unsafe asset in banks’ balance sheet, the evolution of bank nonperforming loans to total gross loans (%) (the trend is shown in figure 2) is relevant in this context as it reveals the failure of all above institutional undertakings to diminish it as source of “systemic risk”. “Systemic risk” is often considered to weaken the resilience of the banking system, although a difference is worth noted among one side, the bankruptcy of a bank due to losses for which it disappears from the market incurring no social costs, and on the other, the collapse of it due to restrictions on balance

sheet items, like is the context described above. Banking policies within EMU are left to the ECB that creates a misleading perception of banking stability by artificially maintaining the solvency of banks by close supervision, monitor and control with regard to their private decisions on the relationship between risk and return. It should be of any interest or matter whether these decisions are appropriate or not – as this information is soon verified by the market. What matters most is that the competition in the banking system is not compatible with the concept of “financial stability” as draw by the ECB.

Conclusions

The banking system is important to the wealth of the financial and economic state, as it plays the vital role in an economy of channelling funds from savings to investment needs. If the banking system does not perform this function well, then the economy cannot operate efficiently, and economic growth could be severely hampered.

A bank is considered to be “sound” when enjoying the public confidence which plays a decisive and overwhelmingly important role in a competitive banking system, specifically as a result of the resources that depositors and borrowers altogether entrust to that bank. Nevertheless, what is considered sound and solvent for the European financial institutions governing over the banking system within EMU differs; aiming to impede “systemic risk”, asymmetry of information, moral hazard in order to increase banks resilience on the financial markets, the European institutions, with the ECB as main policy driver, has put in place a framework of supervisory, monitor and resolution of banks across EMU. It was the aim of the current paper to analyse whether this undertaking had proved to meet its objective and it did so by mainly pointing out that the focus is wrongfully directed. Heading towards a baking union, unison with fiscal and monetary policy may not the way out from the European sovereign debt crisis and will be the challenge of the author for future research to further recommend specific backward steps rather than steps forward a European banking union. The intervention of European authorities in the banking system within EMU remains profoundly intrusive and leads to further distortions as all the objectives behind it find their natural answers in a competitive banking system. Theorizing around stability and the importance of stability very often preached on public European agendas, findings point out that stability does not imply a static playground where things do not change but rather requires extensive restructuring of the banking sector in order to revert to a sound banking environment where risk prevails when financing investments.

Although the above mentioned points may appear utopian and very distant from the practical problems the banking system has to deal with, they at least indicate a proper direction that a reform should take and threats that must be avoided. Unless fully acknowledged that the sovereign debt crisis and its economic consequences are continuously fuelled by the ongoing interventions in the financial markets, is highly improbable to maintain stability of the real economy. There is no possibility to maintain financial stability without competition in the banking system that is currently hampered by the supervisory context in which European institutional governing bodies operate. To conclude, in a competitive banking sector there are only the sound and solvent banking institutions that will prevail thus enforcing financial stability. Any other central management authority set to supervise the banking system will induce more instability.

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THE EUROPEAN UNION AS A DRIVER OF REGIONAL COOPERATION IN ITS SOUTHERN NEIGHBOURHOOD

Gabriela Irina ION*

Abstract: *The European Union's policy towards its southern periphery in North Africa and the Middle East has sought to promote regional cooperation both between itself and the Arab partner states and, most importantly, among the Arab states. The Euro-Mediterranean Partnership, and later on, the Union for the Mediterranean introduced, after decades of superficial institutionalization of Euro-Mediterranean relations, an element of novelty in the form of the regionalism it promoted and the multilateral setting it was creating. However outstanding at its debut, this experiment of „building” a Mediterranean region, where security and peaceful change would be brought about by the states' willingness to cooperate through multilateral mechanisms has failed. The EU's efforts to create a Mediterranean region have been stymied not only by what can amount to an unrealistic perception regarding intra-Arab dynamics, but also by changes in the substance of the Euro-Mediterranean institutional setting. Namely, the region-building multilateralism of the EMP has been side-lined by the pragmatic bilateralism of the UfM.*

Keywords: bilateralism; Euro-Mediterranean Partnership; European Neighbourhood Policy; multilateralism; regionalism; region-building; Union for the Mediterranean

JEL Classifications: F50; F53; F54

Introduction

The events unfolding since the wave of Arab protests have taken the European Union (EU) by surprise, also revealing how the EU has dealt with the „democracy-security dilemma”. Namely, between its support for democracy and human rights, on the one hand, and its quest for security and stability, on the other, the EU chose the latter. Admittedly, it did not contribute to triggering the societies' desire for change, remaining an external observer of the democratic transitions. Placing such current developments in connection with the EU's cooperation frameworks with the Mediterranean, which date back to the 1970s, will bring about a more nuanced understanding of the goals the EU pursued over time in the Mediterranean. This paper explores the fairly numerous institutional layers of Euro-Mediterranean cooperation and tries to identify what exactly is the „Mediterranean” as a necessary preamble in the endeavour of identifying to what extent the regional dimension has been a component of the EU's policy towards the southern shore of the Mediterranean. Specifically, we want to show how the EU has been aiming at region-building in the Mediterranean area. This paper posits that the European Union was not successful in constructing a region in the Mediterranean, not only because of the heterogeneity of the Arab space, but also because of the changes that occurred in the institutional setup of the various Euro-Mediterranean policy frameworks.

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1. Earlier policies of Euro-Mediterranean cooperation

Ever since the time of European Political Cooperation, the Mediterranean represented a significant subject on the European agenda, if we are only to glance over the numerous policies launched in order to incentivise the Arab world to cooperate. The proximity of the Arab world can undoubtedly account for the abundance of EC/EU initiatives that expanded from an economic, trade-related focus to a security or political collaboration in the post-Cold War period.

One of the first Euro-Mediterranean mechanisms of cooperation has been the Euro-Arab Dialogue (1973-1989), launched at the Copenhagen European Summit of 14-15 December 1973, where the Arab League proposal to initiate a dialogue between Europeans and Arabs has been welcomed by the EC member states. Actually, this delegation of Arab League foreign ministers did not announce its participation at the summit. Their proposal for cooperation was „a response to a November 1973 EPC declaration which referred to the legitimate rights of the Palestinians; this was seen as an indication of a collective pro-Arab stance” (Smith, 2008, p. 86). The EC agreed to discuss economic issues (especially after the oil crisis quadrupled oil prices in 1973) with the Arab League but avoided discussion of the Arab-Israeli conflict, which was what the Arabs were most interested in. While Europeans maintained the oil supply uninterrupted and avoided another oil embargo, the Arabs eventually obtained a common European stance on the Palestinian question through the 1980 Venice Declaration. The Euro-Arab Dialogue was put on hold by a series of events that were fragmenting the Arab system: Egypt's expulsion from the Arab League following the Camp David agreement, the assassination of President Sadat, the Iran-Iraq war, the Israeli incursion in southern Lebanon or the invasion of Kuwait. Due to little tangible results and the numerous failed attempts to revive it, an assessment of the Euro-Arab Dialogue would most likely be a negative one, though from the European perspective the framework might as well be considered a relative success. „As a means of *Realpolitik* the dialogue secured the EC several advantages: (1) it created a reasonable relationship with the Arab world in a period of crisis and helped establish the EC as a factor (albeit a minor one) in the Middle East [...]; (2) it constituted a forum for learning collective diplomacy; (3) it paved the way for the EU-Gulf dialogue” (Dosenrode *et al.*, 2002, p. 103).

While the Euro-Arab Dialogue has been the first explicit policy that dealt with the EC's relation with the Mediterranean, The Global Mediterranean Policy (GMP), launched in 1972, was the first *European* initiative to address the Arab countries. The GMP was based on the trade agreements signed by the EC with Mediterranean countries in the 1960s and 1970s that granted free access to European markets for Mediterranean manufactured goods, with the view of creating a free trade area.

From the mid-1980s onwards, there was a certain demand for a renewed commitment to the Mediterranean, especially from the new southern EC members that feared an eastern shift of the European foreign policy once the eastern revolutions debuted. The Renovated Mediterranean Policy (RMP) that began in 1991 achieved little in terms of efficient political dialogue or regional cooperation. For the purpose of this paper, we must note that „despite the Community's attempts to „globalise” its Mediterranean policy and further the Euro-Arab dialogue, Euro-Mediterranean relations remained bilateral throughout the 1970s and 1980s” and „although these initiatives managed to foster some economic and political cooperation, they all failed to establish an efficient regional regime to accommodate, and even transcend, post-1989 international change” (Chrysochoou *et al.*, 2001, pp. 63-64).

One tentative effort that has not been initiated by external actors and that was meant to bolster regional cooperation and combat political isolation was made by the states of the Maghreb (Algeria, Libya, Mauritania, Morocco, Tunisia) in the form of the Arab Maghreb Union (UMA/*Union du Maghreb arabe*), created in February 1989. The UMA's objectives were the creation of an EC-like entity that would embody the mythical intra-Maghreb unity and the intensification of intra-regional trade in order to reduce dependence on European markets. The lofty objectives were infeasible though, due to the long-lasting tensions between Morocco and Algeria, not least because of the dispute regarding Western Sahara. There have also been attempts of regional cooperation in the form of the Conference on Security and Cooperation in the Mediterranean (CSCM), the 5+5 Formula (Western Mediterranean Group), the Forum of the Mediterranean (FOROMED) or even the NATO Mediterranean Dialogue.

Amid this flurry of initiatives came the realisation that a „New Partnership” is needed, though such a partnership was at first limited to the Maghreb countries. A European Commission Communication entitled „The Future of Relations Between the European Community and the Maghreb”, issued on 30 April 1992, called for a Euro-Maghreb Partnership, while the Commission Communication „Future Relations and Cooperation Between the Community and the Middle East”, issued on 8 September 1993, symbolically preceded the signing of the Oslo Accords and marked a reinforced commitment to boost Euro-Mediterranean cooperation. Notably, „it is significant that the 'Middle East' [...] is now being considered separately from the Maghreb” (Niblock, 1996, p. 125), though the idea of a Euro-Maghreb Partnership would soon be replaced by a Euro-Mediterranean one. In this regard, in a Communication dated 19 October 1994, the Commission presented the need to establish a Euro-Mediterranean Partnership that „would start with a process of progressive establishment of free trade, supported by substantial financial aid”, also advancing the possibility of

a Euro-Mediterranean Conference in 1995. The Conference did take place, in Barcelona, on 27-28th of November 1995, and it launched the Euro-Mediterranean Partnership, that included the 15 EU member states at the time and 12 Mediterranean countries (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Territories, Syria, Tunisia, and Turkey).

The creation of the Euro-Mediterranean Partnership can be attributed to a convergence of factors: the need to balance the East-oriented foreign policy of the EC after the collapse of the Soviet Union; the necessity for the EC to review its agreements with the Mediterranean states in the context of the regionalisation of world economy; the EC's desire to have stability at its southern border (Derisbourg, 2013, p. 9). Moreover, the 1979 EC accession of Greece and the 1985 EC accession of the two Iberian states – Spain and Portugal – brought the Communities closer to the volatile Mediterranean region, with failing economies and high rates of population growth. The positive conjuncture of the Middle East Peace Process and the signing of the Oslo Accords in 1993 have also played a part in acknowledging the need to forge a more comprehensive Euro-Mediterranean cooperation framework.

The Barcelona Declaration enlists three baskets regarding the cooperation between the two shores of the Mediterranean: the political and security basket, the economic and financial basket and the social, cultural and human affairs basket. By structuring dialogue around such „baskets”, the participants began a comprehensive cooperation process that has eventually resulted in the institutionalisation of the multilateral cooperation forums: general and sectorial ministerial meetings, the Euro-Mediterranean Committee, the Euro-Mediterranean Parliamentary Assembly, the Anna Lindh Foundation for the Dialogue of Cultures and the EuroMed Civil Forum.

2. What „Mediterranean”?

The European Union has been long trying to design and implement a viable cooperation platform with the Mediterranean region. Nonetheless, a prerequisite for a comprehensive assessment of the EU's performance in interacting with its southern neighbourhood is establishing what in fact is the „Mediterranean” that is invoked in official EU documents. There is a certain degree of ambiguity regarding the area targeted by the EU's various cooperation frameworks, not only in terms of its geographical limits but also in terms of how the EU classifies these neighbouring countries.

The intricate and volatile Mediterranean area remains a source of instability through ongoing conflicts, terrorism, the potential spreading of weapons of mass destruction and alarmingly high illegal migration. Also, the Mediterranean epitomises the perennial North-South divide and „if the

existing perceptual and prosperity gap between the northern and southern shores of the Mediterranean are allowed to increase, tension and hostilities will also become more widespread” (Calleya, 2005, p. 137). Admittedly, this „clash of civilizations” narrative has become rife than ever following the 2001 terrorist attacks. The Islam-Christianity co-existence remains, nonetheless, an important attribute of the Mediterranean: „The fundamental characteristic of the Mediterranean [...] was the relative proximity of opposing shores, but also the clear separation between shores, enabling different cultures to interact with one another across what may at times seem almost impermeable cultural barriers, such as the Christian-Muslim divide” (Abulafia, 2003, p. 26). Today, this highly strategic area also proves to be an increasingly de-secularising one, where the Arab-Israeli conflict or the Sunni-Shi'a tensions cease to be the most pressing priorities. The post-revolutionary transitions have, in some cases, given way to failing states, the threat of radical Islam is ceaselessly expanding, while the power vacuums have been speculated by groups like ISIS.

The European Union is clearly not impervious to the threats coming from this area, if we are only to give the examples of Western-born jihadists returning home or the migrants attempting to reach European shores in overcrowded boats. The EU has constantly affirmed the importance it attaches to the stability of its surroundings, namely what the European Neighbourhood Policy naively termed „ring of friends”. In this regard, the European Union has constantly striven to address the Mediterranean in various cooperation frameworks. Nonetheless, this „Mediterranean” that the EU is attempting to engage with has proved, over time, to have shifting geographical dimensions, as the various Euro-Mediterranean policy frameworks do not involve the same groups of third states.

If we are to consider the five most consistent Euro-Mediterranean policy frameworks, namely the Global Mediterranean Policy, the Renewed Mediterranean Policy, the Euro-Mediterranean Partnership, the European Neighbourhood Policy and the Union for the Mediterranean, we can carve out a „core group” of eight states that are targeted by all policies: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, and Tunisia. Interestingly enough, though Libya, a Mediterranean riparian state, has not been included in the GMP and the RMP, it has received an observer status in the Euro-Mediterranean Partnership and it has been included in the ENP, though technically it is not a full participant, as it has no Association Agreement or Action Plan in place. Though Syria is in the same situation, it has been obstinately included in all Euro-Mediterranean policies. Turkey is included in the EMP and UfM, though it is technically involved in the EU accession negotiations since 2005. Similarly, Albania and Montenegro are currently candidate countries, while Bosnia-Herzegovina is a potential candidate and they all have been included in the UfM. Including such states in policy frameworks that are prioritarily destined for the ones with no EU membership perspectives

accomplishes little more than an „overcrowding” of the Euro-Mediterranean institutional layers. In this sense, one can observe an increase in the number of states included in the Euro-Mediterranean cooperation frameworks: from the nine Mediterranean non-member countries (MNCs) targeted by the GMP, 12 in the RMP, 12 in the EMP and 15 in the UfM. Indeed, „the concept of ‘the Mediterranean’ in EU foreign policy terms has become ever more complex as the third states covered by the various policies have shifted” (Cardwell, 2011, p. 220), while „the increase in the number of participants further contributes to the dilution of regionalism” (Bicchi, 2011, p. 9). That the EU itself „does not seem to have a clear idea of what the Mediterranean represents” (Pace, 2002, p. 195) is also reflected in the fact that the states of this area have been, over time, referred to as „Mediterranean partners”/„states”, „Euro-Mediterranean partners”, without any explicit significance attached to one or the other denominations. This random manner of defining the EU's interlocutors may even prompt the conclusion that the Mediterranean „groups together a group of countries chosen on the basis of criteria sufficiently diverse and incoherent to be qualified as political” (Pace, 2002, p. 200-201).

3. Region-building in the Mediterranean

In this third section we address the European Union's attempt of „building” a Mediterranean region through the Euro-Mediterranean Partnership. There is a vastly shared perspective that „in a world of apparently increasing regionalism, the EU is superbly well placed to shape and encourage the trend and exercise leadership” (Smith, 2008, p. 81). In this context, the EU's appetite to promote multilateral regional cooperation in order to stabilize its periphery is linked to its own experience that demonstrated how shared economic development can bring about peace. Rightfully,

the EU in many ways constitutes a new model of international relations based on institutionalised multilateral, multifunctional cooperation amongst its member states. In terms of foreign policy, the EU is often viewed as attempting to translate or transfer its internal model into the wider international system, and the EU's neighbourhood is one of the main arenas in which this objective is pursued (Cottey, 2012, p. 376).

We have chosen to utilise the hypothesis advanced by Adler and Crawford that states that the European Union is using its normative power in order to stabilize its near-abroad by building a Mediterranean region and, potentially, a security community. Noteworthy, the Euro-Mediterranean Partnership is the instrument through which the EU is exercising its normative power (Adler, Crawford, 2006, p. 11). The classical definition of a security community advanced by Karl Deutsch postulates that the members (sovereign states) cannot imagine a war among each other (Deutsch *et*

al., 1957, pp. 5-9), while their degree of integration leads them to develop „dependable expectations of peaceful change” and a sense of community (the „we-feeling”). Adler and Crawford insert security communities in their analysis to emphasize their role in fostering region-building practices and pacification processes. They attach an alternative significance to „community”, namely a structure that is socially constructed and that pools the identities of its members into a larger „we” (Adler, Crawford, 2006, p. 21). Further on, the authors elaborate on the EU's community-building experiment, meant to counter extremism and to socially construct a Mediterranean partnership identity:

The Barcelona process is a laboratory where one of the most outstanding experiments in international relations may have started to take place. We are referring to the invention of a region that does not yet exist and to the social engineering of a social identity that rests, neither on blood, nor on religion, but on civil society voluntary networks and civic beliefs. The long-term aim of this experiment is to construct in the Mediterranean region a pluralistic security community whose practices are synonyms of peace (Adler and Crawford, 2006, pp. 28-29).

The authors themselves are guarded regarding the feasibility of this experiment, all the more so since the force generating the entire process is the EU's normative power. The export of the „EU model” (the fallacy of assuming the neighbours' desire to become „more like us”) has been out of touch in the Arab region, not to mention that the „Mediterranean partners” have denounced the EMP as paternalistic, a situation that has not fundamentally changed once the „co-ownership” was introduced. Aside from the fact that the „Mediterranean” targeted by the EU has rarely if ever constituted a homogenous entity, the EU's failure to „construct” a region in the Mediterranean is fundamentally linked to the institutional architecture of its Euro-Mediterranean policy frameworks, for the multilateralism embodied by the EMP has been replaced by the bilateralism of the UfM and of the ENP. There has been a constant dilution of the region-building strategy of the EMP to the point that it is inconceivable that such a significant political objective will ever find its way back to the European agenda. The region-building strategy that has underpinned the EMP has been replaced by the depoliticized sub-regional projects of the UfM, while the ENP functions exclusively on a bilateral basis (the agreements between the EU and each partner state would be the Action Plans, the Partnership and Cooperation Agreements or the Association Agreements).

What is more, from a legal perspective, the Euro-Mediterranean system of governance has been expanded through additional policy instruments that have not necessarily facilitated a better cooperation between the two parts. In this regard, the Euro-Mediterranean Association Agreements

introduced by the EMP and concluded in the 1998-2005 period, very important for achieving the far-fetched objective of a free trade area across the Mediterranean, have been supplemented by the Action Plans introduced by the ENP. These Plans have a different format, as they set out the political and economic reforms to be undertaken by the partner country, prompting some of these to consider that this bilateral dimension of the Euro-Mediterranean system of governance „strongly resembles a ‘hub-spoke’ pattern, where the EU is a central actor surrounded by a periphery of unequals” (Cardwell, 2011, p. 233). Finally, the fact that the Union for the Mediterranean fundamentally eliminates the region-building strategy of the EU is astutely captured by Federica Bicchì: „The substance of Euro-Mediterranean cooperation is thus no longer bloc to bloc (EU+Med) as in the EMP, or bloc to single country (EU+single Med countries) as in the ENP, but single country to single country” (Bicchì, 2011, p.10).

Conclusions

As it has been shown, the European Union has long expressed its interest in engaging with its southern neighbours, although not all cooperation frameworks proved to be efficient. Surely, this efficiency refers not only to the successful promotion in the southern societies of the rule of law, good governance, respect for human rights or the principles of market economy, but also to the successful promotion of regional cooperation both between the EU and the Mediterranean and within the Mediterranean. After having shown that this much-invoked „Mediterranean” is a concept imbued with significance by the EU, while its various cooperation models have given it the status of a region, the paper investigates whether the EU has managed to pursue its aim of region-building in the Mediterranean. This paper posits that the European Union, through its Euro-Mediterranean Partnership, did not succeed in its experiment of region-building that would have brought about peaceful change through the states' willingness to cooperate through multilateral mechanisms. The EU's failure can be attributed, among others, to the changes occurred in the institutional design of Euro-Mediterranean relations, namely the regionalism and multilateral setting of the EMP have been replaced by the pragmatic bilateralism of the UfM, while the ENP also marks a departure from the regionalism embedded in the EMP, through the bilateral relations it establishes.

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PROMOTING COMPETITIVENESS BY FIGHTING AGAINST ABUSES OF A DOMINANT MARKET POSITION

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Abstract: *Competition is a basic mechanism of the market economy involving supply and demand. The legislative framework of the European competition policy is provided by the Treaty on the Functioning of the European Union (TFEU)(Articles 101–109). Without an effective EU competition policy, the Single Market cannot reach its full potential. Competition policy is also crucial in allowing the EU to crack down on abuses of dominant position, cartels and concerted practices that harm consumers. To be in a dominant position is not itself illegal. A dominant company has a special responsibility to ensure that its conduct does not distort competition.*

Keywords: competition; anti-competitive practices; antitrust policy

JEL Classification: K 210; L 400; L 440

Introductory remarks

The perfect competition is the ideal model of the most efficient economy. Market competition is imperfect when at least one of pure and perfect competition rules is not checked. Participants can influence individually the relationship between demand and supply of commodities and the price level. Depending on the number and force of the economic operators, producer and consumer the market with imperfect competition could exist in one of the following forms: monopoly, oligopoly and monopolistic competition.

The monopoly is characterized by the existence of a single market manufacturer of a certain product. Another feature is the lack of substitutes for the product. In such a situation, the competitive game is distorted, since the product price is fixed by the producing company, not as a result of supply and demand. Consumers are forced to buy the product offered by the monopoly, in the absence of other options. The monopoly price is higher than that prevailing in markets where there is competition. However, an argument that has been advanced to support monopoly, namely that it can lead to high profits, which in turn provides a basis for innovation. Monopoly laws treat it differently depending on the market share that a trader holds because in modern economies monopolies are very rare.

Oligopoly is a market term structure controlled by a small number of producers and buyers. The fundamental feature of the market is oligopolistic interdependence shares of different producers, meaning that prices, quantity of products offered and a producer profits depend on the reactions of

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other manufacturers. The profit maximization on the oligopolistic market is based on either the homogeneity of the product and the price competition, either on adoption of a strategy of product differentiation and competition outside the price by certain performance relating to efficiency in use.

The monopolistic competition lies between perfect competition and monopoly. It is characterized by a large number of competitors, product differentiation, free market access and the limited ability of influencing prices. The rules are meant to stimulate emulation and enforce loyalty market competition.

A competition that is not regulated and monitored by the state could lead to deviant behavior on the part of traders and affect the interests of consumers. Protecting it can follow two paths: a preventive one and one focused on sanctions. Unfortunately, preventive control proves to be ineffective most of the time, the only solution is the application of sanctions, government interference in the game competition being indispensable.

Dominant position and abuse of dominant position

To be in a dominant position is not in itself illegal. A dominant company has a special responsibility to ensure that its conduct does not distort competition. The concept of dominance was defined by the European Court of Justice in the *United Brands Company and United Brands Continental BV against Commission of the European Communities* as a position of economic force enjoyed by an organization which enables it to affect competition in a market relevant by the ability he has to behave independently of its competitors and its buyers and ultimately, to final consumers of the product concerned. The existence of a dominant position stems, usually in possession of a large market share over a long period. To analyze whether an operator is dominant, we take into consideration the constraints they face in relation to the ability to behave independently in the market (Lazarus, 2013, p. 175).

Art. 102 of the TFEU does not define the abuse of dominance. In the case of *Hoffman-La Roche against The Commission*, the European Court of Justice has shown that the abuse of dominance is determined by the relationship between the market shares of the concerned organization and of its most important competitors, by the technological advantage enjoyed by an organization over its competitors or the existence of a highly developed network of sales and lack of potential competition.

In the legal literature, the abuse of dominance was defined as 'conduct of an organization in a dominant position, regardless of its subjective attitude, likely to harm consumers' interests and / or

obstruct normal competition in a relevant market, in those contexts where competition is already weakened due to the presence of the concerned organization' (Didea, 2014, p. 121).

To prevent and combat all forms of abuse of dominance, European and national legislations exemplify only some of the acts that may constitute abuse of a dominant position. Abuse of dominant position can appear in a variety of forms, such as:

- Imposing, directly or indirectly, prices or unfair trading conditions;
- Limiting production, markets or technical development to the prejudice of consumers;
- In relations with trading partners: applying dissimilar conditions to equivalent services, causing, in this way, some of them a competitive disadvantage;
- Making the signing of contracts the subject to acceptance by the other parties of supplementary obligations, which, by their nature or according to commercial usage, have no connection with the subject of such contracts;
- Excessive pricing or predatory pricing in order to eliminate competitors or export sale below cost, coverage differences by imposing increased prices to the domestic consumers;
- Exploiting the dependence of another organization to such an organization or organizations, which has no equivalent alternative conditions;
- Breaking contractual relations for the sole reason that the partner refuses to submit to unjustified commercial conditions.

Detecting abuse of dominance: case studies

Delimitating the abuse of dominant position by a loyal competitive behavior is a complex operation. From the legal point of view, we establish a presumption that one or more organization is in a dominant position as long as the aggregate quota on the relevant market recorded in the period under investigation, exceed 40%. Natural or legal persons affected by an abuse of a dominant position may refer to the competent competition authority (Competition Council or the European Commission). Defining the relevant market is important to identify the competitive constraints faced by an organization, as well as the market shares of operators. The relevant market should be analyzed both in terms of product and geographic location.

The next step involves determining the position of this entity in the relevant identified market. In this sense, the competition authority will check the market structure in terms of competitors (number, position in the market), market shares, barriers to entry and exit from the market, market effects, evidence supporting an abuse. (Niels *et al.*, 2011, p. 185)

The Tomra Systems /European Commission case. Tomra group is the manufacturer of vending machines for beverage packaging recovery, depending on certain parameters, such as its shape, barcode, etc. The European Commission received a complaint from a competitor who complained that Tomra Systems committed a dominant position abuse, preventing it from entering the market.

Regarding the relevant market in terms of products, the Commission found that there is a market for bottle recycling machines and geographically, the competitive behavior has a national dimension. However, the Commission found that Tomra Systems is in a dominant position as market shares on all relevant markets were beyond constant market shares of the competitors. To stop the abuse, the Commission found that the investigated company intended constantly to preserve their dominance and market share through means such as preventing the entry of new market operators, keeping competitors small by limiting their growth possibilities, weakening and eliminating competitors' acquisition or other methods. These strategies were implemented by signing a significant number of exclusive agreements with supermarket chains, which previously imposed quantitative individualized targets. All these agreements, commitments or promises of customers were qualified by The Commission as a limitation of market access and of the growth opportunities for existing and potential competitors. The Commission completed its analysis by examining the likely effects of the practices complained of in the relevant market. Thus, The Commission found that throughout the period under review, the company's market share has remained relatively stable, while competitors who have demonstrated the potential to gain greater market share have been eliminated through purchase and the remaining competitors have been eliminated from the market. Even from the perspective of consumers there have not been identified advantages, as prices have not decreased with increasing sales volumes, as was natural, on the contrary, they have stagnated or even increased.

Intel Corp. / European Commission Case. Intel Company was penalized for dominant position abuse following an European Commission investigation that lasted eight years for two types of anti-competitive behavior, namely: total grant or partial hidden discounts of computer manufacturers on condition that they buy all or almost all x86 chips produced by Intel; bribing computer manufacturers to halt or delay the launch of some computers with x86 chips belonging to the competition and to limit the sales channels for these products.

Regarding the relevant market, the products in question are UPC Links x86 (PC processors). The geographical market has been defined as worldwide. With regard to dominance, the Commission found that Intel held consistently high market share of about 70%. Moreover, the relevant product market barriers to entry and expansion are present. Intel's competitive behavior was described as abusive because it gave restricted discounts correlated to the acquisition of UPC totally Intel x86

sites, which led to limiting choice for consumers and lower incentives for innovation. Secondly, the Commission found that Intel made payments to three computer manufacturers (HP, Acer and Lenovo) in order for them to postpone or cancel the launch of products equipped with UPC technology based on the main competitor (AMD) technology and / or impose restrictions on the distribution of these products.

Conclusion

The legal Romanian provisions on the identification of a dominant position and combat abuse of dominant position are basically based on European competition law and the European Court of Justice. The main European legal provision regarding the abuse of dominant position are those of art.102 from the Treaty on the Functioning of the European Union and are implemented at national level through art. 6 of Romanian Competition Law, no. 21/1996. In competition law, the abuse of dominant position is considered to be an anti-competitive practice, which distorts competition. In practice, it is sufficient that the competition authority declare that an organization is abusing its dominant position on the relevant market, to order the cessation and sanction of the illegal behavior. Nationally, the Competition Council had investigated and had sanctioned more anti-competitive behavior that took the form of an abuse of a dominant position, which allowed the restoration of a healthy competitive environment.

Acknowledgements

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SOCIAL MEDIA INTELLIGENCE: OPPORTUNITIES AND LIMITATIONS

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Abstract: *An important part of the reform of the intelligence community is felt in the opening linked with the widening spectrum of methods and spaces which can be used to collect and analyse dates and information. One of these methods that produce large mutations in the system is connected to the world of social media which proves to be a huge source of information. Social Media Intelligence (SOCMINT), the newest member of the family INT's, is undoubtedly a separate domain, a practice rooted in the work of the intelligence community. This paper proposes a general characterization of the most important aspects of Social Media Intelligence, a brand new way for the intelligence community to collect and analyse information for national security purposes (but not only) in the context of the current global challenges. Moreover, the work is focused in identifying the further limitations and opportunities of this practice in the upcoming decade.*

Keywords: OSINT; social media; threats; intelligence; privacy

JEL Classifications: L820

In a world of complex interdependencies, globalised, dominated by technological advances, information and especially one who has the information it has the power. An important vector of the globalization process, the Internet, has conquered the world and has secured the role of the main generator of information in nearly all areas, producing true metamorphosis in everyday life. When we talk about information and when information is more than abundant, a change in approach is more than necessary for the intelligence community.

An important part of the reform that the intelligence community feels is linked to the fact that the spectrum of methods and places that can be used to collect and analyse intelligence is widening. The main mutation is connected to the rethinking of open source data and the progress of social media which are a huge source of information of any nature that is available for the intelligence community, but not only.

Social media gives us the ability to develop an avatar as close as possible to our true person through whom we can express our desires, arguments, and expose our main visions and important events in our lives. This leads to the development of new forms of communication with major implications for the intelligence community.

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When the society is developing new forms of communication, such as social media, public institutions, including the intelligence community must be responsible enough to react and adapt to the new trends. Based on these aspects, in the following we propose to characterise in general the most important aspects of Social Media Intelligence (SOCMINT), a method to collect and analyse intelligence that concerns national security purposes (but not only) by exploiting the social media environment, focusing on the advantages and disadvantages of this form of intelligence.

SOCMINT is an original, complex and interdisciplinary concept and quite recent to enjoy of a clear and generally accepted definition by all professionals in the field.

Social Media Intelligence (SOCMINT) represents, in the view of most experts, the process of identification, validation, collection and analysing data and information from social media using intrusive and non-intrusive methods, with the aim of developing products for national security (Norton-Taylor, 2015). Like any other form of intelligence SOCMINT's purpose is to be able to reduce the "unknown" that comes within any decision making equation.

Using SOCMINT as part of the business intelligence community brings many opportunities and challenges translated by a number of advantages and disadvantages arising from the nature of this INT.

Operating on the principle of legality and proportionality, by using SOCMINT', intelligence communities are able to monitor communities in proximity and capable to influence policy-makers and the beneficiaries of the intelligence process by choosing the optimal decision.

Through SOCMINT, the intelligence community can determine some behavioural patterns that can apply for certain groups or certain individuals or can know better and in detail certain groups. In times of crisis, SOCMINT is a source of real time information and an important element in their management. Also in this direction, SOCMINT can be used for intelligence to create more resilience regarding events or issues that may contribute to the disruption of the safety and secure environment, can predict and monitor the processes of radicalisation and violent behaviour, can contribute to the understanding of phenomena and is able to predict future trends.

Through instant updates offered by social networks, SOCMINT manages to be a form of real-time intelligence. Intelligence analysts are able to collect real-time information related to ongoing events, either ordinary or state of crisis events. Technology now allows each person holding a smartphone to become a journalist and an information provider. The London Riots form 2011 and the Arab Spring are edifying in this direction. These events have demonstrated the ability of social media to gather information in real time to facilitate and prioritise actions that are to be taken in order to

manage crisis. These events have demonstrated the ability of social media to gather information in real time and to facilitate and prioritise actions that are to be taken in crisis management.

Another advantage of Social Media Intelligence is that it uses and provides a large amount of data and information that can be accessed, stored or disseminated relatively easy (Omand *et al.*, 2012, p. 34). This advantage can be easily turned into a disadvantage while the abundance of information may put the analyst on difficulty. Often, the analysts may find themselves unable to transform large quantities of information from social media into useful and quality products for national security.

As products obtained through Open Source Intelligence the products obtain through SOCMINT involves relatively low costs. Unlike other forms of intelligence, like HUMINT, intelligence collected from social media is not life threatening for the officer, but can cause problems related to freedom and fundamental rights, matters related to privacy issues or other individual freedoms. Most of the data and information collected by SOCMINT are recent. This advantage can be easily deconstructed by the surprising dynamics of the online environment and the speed of information flow that goes through this space.

The enormous possibilities offered by social media brings many advantages, as the ability of the analyst to achieve a multi-source analysis which will be useful both in the collection and verification of information. Data and information that intelligence communities get to collect through SOCMINT can represent the starting point for planning other intelligence cycles that are involving other forms of information gathering.

In addition to these advantages, using Social Media Intelligence brings a number of disadvantages and challenges. The large amount of information provided by online sources can lead to serious over-loading and sampling errors that can affect the entire intelligence cycle. Given that a typical day activity on a social network like Facebook website translates into 4 billion data and information spread and 250 million new photos, to an analyst or an intelligence officer, a certain data or piece of information becomes a needle in a huge haystack. This situation was clearly stated by a British official that once said that this situation “is like searching the British Library for a page in a book without an index to refer to” (Omand *et al.*, 2012, p.25). All this great amount of information can produce major errors. Not only is it hard to get to the information you seek, but it is particularly important not to get lost along the way. If the officer gets lost in the sea of information he can formulate an erroneous position, flawed by other information that is not conclusive to the situation.

Beyond all this, the greatest challenge that requires the use of Social Media Intelligence is linked to matters of confidentiality and consent and the identification of the boundary between what is public and what is private. Given that the postmodern man disclosure of personal information is an

important part of his life, establishing a line of demarcation is a difficult thing to achieve. According to a study made by the Global Institute, 30 billion personal information is spread each month on Facebook (Omand *et al.*, 2012, p. 27). This information can be used by intelligence communities or third parties like companies of terrorist groups. In these conditions, the concept of privacy in the online environment has been metamorphosed.

SOCMINT big problem occurs when someone enters in the private space of others, when the intelligence officer uses intrusive methods to collect data and information. Therefore, it is more than important for the legislation to be adapted to such contexts. Currently, no state has succeeded in formulating the legal framework covering and resolving these issues and this can be because SOCMINT is a recent concept and a recent process. Coming from the desire to resolve this inefficiency, David Omand and his team made a series of six principles to be taken into account when it comes to intrusive SOCMINT¹.

The first principle is that an analyst that collects information must have a solid and a legitimate reason for resorting to intrusive actions that violate some privacy issues. The most powerful reasons that can be raised are: the national security interest and the prevention of phenomena that are infringing upon national security grounds involving the preservation of public order and safety. A second principle (2) is linked to integrity plea: each taken action must be justified in each stage of the cycle of intelligence. (3) The reasons for resorting to such methods must meet the principle of proportionality and necessity. That means that the damage caused by intrusion shall not exceed the damage caused by the threat. The intrusion must always be minimal and efficient. Principle four (4) discusses the establishment of a legitimate authority that can validate ethical and responsible any activity that disturbs the individual's privacy and confidentiality of online sphere. (5) The use of this form of intelligence must be the last resort and (6) the result of this intrusive process has to be largely positive. (Omand and Bartlet, 2012, pp. 44-48).

Errors that may arise from misuse of intrusive SOCMINT may endanger the safety and security of individuals and cause great damage to the image of the intelligence services, which will have to explain to the increasingly concerned about their online privacy², public opinion and the violation of individual rights and freedoms. Even if Mark Zuckerberg, the Facebook creator once appreciated that *privacy is no longer a social norm* (Omand *et al.*, 2012, p. 19), the intelligence services should use

¹ In terms of classification, literature records two major forms of Social Media Intelligence: a. Open the SOCMINT, SOCMINT obtained through non-intrusive means and methods and b. Surveillance SOCMINT, SOCMINT obtained by the means and methods that are intrusive and governed by a legal framework.

² We refer here to recent scandals related to the leaking information produced by Edward Snowden and NSA issue that troubled the American intelligence community and increased reluctance of American public opinion and not only.

social media information in understanding the distinction between public and private space, in accordance with individual rights and freedoms and the principles of proportionality and necessity.

In this context, it is necessary to create a legal and ethical framework that can manage and clarify every aspect of using information that comes from social media.

Conclusions

Theorised by Sir David Omand, immediately after the London Riots from 2011, SOCMINT or Social Media Intelligence is a process where by identifying, collecting, corroborating data and information from social media, the analyst can produce relevant intelligence for national security.

SOCMINT is both an opportunity and a challenge for the intelligence community that needs to manage information in the context of increasingly intense expression of the individual in the online environment.

The advantages of using SOCMINT are related to the low cost of the operation, large range of available information, and the speed with which they can be accessed and collected. SOCMINT is not life threatening but may endanger the integrity and confidence of the intelligence services when we are talking about intrusive forms of collection and analysis.

On the one hand, the postmodern individual is more open to expose personal data online, but on the other hand, is extremely concerned about the degree of privacy and confidentiality that we offer online. It is, along with the errors that may occur due to too high quantity of information that the analyst is exposed, the biggest disadvantage of SOCMINT. This disadvantage can be eliminated by establishing principles and a legal framework that clearly regulate activities that concerns aspects of privacy and confidentiality.

Intelligence communities need to adapt to the way people create and share information, and in this context, social media provides the opportunity and the challenge to be one step ahead of the problem. Intelligence communities need to understand the benefits of the information provided by this INT and to learn and use it at its true value.

The future of SOCMINT is linked to the individual who mainly put more and more elements of his offline life in an online environment. Jamie Bartlett (Leavey, 2013) supports this last idea, saying that in 10-15 years every government department will have its own social media analysis centre.

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LITERATURE REVIEW REGARDING THE CONCEPT OF RESILIENCE AND ITS ASSESSMENT IN THE CONTEXT OF THE ECONOMIC DIMENSION

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Abstract: *The concept of resilience is rather complicated and deep in content as well as quite complex for an assessment and measurement. This paper aims to make appropriate an literature review and to highlight the definition of “resilience”, as well as to analyze components in the context of the economic dimension, which, on the one hand, allowed seeing the diversity of the processes for economic resilience, and on the other hand contributed to the isolation and understanding of the main basics in the process of its assessment. Content analysis of core Resilience Indices made by international organizations and research institutes as well as fundamental research papers and theories on the issue of resilience has been carried out to identify generals in mainstream of comprehension the definition and approaches to its assessment. According to the results, the analyzed papers and reports raise a systemized collection of definitions and components that suggest the detailed view, for better understanding of approaches to economic resilience assessment.*

Keywords: resilience; definition of resilience; economic resilience; systematic literature review

JEL Classification: F6; O1

Introduction

The concept of resilience is rather complicated and deep in content as well as quite complex for an assessment and measurement. At the moment, there is no generally accepted or generalized definition of resilience and consequently it leads to a certain misunderstanding and different variations of its indexing and ranking. In a relatively short period of time scientific progress has made available access to the global level of understanding the whole economic sphere. As the result, researchers consider the question of economic resilience in the global perspective. However, each school allocated its economic approach and framework for the study of the resilience, which corresponded to historical conditions of evolutionary development.

While we can argue that resilience is one of the integral components of sustainable development, we state that, in comparison, the issue of resilience is much less investigated and popular in the scientific literature and it is just in the early phases to gain momentum of its deep researching. Analyses of the different indices of resilience suggest to look through and investigate the core problems and issues posed by researchers, as well as to find out what is the future and prospects for further development of the concept of resilience in the light of its connection to sustainable development.

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This paper aims to make an appropriate literature review and to highlight the definition of “economic resilience”, as well as to analyze components in the context of economic dimension, which, on the one hand, allowed seeing the diversity of the processes for resilience, and on the other hand contributed to the isolation and understanding of the main basics in the process of its assessment.

1. Methodology

This study is based on literature review, investigating articles and research papers on the issues of resilience, economic components of resilience concept, indexing of resilience utilizing international database of scientific resources. Content analysis was applied to consider Resilience Indices developed by individual researchers, international foundations and organizations.

2. The concept of economic resilience

Throughout the evolution of the economic theory, the scientific community has not been able to give an exhaustive answer to the question: what measures can lead to well-being of a society? Following each crisis, new theories were developed, hoping to find a solid foundation for sustainable growth, as well as identifying new tools of regulation of the economic field, and so on until the next crisis.

Resilience (resiliency, *resile*) has a long history of multiple, interconnected meanings in art, literature, law, science and engineering. Some of the uses invoked a positive outcome or state of being, while others invoked a negative one. In synthesis, before the 20th century, the core meaning was “to bounce back”. Mechanics, aided by politics, had already started to change that: in both the literal and the figurative sense, under the aegis of the resilience concept, ductility had been added to elasticity (Alexander, 2013, p. 2710).

Crawford Stanley Holling was the first to transform the concept of resilience in an independent theory. In his conceptual work, Holling (1973, p. 14) determined concept of resilience as “a measure of the persistence of systems and of their ability to absorb change and disturbance and still maintain the same relationships between populations or state variables”. Originally his concept of resilience was applicable to ecological issues.

Most of the scientific literature refers to resilience as the ability of any system to recover from an external shock or to absorb against downturns (Briguglio *et al.*, 2009; Rose and Krausmann, 2013; Brock *et al.*, 2002; Gunderson and Holling, 2002). Thereby, resilience includes the ability to deal

with external factors and reduce vulnerability, and one of its main tasks is to minimize losses and as a result to ensure the economic recovery in the shortest terms.

According to Rose (2004), we emphasize inherent and adaptive resilience. In general, the inherent resilience is determined by the existing capabilities of the system to be resistant to external influences, including the need to have a framework that allows it to be flexible with respect to price signals. And adaptive resilience is defined as the ability of the system to use additional measures and efforts due to the crisis to address issues for recovery from the crisis, while applying ingenuity skills.

Thus, the resilience characterizes the state of the system with respect to external influences. A more stable condition is that at equal external influences and internal shifts it will be subject to smaller changes and deviations from the previous state. The condition of resilience to external shocks is an intrinsic property of the system. Resilience is the outward manifestation of the internal structure of the system. In order to increase its resilience to a variety of factors, it is necessary, first of all, to improve the system itself. This motivation is a great incentive for policymakers and as the result decision-making process for further improvements (Mileti, 1999).

Economic resilience is a concept that is often used, but it is not always determined in detail. Pendall *et al.* (2009) determined two main terms that conceptually define the concept of "economic resilience." Equilibrium analysis is based on the concept of the possibility of the economic system to return to a previous state including respective indicators of economic performance. The second determines the resilience as the complex concept of adaptation in the conditions which meant adapting and changing the system, taking into account external shocks and factors.

Economic resilience means not only preserving the positive level of its economic performance, but also includes a development which manifests itself in the economic growth, that is, the trend of positive changes in aggregate indicators of economic and financial development of the system over time. In order to characterize economic growth, it is preferably to use both general and particular indicators and definitions.

Hill *et al.* (2008) argues that regions that are facing negative economic shocks may experience three different kinds of responses and according to their ability to be resilient:

- “resilient” regions - regions that have returned to or exceeded their previous growth path within a relatively short period of time;
- “shock-resistant” regions - regions that have been thrown off their growth path at all;
- “non-resilient” regions - regions that have been unable to rebound and return to or exceed their previous path.

Rose and Krausmann (2013) developed the typology of economic resilience based on a method of reactions and interactions during external influences. They consider static and dynamic economic resilience, where static one is determined as the system's ability to maintain the function during the shock. It is one of the core challenges, where the usual shortage becomes more severe than usual, and it is crucial to use efficiently the remaining resources at any given time in the course of recovery. On the other hand dynamic economic resilience refers to the effective use of resources for repair and recovery after economic downturn and focuses on capacity building.

As a conclusion we note that the term “economic resilience” is capacious concept carrying strong a semantic load. Thus, economic resilience can be defined as a state of the system in which its characterizing parameters (financial, operational, organizational or any others) tend to make the system “economically resilient” and are at the same time capable of harmonic development and improvement at any changes of the external environment.

3. Indexing resilience

Earlier studying of economic resilience centered on characterizing the idea of phenomenon and applying of case studies. In recent years, the trend has changed towards the identification of indicators and the establishment of a full and holistic index.

Angeon and Bates (2015) argue that, in general, indexes concentrate on economic growth descriptors to characterize a country’s performance and economic resilience level respectively. These indices refer to the following two issues:

1. Despite the fact that the majority of these indicators cover the economic measurement of resilience, they could be deciphered and/or developed from a sustainable development perspective. Contrariwise, since the indicators of economic resilience do not completely cover all aspects of assessment and direction of sustainable development, an explicit interpretation of resilience in terms of sustainability should be developed respectively;
2. A large number of variables and methods used in the indexing of economic resilience lead us to the need to understand and determine the minimum number of indicators that could fully describe the economic resilience of any system. Given this problem, one of the main tasks of researchers is to create an effective system of evaluation and indexing of the studied phenomenon.

With regard to quantitative assessment of economic resilience, the immateriality of the category determines the difficulty of measuring it. Since economic resilience is not expressed outwardly, we cannot define it in quantitative form. However, the level of economic resilience can be measured by quantitative parameters of the components that are predetermined by patterns of economic resilience of the system in the form of changes in the environment and the state of intra-subjective environment, the presence of economic independence (self-organization), the equilibrium state of all subsystems, market demand service and, economic interests. Thus, economic resilience has an impact on the process of the system changes, and as the result, it is the main condition for its existence.

Consequently, the level of economic resilience defined as a degree of stability of the equilibrium between internal subsystems and a system with the environment depends on the ratio of balanced and unbalanced elements. This circumstance also makes it possible to quantify the economic resilience. In this case, the degree of deviation of the actual value of the equilibrium level of components with each other and the system as a whole with the environment of the highest possible level is a quantitative value of the achieved level of economic resilience. However, deviation leading to an imbalance in the system and change the resilience, manifested not only in the resource potential, as in the respective areas of socio-economic systems.

4. Results

The evaluation of activity areas from the standpoint of determining the state of the economic resilience of the socio-economic system based on the system of indicators is necessary for characterizing the conditions of their operation and reducing the threat to resilience; thus it allows us to set the deviation leading to an imbalance in the elements of the system and its resilience as a result of changes in certain factors in response to the quantitative changes of the others. In order to ensure a steady state of the system it is necessary to maintain the specified values of activity spheres (at the level of the minimum allowable gaps between actual and projected values) for an extended period when it is the subject of the influence of various external factors. In that case, we can observe the so-called dynamic equilibrium.

Table 1 – Resilience Indices focusing on economic dimension

Year	Index	Author(s)	Indicators
2009	Economic Resilience Index	Briguglio, L., Cordina, G., Farrugia, N. and Vella, S.	Macroeconomic stability, Microeconomic market efficiency, Social development, Good governance

2009	Index of Economic Resilience	EDAW and AECOM	Sectoral Mix; The Workforce; Enterprise; Labour Market; Assets and Infrastructure; Scale and Proximity.
2012	Community Resilience Index	Ainuddin, S. and Routray, J.	Economic resilience, Social resilience and Institutional resilience
2010	Disaster Resilience Index	Cutter, Burton and Emrich	Social Resilience, Economic Resilience, Institutional Resilience, Infrastructure Resilience, Community Capital,
2014	City Resilience Index	Rockefeller Foundation	Four categories: the health and wellbeing of individuals (people); infrastructure & environment (place); economy and society (organization); and, finally, leadership and strategy (knowledge).
2015	Resilience Index	FM Global	Economic, Risk Quality, Supply Chain
2011	Community Resilience Index	Norris, F.H.	Diversity of Economic Resources, Equity of Resource, Distribution

Source: Author's representation

The theoretical analysis with application of the expert method enabled scientists to justify the use of ranking method based on assessing the significance of each factor to rank the sustainability of socio-economic systems in relation to the strategic risk factors of the external shocks (Ainuddin and Routray, 2012; Rockefeller Foundation, 2014; Norris, 2011). Advantages of presented indices to the system of economic resilience assessment caused by the fact that they allow to develop the information-analytical methodology for monitoring, taking into account the most important aspects and indicators of the social and economic systems, as well as to establish not only the results of existing activities, but also to track trends in their appearance. In addition, such approaches to the assessment are characterized by flexibility and the possibilities of taking into account the conditions and characteristics of the operation and development of specific systems.

It should be considered that the mechanism for monitoring the economic resilience of the socio-economic system is designed as a tool for the indicators that are usually at the level of the socio-economic system and determining how to achieve the level of economic resilience and the desired state in the long term. The intentions of increasing the level of economic resilience are the result of findings reached by comparing the level of the planned strategic development.

Conclusions

To summarize, we note that the term “economic resilience” is a capacious concept carrying strong semantic load. Thus, the economic resilience can be defined as a state of the system in which its

characterizing parameters (financial, operational, organizational or any others) tend to make system “economically resilient” and at the same time capable of harmonic development and improvement, at any changes of the external environment

We can conclude that at present there is no single view of scientists on a methodology for evaluating economic resilience. Many scientists offer similar methods for determining economic resilience. As the result, we argue the increasing trend of holistic management, focuses primarily on the quality of relationships between indicators of economic resilience.

The basic principles on which should be based assessment methodology of economic stability is the principle of reliability, adequacy, comprehensiveness and timeliness.

The advantages of the considered indexes assess the level of economic sustainability are:

- complexity;
- economic resilience is determined by the influence of factors of the macro- and micro-environment;
- flexibility;
- exclusion of subjectivity since resilience indexes use reliable information;
- using the final result for the development of specific ways to maintain and improve resilience.

The ideas presented in this research paper may help to advance research concepts dealing with studied issues.

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THE RECONFIGURATION OF THE CONTEMPORARY WORLD ECONOMIC ORDER. DETERMINING THE POSITION OF THE EUROPEAN UNION WITHIN THE HIERARCHY OF POWER CENTRES

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Abstract: *The hereby study offers an ensemble image upon the effects of the contemporary economic order and reconfiguration of the European Union. In this light, we wish to stress the main tendencies of the current world conjunction, the economic, politic and geostrategic opportunities and challenges, as well as the factors that contributed to the affirmation of the European Union on the global economic scene.*

In order to determine the position that European Union occupies in the hierarchy of the power centres, we analysed the main indexes of economic growth, the impact of politics and reforms upon the integration process, the effect of the global crises upon the European structure and the existent discrepancies between different regions of the European Union.

The main conclusion drawn from this study is that, by aspiring to the status of a superpower and trying to affirm itself as an economic and politic individuality, able to sustain its own visions and protects its own interests, the European Union should aim to become a political global force. However, it is hard to achieve that since the European Union lacks an internal cohesion and the required capabilities in order to develop a global policy.

Keywords: power centre; integration; economic order; global force

JEL Classification: F59; J51; P52

Introduction

The international contemporary economic system is the result of different, complex, continuous and dynamic processes which significantly influenced the global hierarchy of world's biggest powers. The concerns regarding the meaning of the global economic evolution came into prominence along with the economic crisis in 2008 and continued as the architecture of the power centres modified, China and other emerging economies grew, United States relatively diminished its supremacy and the rising structural and conceptual problems of the European Union.

Thus, re-establishing the new global economic order at the beginning of the 21st century represents a complex research theme, which is argued through the actuality and the importance of the subject.

The contemporary economical context reflects the situation in which states were forced to deal with the unknown, as well as with the threats generated by economic, political, financial, demographic, social and geostrategic changes. This led to a multiplication of economic power centres, leaving the bipolar world to enter into a unipolar one. It becomes clearer that the global economy is

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even more interconnected, as new challenges bring new opportunities and perspectives become of highly importance, while radical changes multiply.

Judging by the relative decline of the Occidental powers, the most important index in the rising of a new geopolitical and geo-economic cycle is given by the affirmation of emergent economies, consequently with forming new political and economic alliances, especially between the South and the East.

Trying to crayon a holistic imagine upon the new global economic order, this study will follow to explain the concept of an “economic power”, as well as to define the most important aspects regarding the transition and diffusion of power through the rising of the new power poles as opposed to the traditional ones. In addition, determining the position of the European Union in a new global economic context will be brought into prominence.

This study can provide specialists from domains such as economics, politics, international relations or diplomacy, with a comprehensible instrument of the new global trends, regarding power centres in general and the European Union in particular.

1. Methodology

The methodology used in the study claims a vast bibliographic material, including a series of scientific research on various subjects (economy, politics, international relations, geopolitics and geo-strategies), recent scientific articles published in indexed magazines, as well as information offered by data bases and institutional reports (European Commission, WB, WTO, IMF, CIA, Global Competitiveness Report – WTO, Economic Freedom in the World-Heritage Foundation, World Economic Outlook-OECD or World Economic Report).

The actuality, complexity and importance of the subject determined the approach of relations and power hierarchies between the actors of the contemporary international economic system as an interdisciplinary approach, putting together various disciplines, ranging from history, economics and political sciences to sociology, geopolitics and geo-strategy.

The following study represents the result of a qualitative analysis, logical and descriptive through which events, phenomena and concepts are treated. Adding to the qualitative methodology is an induction-based research method, resulting from the interpretation of statistic quantitative data compared by countries and regions. Thus, the study takes into consideration the main economic indexes (GDP, inflation rate, unemployment rate, imports and exports of services) meant to shape a

realistic profile of each economic power pole and to stress the resemblances or discrepancies between various powers and their evolution throughout the past few years.

The instruments used in this study consist of tables and graphs which contribute to reaching our goal of stressing previous evolutions for each and every power centre.

Among the used means, one can identify the classification (establishing the hierarchy of power centres through given indexes) and comparison (stressing the existing affinities and differences taken into consideration). The economic power poles on which the study focuses are: the United States, the European Union, the Russian Federation, Middle East, Brazil, Great Britain, India, China, Japan and South Africa.

The study aims to find the European Union's position among the hierarchy of the global economic power centres.

2. Opinions regarding the contemporary global economic situation

The brand new economic world structure represents the result of transition and re-adjustment processes generated by the changes marking the 1990s', by the terrorist events in 2001, and, not least, by the financial and economic crisis debuting in early 2008. Similar, we noticed an intensified process of globalisation, engaging all states and regions and bringing new opportunities or challenges affecting each and every one.

One of the most important features of this complex world is represented by the presence of nation states, interstate economic integration organisms, as well as multinational companies seen as global economic actors.

The international economic system of the 21st century is dramatically different than the previous ones. If only a century ago we were talking about a multi-polar order driven by a group of European states which established alliances, rivalries, and wars, after the end of the Cold War we witnessed a bipolar period (USA and Russian Federation). Following the crash of communism, the world became uni-polar, after the Americans successfully managed to dominate the world. We are currently witnessing the manifestations of a pluri-polar world, characterised by economic globalisation, the recrudescence of nationalism, of technologic revolution, as well as of the manifestation of two contradictory tendencies: the acceleration of the political and economic integration systems and the ingravescence of fragmentation.

The political and economic integration tendencies are explained by the intensification of global economic relations in order to obtain various advantages and to reach certain common goals by a

multiplied force. The best example to illustrate this concept is represented by the European Union, the most representative and advanced form of interstate integration form (the economic and monetary integration).

On the other hand, the fragmentation tendency is explained by the amplification and spread of ethnic conflicts, proliferation of nuclear weapons, by the multiplication of terrorist actions and the degradation of the environment, aspects which all lead to an international instability.

The visions of reputed authors regarding the reconfiguration mean of global power after the end of the Cold War differs dramatically. However, scholars unanimously stress the dynamic character of predominant economies, as well as their integration in the economic circuit and the definition of a new hierarchy in the global system.

Concerned by the types of power distribution in a new global economic system, authors Paul Hirst and Grahame Thompson argue the existence of a tri-polar order, based on the hegemony of United States – the European Union – Japan and define the new global situation as a result of United States decline and the end of the bipolar collation (Hirst, Grahame, 1999).

According to Samuel Huntington, the new order is a plural-polar one, a complex hybrid in which the only superpower, the United States, coexists with several big powers (the European Union, China, India, the Russian Federation, Brazil or South Africa) (Huntington, 1998). In fact, Huntington defines secondary regional powers which, often, rival in interests with the big regional powers (United Kingdom and the European Union, Ukraine and the Russian Federation, Japan and China, Pakistan and India, Argentina and Brazil, etc.). In addition, the author describes an international system which gathers several civilisations, generations, competition and conflict, where the economic, political and military causes are replaced by cultural ones.

Authors like Brzezinski, Robert Art or David Ignatius award the United States with the distinction of the 21st century's superpower. However, they do not deny the rising of China and question the Russian Federation's interests.

According to Parag Khana, the international system of the 21st century is a multi-terminal one, institutional, polycentric and multi-actor, meaning that the role of non-state organisations (corporations or NGOs) becomes more and more important in an international agenda (Khana, 2008).

Fareed Zakaria sustains the apparition of power poles and he defines it as the *rising of the rest* (Zakaria, 2008). In his opinion, when regional powers define their dominance, the United States has the opportunity of playing a complex and constructive role, thus to become a global leader.

Henri Kissinger forecasted, ever since 1994, that the 21st century will be dominated by five great powers: the United States, the European Union, China, the Russian Federation, and India.

Regardless to the opinions presented in the existing literature, the present reality reflects the existence and manifesto of an increasing number of global actors, whose geopolitical, economic and geostrategic interests grow as a result of their implication and integration within the international economic circuit.

3. The European Union in the context of the new global economic order

The European Union, one of primordial competitors of China and America is currently crossing a time of adapting to the multiple internal and external challenges. The recovery process imposed by overcoming the economic and financial crisis is seconded by the need of institutional restructuring and the adaptation to the new demands of the increasing global competitiveness. In this regard, the European Union follows to improve its politics and reforms, not only to compensate on the aspects that made it vulnerable in front of the crisis, but also to turn its member states to become more responsible and more competitive.

3.1. Aligning the politics in order to improve the European Union's competitiveness

Regarding its *economic and financial policies*, coordinating the memberstates' economies and policies is a must, alongside their incumbency of adherence to the euro zone and the establishment of national objectives regarding research, innovation, climatic changes, energy, education or eradicating poverty in order to build a more intelligent, durable and inclusive Union.

The improvement of effectively applying *social and workforce policies* became visible after signing various amendments between the European social partners, as well as the creation of the European Foundation for the Improvement of Living and Working Conditions (EUROFOUND), the Work Committee and the Economic and Social Committee.

After enacting the Energy-climate Plan, the *energetic and environmental policies* became more efficient, contributing to the diminishing of gas emissions, reducing the energy consumption and finding new and sustainable types of energy. However, the European strategy depends on the decisions taken on an international level. This is exactly why the expiration of the Kyoto Project demands the creation of a new international climateric agreement.

The implementation of the common agricultural policy (in 1962) led to an agricultural self-sufficiency, which now manages to gain over 55 billion EUR per year (around 40% of the common budget) (Frunzetti *et al.*, 2013). The CAP reform in 2014 follows the reorientation of certain productions and diminishing the spending in this sector. Regarding the *regional maritime politic*, its

enforcement results are quantified by the existence of over 80,000 fishing ships in the European Union, leading the Union to become the fourth biggest worldwide producer of fish products. This was mainly achievable due to an increase of measurements regarding the control of sea pollution, through environment preservation and through developing the coastal areas and the border surveillance.

Creating the European Law Space, the Law Cooperation Unit (Eurojust) and respecting the agreements in the Area of freedom, security and justice led to the improvement of the *law and Human Rights politics*.

As for the *education and research reform*, after the foundation of the European Research Council (in 2007), the total value for innovation counted for around 7,5 billion EUR. However, the European Union only gives away 1,8% of its annual GDP to research and development, coming in fourth place after Japan (2,6%), China (2,2 – 2,6%) and USA (2,1%). Nevertheless, the European Union prides with having 191 out of the top 500 universities in the world, while USA only holds 54 universities, China 34, Japan 5, Swiss 3, and the Russian Federation, one (Frunzetti *et al.*, 2013).

The external and security policy of the European Union ensures the coordination of military institutions in order to forecast and solve conflicts, collaboration and global cooperation. In this regard, one can count not only for the strategic partners signed with the United States or the Russian Federation, but also with Canada, Latin-American states, African and Nord-African states, Middle East, China, India and South Asia, Ukraine, the states of the South Caucasus, ASEAN, Australia and New Zealand.

3.2. The crisis impact upon the European economic structure

The European Union confronted itself with countless problems as part of the international economic and financial crisis, such as an increase in the public debt, an alarming increase of the unemployment rate, as well as a diminish of living standard, as a result of the austerity conditions imposed by international organisms.

The crisis stressed out the cleavage within the European Union, leading to a *variable geometry development*. The convergence deficit, the tensions existing around the decisional mechanisms, as well as the scarcity of common policies led to the stratification inside the state members, depending on their capacity of dealing with problems and on the efficiency of their adopted measures. Thus, the debt crisis divided the European Union into three different areas: Northern Ireland – considered as the most dangerous, the South area, and an area without austerity. The Eastern side of the continent represents the manifestation point of the most obvious external imbalances.

The crisis management measures regarding the sovereign debts appeals to the coordination of fiscal and economic policies, to the proliferation and acceptance of the competitiveness pact and for stimulating the economic convergence.

The European monetary union deals with great structural problems. Since one cannot talk about sufficiently compatible economies on a productivity and flexibility note, the capital was directed to incondite areas, and the speculation investments, along with the incorrect bank practices spread, determining the European Union to fail into becoming an optimised monetary zone. Thus, it is crucial to institute a new budgetary stringency, as well as to control and limit the internal unbalances, including a closer supervision of the financial markets.

Away from certain economic and financial aspects, the economic growth of the European Union was slowed down by a decrease in work productivity, the aging population phenomenon, the existence of structural weaknesses on the labour and product market, as well as the social-economic disparities between the West, Centre, South and South-East.

The inferiority of the European Union as opposed to the United States or other superpowers is given by the impossibility of a real political integration. However, the solutions that could help the EU to maintain itself in the global competitiveness market are represented by boosting the innovation process and the strengthening the common market.

3.3. Determining the position of the European Union in the power centres' hierarchy

In order to identify the role played by the European Union on a global level and to determine its position within the power centres' hierarchy, the paper analyses the following indexes: the GDP, the inflation rate, the unemployment rate and the goods and services trades. The analysed period of time is between 2000 and 2013. The following paper aims to stress the impact of the financial and economic crisis upon the growing and the economic development process.

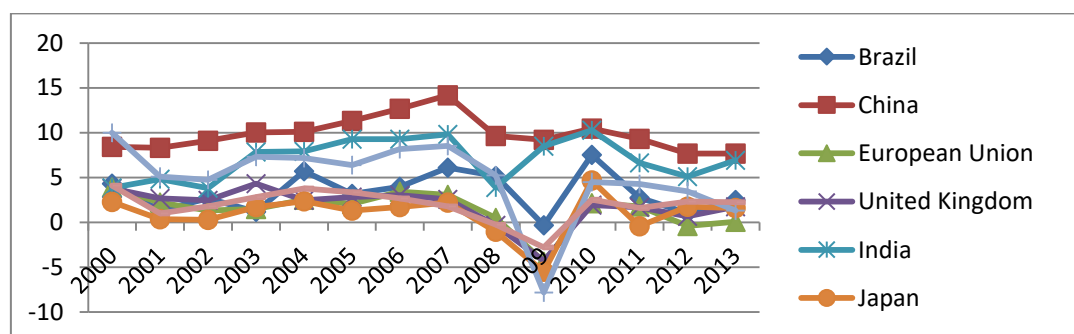
In terms of the GDP, for every state and state groups analysed, one can distinguish a constant increase between 2000 and 2008, followed by a significant dropout in 2008 as a result of crisis. Between 2009 and 2013 the involution trend is maintained, followed by a slight recovery at the beginning of 2011. According to Appendix 1, the European Union was, in 2000, on the second place (with 8808.5 billion USD), after US (with 10.284,8 billion USD), followed by Japan (with 4731.2 billion USD), China (1198.5 billion USD), and Brazil (644.7 billion USD). In 2013, the European Union became the first one, with 17958 billion USD, followed by the United States (16768 billion USD).

Table 1 – GDP (billion \$)

Country Name	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	645	882	1089	1367	1654	1620	2143	2477	2249	2246
China	1199	2257	2713	3494	4522	4990	5931	7322	8230	9240
European Union	8809	14313	15274	17661	19009	17002	16935	18308	17252	17958
India	477	834	949	1239	1224	1365	1709	1843	1836	1875
Japan	4731	4572	4357	4356	4849	5035	5495	5906	5955	4920
Russian Federation	260	764	990	1300	1661	1223	1525	1905	2018	2097
United States	10285	13094	13856	14478	14719	14419	14964	15518	16163	16768
South Africa	136	258	272	299	287	296	375	417	397	366

Source: World Bank <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?display=default>, accessed on 16 may 2015

In percentage terms, the evolution of the economic growth rate of the main powers is rendered in the figure below:

Figure 1 - GDP growth (annual %)

Source: Author's representation based on data obtained from Table 2

Table 2 - GDP growth (annual %)

Country Name	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	6.2	9.0	10.6	13.7	8.0	7.2	6.2	5.9	8.3	7.2
China	2.0	2.1	0.6	2.6	6.9	3.9	3.8	7.6	7.8	-0.6
European Union	3.3	3.3	3.4	3.2	2.5	2.5	3.0	2.8	2.8	1.1
India	3.4	3.4	3.1	3.1	2.9	2.6	3.0	3.0	3.2	1.8
Japan	2.4	1.1	2.7	2.2	2.9	2.8	2.7	2.9	2.9	2.0
Russian Federation	3.6	3.2	3.7	3.9	5.7	4.2	6.4	5.8	8.7	6.1
United States	-1.2	-1.2	-1.6	-1.7	-1.4	-1.3	-1.1	-0.9	-1.3	-0.5
South Africa	37.7	16.5	15.5	13.8	20.3	19.3	15.2	13.8	18.0	2.0

Source: World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?display=default>, accessed on 16 may 2015

According to the figure above, the most spectacular economic growth was registered by China, growing from around 8.43% in 2000 to up to 14.16% in 2007, right before the crisis emerged. Although the Russian Federation was the absolute leader in terms of economic growth (with a 10%

rate), as of 2011 the dropout has been constant, followed even by a negative evolution (-7.82% in 2009) in full economic crisis.

The 2007-2008 year represented a sudden dropout in exchange rates for all analysed states, as a result of the worldwide economic crisis. The European Union was the second most affected economic structure, suffering from a 4.41% dropout in 2009. As of 2010 the Union started to forecast a slight recovery, but the economic growth rates of the European Union continue to register the smallest values in the top.

Table 3 - Inflation, GDP deflator (annual %)

Country Name	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	6.2	7.2	6.2	5.9	8.3	7.2	8.2	7.0	4.9	7.6
China	2.0	3.9	3.8	7.6	7.8	-0.6	6.6	7.8	2.0	1.7
European Union	3.4	2.6	3.0	3.0	3.2	1.8	1.0	1.7	1.6	1.4
India	3.6	4.2	6.4	5.8	8.7	6.1	9.0	6.4	7.6	6.3
Japan	-1.2	-1.3	-1.1	-0.9	-1.3	-0.5	-2.2	-1.9	-0.9	-0.5
Russian Federation	37.7	19.3	15.2	13.8	18.0	2.0	14.2	15.9	7.5	5.9
United States	2.3	3.2	3.1	2.7	1.9	0.8	1.2	2.1	1.8	1.5
South Africa	8.8	5.4	6.3	8.8	8.8	7.5	6.4	6.7	5.5	6.0

Source: World Bank, <http://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG?display=default>, accessed on 16 may 2015

The inflation level is measured through the annual growth rate of the GDP deflator. According to the data in Table 3, the European Union is currently located among the economic structures with minimum inflation rates (alongside US, Japan and China), registering values ranging from 3.4% (in 2000) and -1.4% (in 2013).

Table 4 - Unemployment, total (% of total labor force)

Country Name	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	-	9.3	8.4	8.1	7.1	8.3	-	6.7	-	-
China	3.1	4.2	4.1	4.0	-	-	2.9	-	-	-
European Union	9.2	8.9	8.2	7.2	6.9	8.9	9.6	9.6	10.5	10.8
India	5.5	4.7	5.4	5.3	5.3	7.7	7.8	7.8	7.9	7.7
Japan	4.3	4.4	-	-	-	-	3.5	-	3.6	-
Russian Federation	4.8	4.4	4.1	3.9	4.0	5.0	5.0	4.5	4.3	-
United States	10.6	7.1	7.1	6.0	6.2	8.3	7.3	6.5	5.5	-
South Africa	4.0	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	-

Source: World Bank, <http://data.worldbank.org/indicator/SL.UEM.TOTL.NE.ZS?display=default>, accessed on 16 may 2015

According to the data in Table 4, in the analysed time series, the European Union registered the highest unemployment rates, ranging from 9.25% in 2000, up to 10.8% in 2013, closely followed by Great Britain and the US. Among the emerging economies, South Africa confronts with high problems regarding the unemployment rate, which ranged between 26.7% in 2000 and 24.7% in 2013. South Africa is closely followed by the Russian Federation and India.

Table 5 - Imports of goods, services and primary income (current US\$)

Country Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	125.8	153.4	198.6	273.3	217.2	291.1	360.5	350.4	375.7
China	701.2	824.2	1022.8	1227.9	1157.0	1593.0	2023.3	2143.4	2356.6
European Union	6113.2	7184.8	8692.4	9418.6	7134.2	7716.8	8927.5	8454.7	8658.3
India	194.2	239.5	298.0	400.4	349.5	464.6	579.3	610.7	593.0
Japan	641.8	715.4	778.4	927.8	686.4	838.5	1020.8	1069.3	1008.5
Russian Federation	200.3	268.0	358.1	474.5	320.5	406.1	513.1	560.1	592.3
United States	2476.6	2869.1	3102.3	3227.9	2457.6	2855.5	3214.4	3314.0	3337.1
South Africa	78.3	95.5	114.8	122.6	91.2	113.4	136.4	136.6	133.1

Source: World Bank, <http://data.worldbank.org/indicator/BM.GSR.TOTL.CD?display=default>, accessed on 16 may 2015

Table 6. Exports of goods and services (current US\$)

Country Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	133.0	156.3	184.6	228.4	180.7	233.5	294.2	282.4	281.2
China	770.5	973.5	1255.4	1493.6	1260.3	1647.7	1990.7	2188.3	2362.6
European Union	4946.9	5613.9	6604.8	7321.9	5861.7	6450.3	7497.8	7267.3	7615.1
India	154.6	193.3	240.1	305.1	260.8	348.0	446.4	443.8	467.8
Japan	672.9	728.6	802.2	890.2	669.1	866.7	927.3	910.8	830.3
Russian Federation	268.9	333.2	390.4	523.4	343.0	441.8	573.4	589.8	593.4
United States	1286.0	1457.6	1653.5	1841.6	1583.1	1853.6	2127.0	2216.5	2280.2
South Africa	67.6	78.0	90.3	98.9	78.6	104.0	123.6	114.4	109.1

Source: World Bank, <http://data.worldbank.org/indicator/BX.GSR.GNFS.CD?display=default>, accessed on 16 may 2015

The data from Tables 5 and 6 reflect that, during 2005-2013, the European Union represents the biggest worldwide importer and exporter of goods and services, seconded by the United States. The exports and imports values dropped in 2009 as a result of the economic recession, but the values soon recovered, as of 2010.

Conclusions

The 21st century brings into prominence global repartition, hierarchy and balance of power. If during the Cold War there were only two powers (the Russian Federation and America) which managed the global and regional problems both as partners and rivals, as of 1989 the situation dramatically changed, leading to the rise of new power centres.

Although on economic, technological, military and government efficiency levels the United States continue to rule the charts, the 21st century world was introduced to the rising of other veridical competitors: the European Union, China, Japan or the Russian Federation.

As an important element of the global economic system, the European Union harshly experienced the negative effects of the latest global crisis. Thus, the endeavours undertook in the past few years have especially followed to counteract the slow rate of economic growth, as a result of the instability in the euro-zone and the slow comeback of the American economy.

Economic analysts claim that the European Union occupies the second position in the hierarchy of global power centres, immediately after the United States. The integration of the Union in the global economic circuit significantly contributes to the apparition of real wealth and wellbeing. However, an economy can only be enriched under a strict increase of the productivity rate, through streamlining the production in terms of exports, or as an effect of technological advance.

Nevertheless, the Union continues to be threatened by the persistence of sovereign debts, the weakness in the financial sector and the macroeconomic unbalances which cumbered the economic growth. Maintaining a state per se can further affect the ability of the European Union to enrich its global economic perspectives. Thus, we reckon as mandatory to encourage the development of an intelligent, durable and inclusive economy, based on reforms and strong policies that can stimulate competitiveness on an international level.

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COMPARATIVE ASSESSMENT OF EFFICIENCY IN ATTRACTING EUROPEAN FUNDS BY REGIONS OF EASTERN EUROPEAN COUNTRIES

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Abstract: *In the current decentralization reforms and severe budget constraints faced by Eastern European countries, we consider as imperative to analyze the effectiveness of structural funds management at regional level. Therefore, the purpose of this study was to estimate the technical efficiency of attracting structural funds by the regions in Poland, Bulgaria and Romania, determining the factors that influence efficiency and its implications for local development. The calculations were based on the mathematical model Data Envelopment Analysis, the main source of data being EUROSTAT. The estimates confirm the strong need for systemic reforms in the organization and operation of the development regions: modification of current transfer system, strengthen financial autonomy and solve the problem of excessive fragmentation of administrative-territorial structure, all having a negative impact on the efficiency of absorption of European funds developing regions of analyzed states.*

Keywords: absorption capacity; European funds; DEA method; CEE countries

JEL Classification: A1; A2

Introduction

Benchmarking the EU accession process is one of the major areas of structural funds management. This assessment provides decision makers the necessary information on the consequences of projects, plans, policies and regulations regarding the designated objectives to be primarily achieved. Therefore, it may be noted that benchmarking is more likely a strategic tool in the EU integration process. The European Union proposes a single funding system for managing economic integration and the introduction of specially designed funding schemes for almost all policy areas to promote economic and social cohesion among countries. Current European financing operations are based on rigorous management, monitoring, control and evaluation. European Commission states that most effects of cohesion policy cannot be expressed in quantitative terms.

There are several studies in the literature that are concentrated on evaluating the efficiency of allocated funds and their impact on economic growth in the context of comparative performance evaluation. Some econometric analysis say that European funds have a negligible or even negative impact on convergence, while others imply a significant positive impact. Those studies suggest a number of different models and approaches to calculate the efficiency and impact of European funds: increasing levels of Europeanization, the capacity to absorb EU funds or to calculate additional added

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value resulting from Community assistance; finally, all tending to explore the relationship between European funds and their impact on the region which attract them.

OECD defines absorption capacity as accumulating and disseminating adequate information, capacity building in local government and civil society to formulate and implement development projects (OECD, 2006). Absorption capacity leads to a strong performance of EU funds only if the economy is fully taken into account (Sumpikova *et al.*, 2004). Sumpikova *et al.* (2004) define absorption capacity as far as a state is able to fully acquire the financial resources allocated from the EU. The literature on absorption capacity of EU funds in candidate states offers three main definitions (Zerbirati, 2004; Oprescu *et al.*, 2005; Georgescu, 2008; Lupu *et al.*, 2014):

- Macroeconomic absorption capacity, which can be defined and measured in terms of relation between the GDP and the structural funds allocated (upper limit for the structural and cohesion funds was generally set at 4% of GDP respective states)

- Administrative absorption capacity, which can be defined as the ability and skills of central, regional and local authorities to prepare acceptable plans, programs and projects, to decide on them, to organize coordination, main partners, to deal expeditiously and administrative bottlenecks, work reports requested by the Commission and to finance and supervise applying their implementation properly, avoiding fraud as much as possible.

- Financial absorption capacity, which means the ability to co-finance programs and projects supported by the EU, to plan and guarantee these national contributions in multi-annual budgets, and to allocate these contributions from as many partners (public and private) interested in a program or project.

1. Interregional disparities in economic development from Romania, Bulgaria and Poland

Eastern European States entered the transition process with a relatively low level of regional disparities as compared to states having a market economy tradition. However, these disparities have rapidly grown and, in particular, between the regions that include the capital and other regions. Inter-regional disparities are absolutely small as compared with the European Union, but in relative terms, they have reached levels comparable to those in the Czech Republic, Hungary and Germany.

Regional development policy is a relatively new concept in Romania. Since 1998, the country was divided into 8 regions (NUTS II level), grouping the 41 existing counties and the capital Bucharest, as displayed in table no. 1. Set out on a voluntary basis, these regions have the status of administrative units, but represent territorial units large enough to constitute a good basis for

developing and implementing regional development strategies, enabling efficient use of financial and human resources.

Table 1 - Statistical information on the development regions in Romania, Bulgaria and Poland

	Surface	Population	GDP/ capita		Surface	Population	GDP/ capita
	[km ²]		[euro]		[km ²]		[euro]
ROMANIA			5800	POLAND			9200
Nord-Est	36850	3674367	5200	Łódzkie	18219	2571534	8500
Sud-Est	35762	2848219	5600	Mazowieckie	35579	5164612	15000
Sud Muntenia	34489	3379406	3600	Małopolskie	15183	3298270	7800
Sud Vest Oltenia	29212	2330792	4800	Śląskie	1233309	4620624	9800
Vest	32028	1958828	4800	Lubelskie	25155	2175251	6200
Nord-Vest	34159	2746064	13800	Podkarpackie	17844	2101732	6200
Centru	34100	2533021	4500	Świętokrzyskie	11672	1281796	7000
Bucuresti-Ilfov	1811	2242377	6600	Podlaskie	20180	1197610	6700
			4800	Wielkopolskie	29826	3374653	9600
BULGARIA			4800	Zachodniopomorskie	22896	1693533	8000
Severozapaden	190703	923000	2900	Lubuskie	13985	1008424	7800
Severen tsentralen	149740	928000	3100	Dolnośląskie	1994674	2914362	10400
Severoiztochen	144874	992000	3900	Opolskie	94125	1044346	7300
Yugoiztochen	197987	1124000	3900	Kujawsko-Pomorskie	17 97134	2 098 370	7700
Yugozapaden	203064	2132848	8200	Warmińsko-Mazurskie	24 17317	1 451 950	6800
Yuzhen tsentralen	223651	154000	3300	Pomorskie	18293	2201069	8800
European Union (27 countries)			24500				

Source: Eurostat

In Romania, except for Bucharest, whose situation in the economic landscape of the country is completely special, growth followed a west-east direction, proximity to western markets acting as a growth factor delivery. Although statistics show some oscillations in time, due to local factors, economic growth had a significant geographic component; underdeveloped areas are concentrated in the Northeast, on the border with Moldova and South along the Danube. Underdevelopment appears to be largely correlated with unemployment and with the predominance of rural activities, and the inability to attract foreign direct investment. The table below summarizes key information on developing regions. North East Region is characterized both by its dependence on agriculture and the proximity to the border with Moldova and Ukraine. The same is true, to some extent, in South Muntenia which is also dependent on agriculture and the Danube has acted as a barrier to cross-border trade. Western and central parts of the country were benefiting from their position closer to Western markets and lowered their dependence on primary sector, benefiting even more from FDI.

Poland has 16 regions corresponding to NUTS II level. In terms of territory, the biggest are Mazowieckie, Wielkopolskie and Zachodniopomorskie while in terms of population, are Mazowieckie (capital region, 5.1 million inhabitants) and Śląskie (Poland's largest concentration of old industries, 4.9 million inhabitants); the smallest in terms of population is the western region,

Lubuskie (1 mln. inhabitants). The decentralization reform in 1999 gave complete autonomy to regions and responsibility for returning their economic development. Along with the transformation and growth of the 90s, regional and social disparities in Poland have become increasingly apparent (Table 1). As it can be seen from table 1, in economic terms, the differentiation between Polish regions is relatively low: the relationship between GDP per capita of the poorest (Lubelskie) and the richest (Mazowieckie) region is about 1: 2.2 which is much less than in countries like Italy or Spain. The poorest regions of Poland are located in the eastern part of the country: Lubelskie, Podkarpackie, Podlaskie, Warmino-Mazurskie and Świętokrzyskie.

In Poland, like in other East European countries, the capital region (Mazowieckie) is the most developed in the country because of a significant concentration of economic activity in the country's political center. Slaskie and Wielkopolskie are the only regions, apart from Mazowieckie, which are above national average. Most economically disadvantaged regions in Poland are the country's eastern periphery (Podlaskie, Lubelskie, and Podkarpackie). Location of these regions (in the vicinity of less developed countries such as Belarus, Ukraine and Russia) offers limited possibilities for fruitful cross-border cooperation and joint economic initiatives. The second factor affecting the economic situation of peripheral areas is the predominance of agriculture in the regional economy, which still needs urgent structural reforms to increase competitiveness in the future.

Looking at Bulgaria we can say that it is divided into six development regions characterized by the same disparities as the other considered countries. We can add that five out of six regions are the poorer regions from the whole European Union; only the region that comprises the capital Sofia (Yugozapadan) is relatively more developed. The economy of regions is mostly based on agriculture and tourism, industry and services being more developed especially in the capital. Also, we must mention that Bulgaria's regions have reduced autonomy.

2. Data and methodology

In our efficiency analysis, we will use the Data Envelopment Analysis (DEA) methodology. DEA is a non-parametric analysis of deterministic performance, developed by Charnes *et al.* (1978). DEA is an "oriented data" approach to assess the performance of an equal set of units called decision-making units (DMUs) which convert multiple inputs to multiple outputs (Cooper *et al.*, 2000). DEA is among the preferred methods for analyzing the performance or efficiency over a number of advantages over parametric methods. Unlike other methods, such as regression analysis that require a priori assumptions, DEA requires very few assumptions, never attempting to explain the nature of the relationship between inputs and multiple outputs belonging analysis units in deterministic manner.

In DEA, the relative efficiency of any DMU is calculated as the weighted sum of outflows from the weighted sum of inputs, being a scalar value ranging between zero and one, which is evaluated by a linear programming model. The calculation of the efficiency of each DMU, DEA forms a border „possibility of output" to the most efficient DMU based on available data, if and only if the performance of other control units show that some of the inputs and outputs can be improved without worsening overall efficiency. The objective function for DMU, that is being evaluated, includes maximizing the value of output relative to the inputs.

There are two types of borders in DEA: one that refers to constant returns to scale (CRS) and one to variable returns to scale (VRS), respectively. As the name indicates, an implicit assumption on the yields of scale associated with each area and thus, the opportunity of a particular envelope surfaces is frequently determined (dictated) the economic assumptions or otherwise made on the set of data to be analyzed.

Assuming constant returns to scale are only possible when agents are operating at an optimal scale. Imperfect competition, financial constraints, etc. can cause an agent not to operate at optimal scale. Banker *et al.* (1984) suggested an extension of the DEA model with constant returns to scale (CRS DEA) to explain situations with variable returns to scale.

The DEA models evaluate the effectiveness of the units surveyed (in our case, the development regions in the 3 considered countries) with any number of inputs and outputs. The coefficient of efficiency (CE) represents the ratio between the weighted sum of outputs and the weighted sum of inputs. In our analysis, for each region we select the input and output weights that maximize the efficiency scores. The coefficient of efficiency (CE) ranges from 0 to 1. At the DEA model relative to inputs, CE for the most efficient regions (located on the border line efficiency) is always equal to 1, while CE for ineffective regions are smaller than 1. DEA model relative to outputs, CE for the most efficient regions (situated on the efficient frontier) are always equal to 1, while CE for ineffective regions are greater than 1. Also, DEA allows us to calculate the improvement needed to turn the ins and outs ineffective in the most efficient values.

Assuming we have 3 countries (Romania, Poland and Bulgaria) and 30 NUTS 2 regions, each with m inputs and r outputs, score relative effectiveness of a test region (q) is obtained by solving the equations (1) - (5) (Zhu, 2012).

For the DEA models relative to inputs (with multiple inputs and outputs), assuming variable returns to scale VRS, the used formulas are:

$$\max z = \sum_i^r u_i y_{iq} + \mu$$

$$\sum_i^r u_i y_{iq} + \mu \leq \sum_j^m v_j x_{jk}, \quad k=1,2,\dots,n$$

$$\sum_j^m v_j x_{jq} = 1$$

$$u_i \geq \varepsilon$$

$$v_j \geq \varepsilon$$

where: z is the coefficient of efficiency for the unit U_q , u_i are the weights assigned to output i , v_j are the weights assigned to the input j , ε is an infinitesimal constant, x_{jk} is the value input unit j for unit U_k , x_{jq} is the value input unit j for the unit U_q , Y_{ik} is the unit output value and drive U_k , Y_{IQ} unit output value for U_q , m represents inputs and r outputs.

Applying the DEA model requires the definition of input variables related to output. Literature and data availability are determining factors for choosing the model variables. Detailed and standardized data availability was a major problem because absorption of European funds analysis by development regions are among the first studies in the literature.

Three European countries were analyzed in this study: Romania and Bulgaria (countries that absorbed the fewest structural funds) and Poland (champion of European funds absorption), taking into consideration 30 development regions. Specific quantities of data input and output for these three countries have been collected and processed through Eurostat, national governments and institutions managing European funds websites.

The number of inputs and outputs was determined according to the need to maximize discrimination observed in the existing units. Thus, we used three variables output and two input. To decide which variables are most suitable to use, we considered set of internationally recognized indicators to analyze the efficiency of absorption of structural funds.

There are two input variables: the amount of absorbed EU funds by region and the number of projects implemented by each region. The value of Structural Funds absorption indicator was analyzed to demonstrate the increasing influence on regional development, at different stages of absorption (lowest vs. highest). Although paradoxically, one of the main issues mentioned in recent analyzes of the European Commission is the ability or inability of European states to absorb EU funds, a phenomenon that is assigned to financial fragility of these countries. Also, very often mentioned cause is the reduced capacity of countries to prepare projects eligible for EU funds absorption. It is assumed that there is a direct relationship between the absorption of structural funds and development of a region in the respective countries.

The second considered indicator is the number of incoming projects undertaken by the respective regions. Analyzing the variable referring to the number of finished projects seems significant due to the major differences between regions: while in Romania and Bulgaria the number does not exceed several hundred projects, in Poland it reaches thousands. The indicator reflects the strength of the proposed projects in order to create an impact on relevant factors such as: the number of potential beneficiaries, impact duration and geographical coverage.

Three output variables were considered, namely the GDP (based on purchasing parity EU average), the unemployment rate and the risk of poverty of each region. Analysis of these three indicators was achieved from ERDF objectives and requirements: encourage cohesion and reducing regional disparities.

Gross domestic product per capita in purchasing power standards as compared to the EU average (PPS-EU) is the ratio of the gross domestic product (GDP) expressed in purchasing power standards and the total population. GDP in PPS-EU is obtained by converting a fictional currency conversion using purchasing power parity index (express connections between same good prices in different countries establishing a common currency). The variable can be justified by the fact that attracting European funds leads to infrastructure improvement, new business opportunities, cost savings and revenue growth, and cumulatively leading to a real GDP growth in the region.

Unemployment is a negative state of the economy materialized in a significant imbalance in the labor market where labor supply is greater than demand; i.e. lack of a job for a while. The indicator is considered as one of the objectives of the ERDF in order to create sustainable jobs. It is assumed that regions which absorb more EU funds will develop a greater number of new businesses and therefore employment will increase, eventually leading to a decline in unemployment.

Risk of poverty rate is the share of persons with an equivalent disposable income (after social transfers) below the risk of poverty, which is set at 60% of median national disposable income after social transfers' equivalent. This indicator does not measure wealth or poverty, but only those on low incomes compared to other residents of the same country. Part of social strategy at EU level, social inclusion has been recognized as a common objective of the member states and became part of the national anti-poverty plans. The indicator was analyzed because it is assumed that the attraction of bigger European funds would lead to poverty reduction.

3. Results of analysis

The analysis was based on the statistical regional data published annually by Eurostat. As mentioned before, the variables considered in the model are the inputs (amount absorbed EU funds

and the number of European projects contracts) and the outputs (GDP based on purchasing power parity EU, unemployment and the risk of poverty).

In Table 1 of the annexes input-output data for the 30 regions analyzed are separately displayed for each country. Therefore, for the indicator referring to executed contracts we see that Bulgaria is the country with the fewest (of the order of 100-200), followed by Romania (300-500) and Poland (800-4500). When looking to the EU funds amounts absorbed we also observe significant differences: values from 60.8 million (Ilfov region) to 221.77 million Euro (Southeast) in the case of Romania; from 110 million (Northern Central) to 185 million (Central Region) in Bulgaria and from 1162 million Euro (Lubuskie) to 3529 million (Wielkopolskie) Poland. For this indicator it can be easily seen that the total outstanding balance of the regions of Romania and Bulgaria are taken together mean within a region of Poland. GDP purchasing power parity relative to the EU shows that the poorest EU regions are in Romania (North-East and South-West) and Bulgaria (Northwestern, Northern, Central and Southern Central Region) with values around 30% of European average value of the indicator. The richest regions, with rates of over 70% are in Bucharest-Ilfov (Romania), Southwestern (Bulgaria), Mazowieckie and Dolnośląskie (Poland).

In table no.2 we present the descriptive statistics for the 30 analyzed regions. For the number of ongoing contracts, the minimum (95) is set by region North Central - Bulgaria, the maximum (4501) for Śląskie (Poland) and the average is 1144 contracts. For amounts absorbed EU indicator, the minimum (euro 60.8 million) is the Bucharest-Ilfov region (Romania), maximum (3529 mil. Euros) Wielkopolskie (Poland), averaging 1301 millions Euros. It may be noted here that all regions of Romania and Bulgaria is below the average outstanding balance, while in the case of Poland all regions are above average.

Table 2 - Descriptive statistics for the 30 regions analyzed

Variable	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
<i>Contracts</i>	95	4501	1144.37	1024.34	1049285.27	1.29	2.32
<i>Euro amounts absorbed</i>	60.80	3529	1301.41	1217.50	1482309.93	.47	-1.24
<i>PIB PPC UE</i>	26	111	51.03	19.58	383.48	1.54	2.87
<i>Unemployment</i>	1.90	18.2	9.95	3.27	10.69	-.27	1.35
<i>Risk of poverty</i>	43.30	76.9	64.22	11.14	124.27	-.67	-1.11

Source: Authors' calculations

The correlations coefficients of the considered variables that are taken into account when estimating the model are presented in Table 3. The number of executed contracts is strongly correlated with the amounts absorbed and the risk of poverty; the amounts of EU funds attracted is very strong and directly correlated with the number of executed contracts and the risk of poverty; GDP (PPC-

UE) is negatively correlated with the unemployment rate and the risk of poverty; negative correlation between GDP (PPC-UE) and unemployment rate; the risk of poverty is directly correlated with the number of executed contracts, the absorbed amounts raised and GDP (PPC-UE).

Table 3 - The correlations between indicators for the 30 regions analyzed

	1	2	3	4	5
1. Contracts	1				
2. Euro amounts absorbed	.900*				
3. GDP(PPC-UE)	.300	.404*	1	-.520**	.611**
4. Unemployment	.064	.106	-.520**	1	-.350
5. Risk of poverty	.694*	.732*	.611**	-.350	1

** . Correlation is significant at the 0.01 level (2-tailed).
 * . Correlation is significant at the 0.05 level (2-tailed).

Source: Authors' calculations

The DEA model for efficient assessment of European funds by developing regions includes three values of output and two inputs. DEA scores efficiency for the regions studied are entered into the database using the model outputs dedicated as target regions to maximize the output result of input values. Our approach is based on model assumptions DEA variable returns of scale (VRS). The results of DEA on the performance data can be found in table no. 4.

Table 4 - Classification of regions by efficiency for absorption of EU funds

Country					
ROMANIA	Efficiency	POLAND	Efficiency	BULGARIA	Efficiency
Centru	0.77	Łódzkie	1	Severozapaden	0.728802
Nord-Est	0.329533	Mazowieckie	1	Severen tsentralen	0.4617
Sud-Est	0.422655	Małopolskie	0.713938	Severoiztochen	0.6984
Sud - Muntenia	0.495489	Śląskie	0.605601	Yugoiztochen	0.625194
Bucuresti - Ilfov	1	Lubelskie	0.600246	Yugozapaden	0.586464
Sud-Vest Oltenia	0.419031	Podkarpackie	0.580441	Yuzhen tsentralen	1
Vest	0.891752	Świętokrzyskie	0.851098	<i>Country mean</i>	<i>0.686</i>
Nord vest	0.57	Podlaskie	0.550127		
<i>Country mean</i>	<i>0.612308</i>	Wielkopolskie	0.618635		
		Zachodniopomorskie	0.967515		
		Lubuskie	1		
		Dolnośląskie	1		
		Opolskie	0.962738		
		Kujawsko-Pomorskie	1		
		Warmińsko-Mazurskie	0.890137		
		Pomorskie	0.820136		
		<i>Country mean</i>	<i>0.822538</i>		

Source: Authors' calculations

As can be seen from Table 5, between Romania and Bulgaria (countries that attracted the fewest European funds) and Poland (which attracted most funds) there are significant differences: the first two countries have an average efficiency of 0.61 and 0.686, compared to Poland which shows 0.822. Regions that are most effective in attracting European funds are divided between the three countries, but in Romania and Bulgaria there are only two regions that are maximum effective: Bucharest-Ilfov (1) and Yuzhen tsentralen (1), while Poland gives five champion regions: Łódzkie, Mazowieckie, Lubuskie and Dolnośląskie Kujawsko-Pomorskie. The most ineffective regions in attracting European funds are located in Romania (North-East, Southeast and South - Muntenia, South-West Oltenia) and Bulgaria (Severen tsentralen).

Table 5 - Regions most effective vs. ineffective in attracting European funds

Most effective regions		Most ineffective regions	
Bucuresti-Ilfov (1)	Romania	Nord-Est (0.329533)	Romania
Yuzhen tsentralen (1),	Bulgaria	Sud-Vest Oltenia (0.419031)	Romania
Łódzkie (1)	Polonia	Sud-Est (0.422655)	Romania
Mazowieckie (1)	Polonia	Severen tsentralen (0.4617)	Bulgaria
Lubuskie (1)	Polonia	Sud – Muntenia (0.495489)	Romania
Dolnośląskie (1)	Polonia	Podlaskie (0.550127)	Polonia
Kujawsko-Pomorskie (1)	Polonia	Nord vest (0.57)	Romania

Source: Authors' calculations

Conclusions

The study focuses on benchmarking the performance capacity of absorption of structural funds for 30 development regions in three east European countries (Bulgaria, Poland and Romania). DEA analysis method is used and the results show that the most efficient regions are located in Poland and in regions containing capital for Romania and Bulgaria; the most inefficient regions are found in Romania (5), Bulgaria (1) and Poland (1).

Given the definition of absorption capacity specified above, we can assume that it is mainly influenced by managerial and administrative capacities of financing. The relationship between absorption capacity of structural funds and regional economic situation is paradoxical, demonstrating that the most disadvantaged regions are facing the greatest difficulties in absorbing these funds, although the need for financial support for restructuring the economy is paramount in these regions. The main explanation for this phenomenon is given by two factors: on the one hand, the difficulties faced by regional authorities due to lack of experience and qualifications, followed by red tape and the slowness of EU decision-making procedures in circumstances where sequential programming especially central and regional differences are quite clear. Therefore, absorptive capacity largely depends on institutional factors, referring to the EU structures, as well as national ones. Other

determining factors relate to programming and the development of departments for administrative capacity and institution building in the pre-accession period. According to the Commission's recommendations and best practices in EU countries, a golden rule becomes evident, namely: the possibility of higher rates of absorption is directly proportional to the number of new member states institutions involved in different levels of management and evaluation of projects developed.

The contribution of this study to the literature states in providing an analytical approach for performance comparison in attracting EU funds. This approach can be further used as a common model for efficiency analysis for candidate countries.

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Annexes

Table nr.1 Input-output indicators for the 30 development regions

ROMANIA	Contracts	Euro (mil.)	PIB PPC UE	Unemployment	Risk of poverty	POLAND	Contracts	Euro (mil.)	PIB PPC UE	unemployment	Risk of poverty
Nord-Vest	426	170.8	42	4.1	68.1	Łódzkie	2203	2168	58	11.1	76.9
Centru	390	187.7	45	5.7	68.4	Mazowieckie	1736	3435	102	8	75.9
Nord-Est	494	283.2	29	9.8	47.7	Małopolskie	2700	2639	53	10.4	75.7
Sud-Est	417	221.7	38	10.2	48.3	Śląskie	4501	3497	67	9.4	75.3
Sud - Muntenia	501	192.7	39	9.9	56.5	Lubelskie	2286	2625	42	10.5	66.8
Bucuresti - Ilfov	295	60.8	111	1.9	68.5	Podkarpackie	2179	2809	42	13.2	66.7
Sud-Vest Oltenia	439	210.2	36	8.1	53.1	Świętokrzyskie	1182	1861	47	13.1	66.5
Vest	305	130	53	3.8	63.8	Podlaskie	1140	1274	45	9.2	66.4
						Wielkopolskie	1993	3529	65	8.5	73.2
BULGARIA						Zachodniopomorskie	1465	1647	54	10.9	72.9
Severozapaden Northwestern	110	117.5	26	12.3	47.4	Lubuskie	861	1162	53	9	72.6
Severen tsentralen North(ern) Central	95	110	29	14.3	46.1	Dolnośląskie	1813	2583	70	11.1	74
Severoiztochen Northeastern	125	137.5	36	18.2	49	Opolskie	1115	1332	50	9.5	72.8
Yugoiztochen Southeastern	140	150	36	11.9	43.3	Kujawsko-Pomorskie	1629	1948	52	11.9	74.5
Yugozapaden Southwestern	110	130	75	8.2	60.9	Warmińsko-Mazurskie	1929	1963	46	11	74.2
Yuzhen tsentralen Southern Central Region	210	185	30	13.8	47.4	Pomorskie	1542	2283	60	9.5	73.9

Source: Eurostat

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THE ONLINE VISIBILITY OF THE ROMANIAN HOTELS. EMPHASIS ON THE HOTELS FROM THE NORTH-EAST REGION OF ROMANIA

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Abstract: *The purpose of the present research is to analyze the online visibility of Romanian hotel websites and what mistakes are identified once we analyze the hotel content. At the same time we want to provide a complex overview of how Romanian hotels use the Internet for their business. The research method used for creating this article is documentary study and content analysis. We have carried out the content analysis of all hotel websites categorized between 3 to 5 stars in the North-East region of Romania. The main mistakes identified consist in the use of websites just for information purposes, the information are often not up to date which promote hotels that no longer exist, and not allow reservations/payments in real time. Many links and services that apparently exist on the website are inactive.*

Keywords: hotel; North-East region of Romania; content analyze; website; online visibility

JEL Classification: L83

Introduction

Technology is considered a major driving force for service innovations and there are facts suggesting that it can further enhance the accessibility, attraction and standing for customers. (Damanpour *et al.*, 2009; McLoughlin *et al.*, 2007; Nielsen and Liburd, 2008; Pastuszaket *et al.*, 2012).

Technology plays different roles in hospitality and tourism, creates and enhances the tourist experience. (Stipanuk, 1993) The same researcher, Stipanuk, 1993, illustrates the roles of technology in tourism: contributor, creator, protector, enhancer, focal point but also destroyer of the tourism experience. At the same time many researchers believe that the highest impact of technology on the industry is the way in which the product/service is sold. Electronic distribution channels, particularly those offered by the Internet, have changed forever the way of interaction between consumers and the travel provider.

The “new” tourist relies more and more on the Internet when he intends to search or to purchase tourism products/services. Thereby, the Internet is recognized as one of the most influential technologies available today and has impacted so significantly that changed the structure of the tourism industry (Buhalis and Law, 2008).

Taking into consideration the importance of the web page content in stimulating customer interest (Law and Hsu, 2006) and generating income for a specific hotel (Jeong, Oh and

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Gregoire, 2003), there were attempts made by hospitality researchers of assessing hotels website functionality.

Along with reviewing the literature, a content analysis of hotels websites is considered to be essential. Content analysis is a formal approach of the qualitative data analyze. According to McNeill (1990), content analysis is a method of systematic analysis of the content of the non-statistical materials in such a way that it is possible to extract statistical inferences. Reviewing the literature we conclude that this technique has found applicability in tourism research. In tourism industry, through content analysis we can study materials as: travel agencies brochures, promotional materials of selected destinations, travel packages available on the Internet, TV or radio, websites, etc.

This paper deals with the impact of the Internet and social media on the hotel industry. In particular, it points out how the rules of the game have changed in today's dynamic and global environment and how hotels need to operate if they are to succeed from a long-term perspective. Likewise, it outlines how activities on both the buy-side and sell-side can be enhanced through the implementation of internet-enabled technologies. Furthermore, the paper highlights barriers that might inhibit further development of e-business.

Purpose

The purpose of the present research is to analyze the online visibility of Romanian hotel websites and what mistakes are identified once we analyze the hotel content. At the same time we want to highlight how important it is for a hotel to own a functional website. We want to produce data and information that can be used by small and large hotels to evaluate their current actions and develop further strategies.

The objectives of this research are:

- To identify the number of hotels, rated three to five stars, from the North-East region of Romania, that utilize the Internet;
- To provide managerial implications and also suggest recommendation for hoteliers to improve the usefulness of the site and their Social Media accounts.
- To identify the major mistakes made by hoteliers when using the Internet.

1. Methodology

We carried out content analysis of all hotel websites available categorized between 3 to 5 stars in the North-East region of Romania. We analyzed 80 webpages; this was the number

of hotels that have a functional webpage out of a total of 84 hotels. Each website was verified, we focused on 7 criteria's: the existence of a website, an e-mail address available, Social Media presence (Facebook, Twitter and YouTube), online booking possibility, the number of foreign languages available, in order to analyze the online presence of each hotel. We used the information obtained after the content analysis to create a bigger picture of the online hotels presence in the North-East region of Romania.

Data were collected through web observation, by visiting hotels websites by using Google Chrome browser, analyzing a series of criteria's and by using a specialized software instrument (Microsoft Excel) to analyze the gathered data. For each website we took under consideration the following criteria's: the existence of a functional website (C1), a way of contact/e-mail address (C2), analyzing the presence of hotels in the Social Media environment (Facebook (C3), Twitter (C4), YouTube (C5)), the possibility to realize an online reservation (C6), number of available languages on site (C7).

The presence and visibility of each of the 84 hotels was assessed at the end of the year 2014. In all the situations, the official presence of each hotel was searched on each channel assessed. Where the official presence was not immediately found, the first three pages search results were examined to try to establish the hotels official webpages. Instantly, one possible study limitation can be that the official page may have been missed as it did not feature in the first three pages search results. The worst part is that the same mistake would be made by the potential customers searching for that hotel that is why we considered this error an acceptable one. To collect the data, both manual and automatic techniques were used, with a team of three researchers cross validating the findings. Data was tabulated and afterwards analyzed using Microsoft Excel program.

2. Population and sample

The services offered on hotel websites were registered through an extensive web search. Searching the Internet to study and identify online practices it is very common in the literature. (Sigala, 2003).

The investigated population is represented by accommodation structures from hospitality industry. The sample is represented by hotels, rated three to five stars, located in the North-East region of Romania. The study was made on the entire studied population, namely the 80 hotels that currently have a website, out of 84. We have selected the hotels to analyze from a public

data base provided by the National Authority for Tourism for Romania. According to ANT, in 2014, in Romania there were 1071 hotels rated three to five stars.

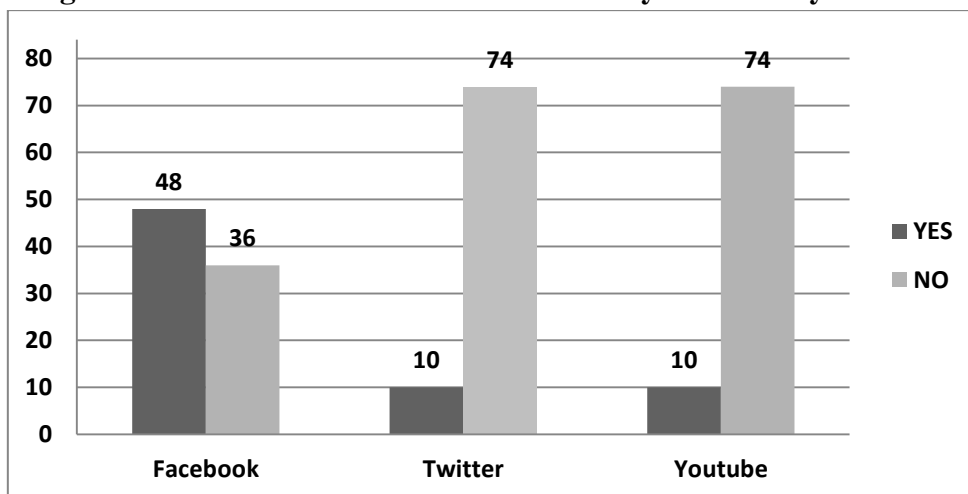
3. Results

Following the analysis made by Maha, 2015, it was observed that North-East’s hotel units own in a 95% proportion an online presence. We cannot say the same thing about their presence on the Social Media platform. Surprisingly, most of the hotels we have analyzed have a functional website, 80 out of 84 hotels.

We also noticed that the presence in Social Media is at the opposite pole (compared to the number of existing web pages), so that only 48 hotels have a Facebook page, 10 hotels have a Twitter account and 10 hotels have an YouTube account. Of the three networks we notice that Facebook is the most used network by hoteliers in the North-East region of Romania, Twitter and YouTube are apparently not that popular.

Most of the hotel units use the website not only for presentation and promotion, but also as a tool in order to conduct online reservations and payments. We can observe that the hotels analyzed have not completely embraced online reservation system and that most of them do not employ booking engines to streamline reservation processes. 67% of the observed hotels provide online booking opportunities though they do not offer real-time reservation payment. The websites that have a more complex content are those that are part of a national or international chain hotel (such as Hotel Ramada, Best Western Bucovina, Continental etc.) (Maha, 2015).

Figure 1 – Results of the Social Media activity of the analyzed hotels



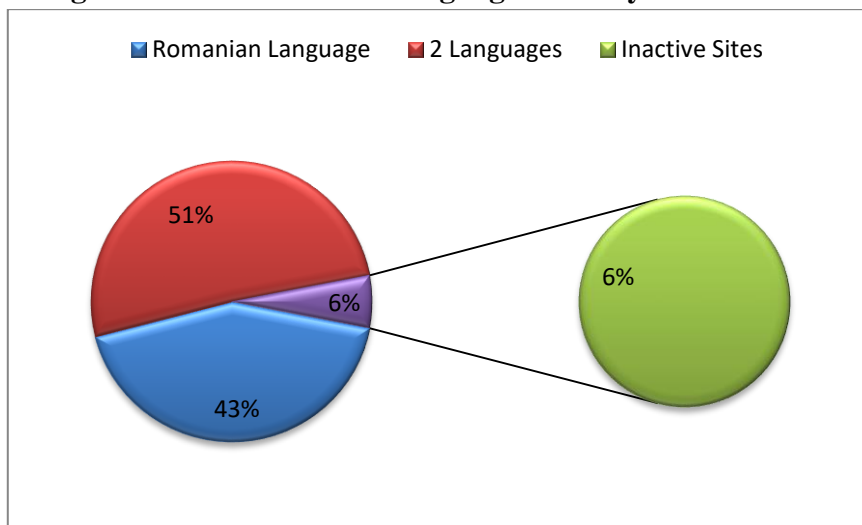
Source: Maha, 2015

Being present online represents the first step in order for a hotel to be successful it has to be noticed by consumers. Every channel (even we speak about the website or the Social Media platforms) has a way to indicate support or just to keep in touch with their clients. A site can have a newsletter where the client can sign up, on Facebook we can count the number of Likes, on Twitter the number of Followers and YouTube has the number of Subscribers (Miller, 2010).

Independent of the level of the visibility, to be successful hotels also need to interact with their current and potential clients. Social Media channels provide a unique opportunity to contact the interested groups in the field – because those consumers already chose to follow your brand. It is very important to be visible and present, but the most important is to keep generating activity in the form of posting, tweets, add/share videos and photo submissions.

From the research made, we also observed that 43% of the webpages analyzed have the language on site Romanian and 51% have more than two languages (usually next to Romanian is English language). It is well known that every site will be more visible of the content can be translated in an international language.

Figure 2 - The number of languages used by hotel websites



Source: Author's own compilation and adaptation based on the content analysis of the websites

The main mistakes identified consist in the use of websites just for information purposes, the information are often not up to date, and less to make reservations/payments in real time. Many links and services that apparently exist on the website are inactive. Social Media accounts are not used at their full capacity and from the total number identified on each segment, not all have a direct reference from their own site, for example in case of Facebook 31 out of 48 can be identified, with Twitter 7 out of 10 hotels and on YouTube 7 out of 10.

The identified mistakes represent a weak point for the Romanian tourism because electronic tourism represents the easiest method to promote ourselves over the borders. Even the General Secretary of UNWTO (United Nations World Tourism Organization), Taleb D. Rafai, specified that Romanian tourism has to be promoted especially through Social Media channels, and also through participating at fairs and conference in the field.

4. Limitations of the research

The most important limitation is considered to be the consistency of the sample we used. We only investigated the hotels (rated 3 to 5 stars) from the North-East region of Romania. A sample including all the hotels from Romania would have given a more realistic view of the online presence. Also a quantitative approach would be recommended. Another possible study limitation can be that the official page may have been missed as it did not feature in the first three pages search results. The worst part is that the same mistake would be made by the potential customers searching for that hotel that is why we considered this error an acceptable one.

Conclusions and recommendations

Using electronic tourism by hotels can bring them more benefits. Previous research has shown that tourists who searched the Internet tend to increase the length of stay compared with those who consult other sources of information. Also, the Internet allows their consumers to interact dynamically with the hotel. Rapid transfer of data over the Internet accelerates the time of response and the result is that both hotels and consumers save time and money. (Babaita, C. *et al.*, 2010)

The purpose of this study was to provide useful information both for the website developers and for the hotel products (services) providers. We believe that being present online, it represents, without doubts, a competitive advantage. The public institutions, as the National Authority for Tourism (ANT), will be able to fill in their data base with a more updated data and also they can extend their field of information adding next to the name of hotels: the official website, the e-mail address, the official Social Media accounts and so on. It is well known that potential tourists will take into consideration an official authority and this can increase the confidence in Romanian tourism.

The interested parties involved: companies, consumers, the government and even the social culture.

Recommendations for the decision makers, entrepreneurs and practitioners in the Romanian tourism industry:

- The Government should develop a national vision, a strategic plan and suitable policies for e-tourism activities;

- Both policy makers as well as the entrepreneurs should work together to increase the awareness of electronic commerce through training and education for the interested parties, employees and consumers.

Through this paper we aim for the hotelier managers to:

- be able to select the load of information provided by the website they manage, keeping or adding only relevant information;

- be capable to improve their competitive position;

- positively influence consumer purchasing behavior.

The most frequent Mistakes identified:

- incomplete information left on the website: for example there were parts of the web page filled with the “Lorem Ipsum” text instead of having the necessary information; also old posts were left on the site not updated;

- we came across several websites with errors or actually that were not working;

- “blog” sites were identified, with non-attractive design;

- websites domain name was not related with the hotel name, which made our search very difficult in search for the official webpage (for example Zimbru Hotel was finally identified on the web domain: ww.rarau-turism.ro);

We recommend that Romania has to start investing in promoting its values, traditions and the areas with touristic potential. Compared to other parts of Europe, in Romania we have quality touristic products, so we need to promote ourselves so that the world may get to know our country.

Our country should identify the competitive advantages of its touristic destinations, opportunities and challenges for the development of a better tourism strategy. Romanian tourism must be promoted especially through Social Media, at trade shows and conferences in this field.

We also recommend that in the future Romania should focus on attracting tourists from European countries, such as Hungary, Germany, Poland, but also those from Russia, Asia or

America. Promotion should be done primarily through Social Media, taking into account that 1 in 3 people choose their holiday destinations from the Internet.

Further research

Necessary for improving the importance of the present study, an expansion of the sample is required, because analyzing the online presence of all 1071 hotels from Romania, rated three to five stars, will provide a complete picture of the online visibility of Romanian hotels. Another area of interest would be a comparative approach of the online presence by regions of Romania. Interesting to approach is to evaluate the performance of Romanian hotel websites.

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ASSESSING THE ISSUE OF ENERGY POVERTY IN THE CONTEXT OF ROMANIA

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Costica MIHAI**

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Abstract: *Energy poverty, or the inability of households to afford adequate access to energy services, is an issue that can have a significant effect on the quality of life and even the state of health of individuals or households. A thermally inefficient housing stock, low incomes and rising energy prices have increased the severity of this problem in high and middle income countries. Since it was first brought into focus more than two decades ago in the UK, this topic has gradually gained the attention of academics and policy makers all across the EU and beyond. Several European states are attempting to assess the severity of the issue and address it by providing support to those most affected. The specific energy, economic, geographical and historical context of Romania are likely to generate an energy poverty problem that is structurally different from most other EU states. By reviewing past policies and research on the topic, the current paper seeks to identify a methodological approach that can be used to adequately assess this issue within the specific context of Romania.*

Keywords: energy poverty; fuel poverty; European Union; policy

JEL Classification: Q41; I32

Introduction

Energy poverty is a term that can refer to two types of social inequalities, depending on the geographic sphere of its application. In the EU context, energy poverty is also known as “fuel poverty”, although the meanings of the two terms are slightly different. It refers to a socio-economic issue that is distinct from “poverty” in the traditional sense, in that it is generated by households needing to spend a disproportionately high share of their income on energy services. In developing countries, it covers aspects such as households’ lack of access to energy services such as electricity, the use of outdated technologies or the use of hazardous or inefficient fuels for providing homes with the energy needed for cooking, heating and lighting (e.g. burning firewood and other traditional biomass for cooking and heating).

The current paper addresses energy poverty in the EU context, with a specific focus on Romania. The term “fuel poverty” seems to have originated in the late 1970s with several mentions of this term referring to households that have disproportionately high fuel expenditures compared to

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the rest of the population (Liddell *et al.*, 2012). An extensive discussion on the topic and definition of the term was conducted by Boardman (1991) in a book that had a significant impact on the UK Fuel Poverty Strategy of 2001. Many researchers agree that the primary factors contributing to the existence of fuel poverty are low incomes, rising energy prices and, in particular, the low quality of the housing stock (poor insulation, leaking roofs, low quality door and window frames that allow drafts to form etc.).

Given that the extensive work performed by Boardman in this emerging field of research was focused on the United Kingdom, it seemed that the issue of fuel poverty was endemic to this country (MacKerron, 2012). Indeed, for a long period of time the United Kingdom and the Republic of Ireland remained the only EU member states where this problem was both recognized and systematically addressed by means of household support policies and energy efficiency investments (Bouzarovski, 2014).

Low awareness of the problem as well as differing academic and political concerns compared to the UK meant that research and policy measures across the rest of Europe were practically non-existent. However, over the last few years, the issue has gained gradual recognition in several other EU states and even in the official documents of some EU institutions. Bouzarovski *et al.* state that the concept of fuel or energy poverty “has *crept* into a number of regulatory documents and policy proposals” (Bouzarovski *et al.*, 2012, p. 76) due to the slow and precarious rate at which this issue gained recognition across Europe.

Today, there is growing interest in adequately defining, measuring and addressing this issue within the EU, but studies on this topic outside of the UK and Ireland is still limited. Specialists in the field seem to be in agreement that continued academic support and research is needed in order to efficiently tackle this socio-economic problem (Bouzarovski, 2014; Dubois, 2012; Moore, 2012; Pickvance, 2009; UNDP Romania, 2015). Several researchers have argued in favor of adopting national or regional measures to address energy poverty due to the specific issues and needs that exist in each member state (e.g. climate, household ownership, structure of the housing stock, type of heating services or appliances). Moreover, there are very few studies that have assessed the specific factors contributing to energy poverty in post-communist countries in Eastern Europe (e.g. inefficient district heating networks, significant increases in costs due to market liberalization and unbundling of energy companies etc.).

This paper aims to provide a renewed discussion on the topic of energy poverty at the EU level with a focus on Romania. By reviewing past policies and research on the topic, the current paper seeks to propose a methodological approach that can be used to assess the structure and severity of

this issue within the specific context of Romania. In the first section, the concept of energy poverty is discussed, with focus on its definitions, implications, methods of measurement and policy response from governments across the EU. The second section presents some of the particularities of energy poverty in Eastern European countries and proposes some options for measuring fuel poverty among the population of Romania.

1. Understanding and addressing energy poverty

1.1. Terminology and definition

As mentioned in the Introduction, the term “energy poverty” can refer to two different socio-economic issues, depending on the geographical scope of its application: energy affordability in higher income and developed states; inadequate access to “modern” energy services in most low income or developing countries. Bouzarovski (2014) mentions the existence of a separate category of studies focused on the developing world that discuss “energy poverty” in a different sense than that used in the current paper. In fact, this distinction can be directly observed both in academic research papers and reports on the topic (BIPE, 2014; González-Eguino, 2015; IEA, 2007; Moore, 2012; Wang *et al.*, 2015). It is estimated that around 100 million people are affected by energy poverty in Europe (Brunner *et al.*, 2012), and that close to 1.2 billion people worldwide do not have access to electricity (World Bank, 2015). Given that both types of energy poverty have a wide and lasting impact on the population, they are expected to remain important topics of research for the foreseeable future.

In addition to the double meaning of “energy poverty”, further lack of clarity results from the use of a wide terminology to refer to the same essential issue. As mentioned previously, the issue of “energy poverty” initially emerged under a different name – “fuel poverty” – which has a slightly different meaning. Bouzarovski (2014) also identifies other expressions used for the same purpose, such as “domestic energy deprivation” or “energy precariousness”. Thus, researchers approaching this topic should be aware of these terminology issues and of the precise policy implications of each term (e.g. a working paper by the European Commission clearly distinguishes fuel poverty as having a broader scope compared to energy poverty from a legislative perspective; European Commission, 2010).

With regard to actually defining the problem, Isherwood and Hancock (1979) are cited as being among the first to define “households with high fuel expenditure as those spending more than twice

the median (i.e. 12%) on fuel, light and power” (Osbaldeston, 1984, p. 368), where the median refers to the fuel expenditure of UK households.

Social and cultural norms can also have an impact on how people evaluate and define desirable or normal behavior (Talmaciu, 2015). The fact that the manifestation and the severity of fuel poverty can be influenced by cultural and societal norms was evidenced in the definition provided by Bradshaw and Hutton (1983):

“Individuals, families and groups in the population can be said to be in fuel poverty when they lack the resources to obtain the reasonably warm and well lit homes which are customary, or at least widely encouraged or approved in the societies to which they belong.” (Liddell *et al.*, 2012, p. 27).

A widely discussed and accepted definition, which was also adapted and put into practice for the purpose of measuring fuel poverty in the UK as well as other countries, was provided by Boardman (1991). Households in this situation were considered to be those who spent more than 10% of their income on all energy services. This was also based on a “twice the median expenditure” threshold for fuel as seen in the case of Isherwood and Hancock (1979).

However, a risk of underestimating the problem exists when taking into consideration only households that actually spend more than the established threshold. This is because people who find it difficult to afford an adequate energy supply may decide to restrict their consumption by only heating or lighting one room or lowering the overall temperature in the home. By limiting their expenditure on energy, such households could fall outside of the ‘x% of income’ definition. It is for this reason that the definition used by UK policymakers takes into consideration households that *need* to spend more than 10% of their income on energy services. Maintaining the definition in its initial form would likely provide a conservative estimation of the extent of the phenomenon.

As more studies on this topic emerged, the complexity of the problem made establishing a widely accepted definition of fuel poverty very challenging. In order to increase the precision of the definition, several adjustments or alternatives were proposed, including the exclusion of housing costs from income, the use of equivalised incomes, the use of budget standards or the use of household expenditure rather than income. A well-known proposal is that of John Hills, which considers households to be fuel poor if their required fuel costs are above the national median and if spending that amount would result in a residual income (after housing costs) that is below the official poverty line (Hills, 2012).

However, such revisions mainly seek to outline an adequate methodology for measuring energy poverty and will be discussed further in section 1.3. In order to conclude the current sub-section, we propose that the concept of energy poverty can be correctly outlined using the definition provided by Bouzarovski: “a situation in which a household lacks a socially and materially necessitated level of energy services in the home” (Bouzarovski, 2014, p. 276).

1.2. Implications of fuel poverty

Previous studies have used both quantitative and qualitative methods to assess the physical, psychological and social implications of energy poverty. This section will seek to outline some of the key findings in order to raise awareness regarding the effects and the significance of this problem that affects large portions of the population in high and middle income states.

The most obvious impact of energy poverty is on the physical and mental wellbeing of the affected households' members. Boardman's own research acknowledges the fact that the United Kingdom recorded an unusually high number of deaths during the cold seasons compared to other regions that have harsher winters. This was partly associated with low indoor temperatures (Rudge, 2012). A report by the World Health Organization (WHO) states that over 38,000 excess winter deaths per year in 11 European are related to cold indoor temperatures (Braubach *et al.*, 2011). This suggests that a portion of the population is unable to afford adequate warmth, which supports the use of the “*need to spend*” rather than actual expenditures when defining fuel poverty. In addition to the health problems directly associated with cold temperatures, these can also be associated with indoor dampness and mold (Liddell, 2012) – living conditions that can generate additional complications for the inhabitants.

However, most research only discusses the adverse health effects of low indoor temperatures, while certain areas of Europe are also prone to hazardously high temperatures during the summer. The WHO recommendation regarding air temperatures in the home is 18-24°C (Ormandy and Ezratty, 2012), a range that is often exceeded in Southern and South-Eastern Europe in the case of homes that are not equipped with air-conditioning. Some chronically ill and elderly people are especially vulnerable to excess heat. Thus, any assessment of the energy needs for households should also take into consideration the cost of keeping homes cool during the summer.

A study by Brunner *et al.* (2012) showed that those energy poor households that do make an effort to supply their home with an adequate amount of energy may choose to cut back on other expenses, including food, an option that can generate other types of adverse health effects.

With regard to mental wellbeing, other studies mention the stress caused by receiving the invoice for the energy bill (which may be unaffordable if it exceeds a certain amount), the prospect of being disconnected from the utilities, news regarding the increase of energy prices (Brunner *et al.*, 2012). In addition, it can be hypothesized that the need to resort to different coping strategies such as partial heating and lighting, the purchase of second-hand products, not taking full baths can also contribute to depression.

Energy poverty can be particularly difficult to identify in certain cases due to the socially undesirable prospect of being classified as “poor”. Some researchers mention the fact that some households make an effort to hide their difficulties from visitors (by making their homes bright and warm before someone arrives) and perceive the idea of being identified as “fuel poor” to be stigmatizing (Brunner *et al.*, 2012; Dubois, 2012). Social exclusion is also likely to be an indirect consequence of energy poverty, as households may begin to avoid inviting guests frequently due to the increased energy consumption entailed by an upcoming visit.

1.3. Measuring fuel poverty

In the absence of a clear definition of “energy poverty” and “vulnerable consumers” (a term used in Directives by the European Parliament), a truly efficient set of policy measures to alleviate the problem cannot be designed nor implemented. Dubois (2012) presents the integral role played by targeting and identification of energy poor households in the construction and application of policies. Thus, being able to define and measure the extent of the problem has been the focus of numerous and extensive studies. Given the complex nature of energy poverty issues, several approaches have been proposed and an ongoing debate seems to exist with regard to choosing the adequate indicators and methodology. These can be broadly classified into objective and subjective measures, with the former being constructed based on different definitions of energy poverty.

With regard to objective measures, Moore (2012) and Heindl (2013) provide evolutionary and comparative outlines of fuel poverty definitions, starting from the 10% expenditure on all energy services suggested by Boardman (1991). For the reasons stated in the previous sub-sections, this was later changed to account for the *needed* expenditure rather than the actual expenditure. In addition, some analyses also chose to assess household income both before housing costs as well as after (the logic being that housing costs, such as mortgage payments or rent, do not constitute income that can be spent elsewhere). Another adjustment that can be made to the measurement is to equalise income according to household structure and size. This is done to reflect the fact that, for example, a couple

with children needs to have a higher income compared to a couple without children in order to enjoy an equivalent standard of living. A distinct definition of fuel poverty presented by Moore (2012) is based on “minimum income standards” (MIS) and states that a household is fuel poor if its residual net income (after housing costs and after all other minimum living costs - MIS) is not sufficient to cover its required fuel costs.

Finally, as presented in Section 1.1, it is proposed that the UK government adopt a new indicator of energy poverty in the form defined by the Hills review: households are fuel poor if their required fuel costs are above the national median and if spending that amount would result in a residual income (after housing costs) that is below the official poverty line (Hills, 2012). However, this definition remains controversial and the indicator may be revised before being used by policymakers (ACE *et al.*, 2012; Bouzarovski, 2014; Moore, 2012). Given the debates that exist among specialists regarding the approach best suited to measure energy poverty, several studies have made use of several definitions and compared the results from a structural (socio-demographics) and overall (total number of energy poor households) perspective (Heindl, 2013; Moore, 2012; Tirado Herrero and Üрге-Vorsatz, 2012).

Subjective measures of energy poverty refer to various methods of collecting self-assessments of whether households regard themselves as being affected by fuel poverty. This can be done, for example, by asking respondents whether they feel that they can afford to purchase energy services that satisfy all their heating, lighting and cooking needs or whether they feel that they are able to heat their homes adequately (Waddams Price *et al.*, 2012). As with most questionnaire based surveys, this approach has its limitations. However, it does offer two distinct advantages compared to the objective measures. First, the results of such a study can be used to assess and compare energy poverty measurements across several countries without having to identify compatible data sources regarding patterns of household energy expenditure and income – as seen in the case of Eurostat’s Statistics on Income and Living Conditions (SILC) surveys. Second, by combining a subjective approach with an objective measurement of the same population sample, it may be possible to identify households that feel fuel poor, but who do not spend a disproportionate amount on energy services because they are rationing their consumption (Waddams Price *et al.*, 2012). Dubois (2012) considers this type of fuel poor household to be particularly difficult to identify.

Bouzarovski (2014) mentions a third type of approach based on actually monitoring the use of energy services in the home (light level, temperature etc.) and comparing the values with a given standard. This type of measurement could be implemented using the “geographical identification as a proxy” approach presented by Dubois (2012), which would require the collection of data from a

sample of households within a similar set of dwellings from a distinct geographical unit (e.g. eight story panel apartment blocks built between 1960-1980 from a specific quarter of a city). The results could then be generalized to provide an approximate assessment of energy poverty within that geographical area. However, the practical difficulties of monitoring energy service use within the home mean that this method is likely the least feasible out of all options presented in this section.

Finally, a high-level assessment of energy poverty at a national level could be performed based on multiple dimensions or an aggregated indicator that covers several macro indicators following the examples provided by Chester and Morris (2012), Tirado Herrero and Bouzarovski (2014) and Wang *et al.* (2015). Such assessments could be adjusted to make use of readily available statistics, but their accuracy may be limited and, in many cases, the approach may be better suited for the assessment of energy poverty in developing nations (see the distinction made in the Introduction).

1.4. Policy measures in the area of fuel poverty

Directives 2009/72/EC and 2009/73/EC of the European Parliament and the Council, which refer to the common rules for the internal market in electricity and natural gas supply are the first to explicitly mention energy poverty and recommend that each member state adopt measures to alleviate this problem. The concept of “vulnerable consumers” is also mentioned, but its definition is again left up to each member state, although the Directives do establish the fact that special measures need to be implemented to protect vulnerable consumers, including the prevention of disconnection from energy supply during critical times. In the European Economic and Social Committee’s opinion on energy liberalization, the cross-sectorial nature of energy poverty is acknowledged (affecting the energy sector, health, consumer affairs and housing). In addition, it is proposed that a common general definition of energy poverty be adopted, which could later be adjusted to fit the specific context of each member state. It also proposes that a pan-European entity be established that would monitor and measure the phenomenon (European Economic and Social Committee, 2010). It is likely that the increased awareness regarding energy poverty may be a result of the perceived risk of energy market liberalization. As observed in several countries around the world (Chester and Morris, 2012), this process can be associated with significant increases in energy prices – a key factor that contributes to the ‘development’ of energy poverty.

Subsequently, a working paper by the European Commission proposes a preliminary definition for energy poverty, which can be described as “households that spend more than a pre-defined threshold share of their overall consumption expenditure on energy products”, where the threshold

seems to be “twice as high as the national average” (European Commission, 2010, p. 17). More recently, Directive 2012/27/EU on energy efficiency refers to the establishment of energy efficiency obligation schemes as part of the 2020 Energy Strategy. The Directive explicitly mentions “a share of energy efficiency measures to be implemented as a priority in households affected by energy poverty”, as well as the prevention of energy poverty.

Based on a series of interviews with specialists in Brussels, Bouzarovski *et al.* (2012) conclude that the apparent hesitance of dealing with energy poverty at an EU level is caused by several factors, such as the lack of a strong advocacy and initiative center, a lack of systematic scientific research on the topic and even the unwillingness of some member states to acknowledge the existence of fuel poverty within their territory.

Under these circumstances, direct policy measures that tackle energy poverty are being designed and implemented at a national and regional level. These include direct subsidies to limit the cost of energy services, special protection for low-income and “vulnerable consumers” against disconnection and the encouragement of energy efficiency investments by distributors through tradable white certificate schemes (Bouzarovski *et al.*, 2012; Tirado Herrero and Ürge-Vorsatz, 2012; UNDP Romania, 2015). However, the most commonly implemented measure seems to consist of providing financial support for the rehabilitation of homes (usually quantified through an upgrade in the energy efficiency rating) (UNDP Romania, 2015). The actual approach differs among countries, but the focus seems to be on providing a long term solution to energy poverty by eliminating what is most likely its key contributing factor.

Investments in improving the energy efficiency of the housing stock can have a three tiered long term direct benefit: lower costs of healthcare (putting less financial pressure patients and on national health systems), lower energy costs (generating additional disposable income that can be spent on products and services with a higher added-value than energy), lower demand for imported fuels (slightly mitigating the issue of energy security). Moreover, indirect benefits can include a higher quality of life, increased productivity of human capital and reduction of greenhouse gas emissions. Emerging research suggests that the positive outcomes of such energy efficiency investments can be highly “profitable” from a net present value perspective (Ormandy and Ezratty, 2012).

It should be noted that, in order to maximize efficiency, the rehabilitation of the housing stock needs to target those dwellings that are most affected by energy poverty. In addition, adequate and consistent measuring of energy poverty at the national level is needed in order to evaluate the effectiveness of the policies.

2. Assessing energy poverty in Romania

2.1. Regional and national perspectives of energy poverty

As seen in the previous section, while there is a need for an EU wide focus on studying and alleviating energy poverty, the definition and the implementation of policies regarding this issue should have a national or a regional scope – a view that is supported by several experts (Bouzarovski *et al.*, 2012; Liddell *et al.*, 2012; Tirado Herrero and Bouzarovski, 2014). This is due to the specific meteorological, historical, energy and economic context of each country.

A relevant discussion on this issue is provided by Bouzarovski (2014) who points to the particularities of energy poverty in Mediterranean countries. Aside from the lack of adequate heating systems, a major problem in countries such as Greece, Portugal and Spain seems to be the residential housing stock. Very few dwellings in Greece and fewer in Portugal are equipped with basic energy efficiency features such as cavity wall, floor or roof insulation. In addition, leaking roofs is another problem affecting a relevant portion of Mediterranean households.

Going beyond the housing problem, the warm climate of Southern Europe brings into focus an issue that was mentioned in Section 1.2: the need to cool homes during periods of high atmospheric temperatures. While the winter season tends to be milder, the peak air temperatures during the summer of 2014 have repeatedly surpassed 42°C in Spain (AEMET, 2015) – a situation that generates significantly different energy needs for the population of Southern Europe compared to the UK or Ireland.

The regional particularities of energy poverty can also be observed by looking at the case of post-communist countries from Central and Eastern Europe. From the perspective of climate, many of these states can be affected by particularly cold winters, which can create serious problems for households that are unable to afford adequate heating. In addition, periods of high temperatures (over 35-40°C) during the summer in countries such as Romania, can put additional pressure on energy expenditures as people try to maintain an acceptable level of thermal comfort.

However, a factor that has had an overall significant impact on energy poverty in Eastern Europe is the post-communist path dependence in the areas of energy services, energy markets, the quality of the housing stock and tenure status. With regard to energy services, there is a relatively high incidence of district heating plants that are inefficient and pollutant by current standards. These

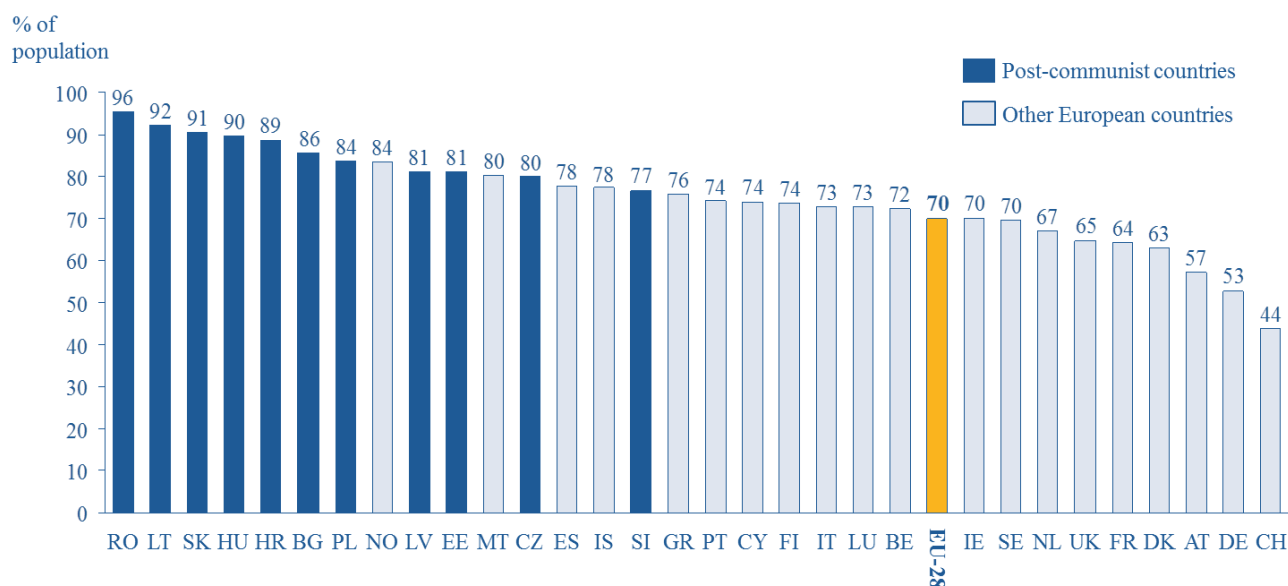
provide heating services that are able to provide households with sufficient energy, but at a high cost (Tirado Herrero and Ürge-Vorsatz, 2012).

With regard to energy markets, after the political changes that took place at the end of the 1980s, the heavily subsidized price of energy was gradually liberalized, along with the unbundling and privatization of state owned monopolies in the energy sector. These changes have had a significant impact on the price and the affordability of energy services (Bouzarovski *et al.*, 2012; Chester and Morris, 2012; Tirado Herrero and Ürge-Vorsatz, 2012).

The housing stock in many post-communist countries includes large numbers of multistory apartment buildings (many of which are built from prefabricated components or *panels*) with limited insulation. These buildings are likely to contribute to the spread of energy poverty mostly among urban residents.

Another noteworthy characteristic of post-communist countries in Europe is related to the tenure status. State support in providing housing for large portions of the population, combined with other cultural factors has resulted in Eastern European countries having the largest proportions of homeowners in Europe (as seen in Figure 1). Romania has the highest percentage of owners in Europe – close to 96% of the population.

Figure 1 – Homeowners in 2013 (% of population)



Data source: Eurostat (2015a)

There are several socio-economic advantages and disadvantages that stem from this distribution of tenure status. However, with regard to energy poverty, it may simplify overall policy design, considering that thermal rehabilitation directly benefits the persons living in the building and

landlords who rent a dwelling would need special incentives to invest in it. The tenure status may also allow for a smoother implementation of policies in the case of individual households (for the same reasons stated above), but may generate complications in the case of multi-apartment buildings, where the consent of all owners may be needed in order to begin construction work.

It is clear that the factors contributing to energy poverty are determined by locally-specific socio-cultural, economic and environmental circumstances (Bouzarovski, 2014). Consequently, as proposed by the EU legislation, adequate definitions and policies to address energy poverty need to be generated at the national level.

2.2. Energy poverty in Romania

In Romania, the problem of energy poverty has not been clearly defined or rigorously measured. The most ambitious initiative that seeks to address this issue seems to be the ongoing “Improving Energy Efficiency in Low-Income Households and Communities in Romania” project supported by the United Nations Development Programme (UNDP Romania, 2015). While there are several policies addressing income poverty and social inequality, Romanian legislation does not directly address energy poverty, nor does it define “vulnerable consumers” within the energy market.

Table 1 – Estimated share of Romanian population at risk of energy poverty

Data source	Indicator	Population at risk of energy poverty	
		Romania	EU-28 average
European Commission (2010), Eurostat (2015b)	Households estimated to spend a considerable (twice the national average) share of their expenditure on energy (share of total population)	16.7% (data from 2005)	7-8% (estimated for EU-27)
Eurostat (2015a) – data from 2013	Unable to keep home adequately warm (share of total population)	14.3%	10.8%
	Arrears on utility bills (share of total population)	28.8%	10.2%
	Share of total population living in a dwelling with a leaking roof, damp walls, floors or foundation, or rot in window frames of floor	15.0%	15.7%

A headline number assessment of energy poor citizens in Romania has been performed by the European Commission based on general definition discussed in Section 1.4 (European Commission, 2010). In addition, as suggested by Bouzarovski (2014) Eurostat’s SILC can also be used to gauge

the severity of the energy poverty problem in Romania. The results of these assessments are shown in Table 1.

The estimations from Table 1 suggest that energy poverty in Romania is significant and well above the EU average. The situation may have improved since 2005, especially when accounting for the fact that the European Commission considers actual fuel expenditure in its measurement rather than needed fuel expenditure, making 16.7% a conservative estimate (as discussed in Section 1.1). However, directly comparing the results of the objective measurement in the first row with the subjective indicators below is an approach that has obvious limitations.

It should also be mentioned that the 28.8% figure for the “Arrears on utility bills” indicator may be influenced by the toleration of late payments and debt by publicly owned district heating service providers, as is the case in other countries with similar circumstances (Tirado Herrero and Üрге-Vorsatz, 2012). As described by Tirado Herrero and Üрге-Vorsatz (2012) with regard to Hungary, the issue of high cost district heating in post-communist countries is responsible for a different kind of energy poverty: consumers are automatically provided with adequate heating, but at a high cost (mostly due to various types of system inefficiencies) that is sometimes not affordable. This issue has been progressively addressed in Romania by fitting radiators in the home with allocation meters that record the amount of energy actually used rather than billing based on a predefined algorithm. In addition, in the case of most municipal district heat suppliers, the cost of the service is subsidized. In order to increase the efficiency of such systems, technological overhauls have begun to be implemented and some municipalities have sublicensed the companies to private entities.

Romania has also implemented policies regarding the rehabilitation of buildings, but their main focus is to increase energy efficiency, rather than expressly alleviate energy poverty. These include financial support for the thermal insulation of multi-apartment buildings and property tax exemptions for owners who have upgraded the energy efficiency rating of their homes. While the end result may be the similar, without an adequate definition and measurement of fuel poverty, it is likely that these measures will not necessarily target those households most affected by the issue.

2.3. Measuring energy poverty in Romania

In the absence of a clear definition of “energy poverty” and “vulnerable consumer” and considering the lack of focus in the case of building rehabilitation policies, it is necessary to establish an adequate measure of energy poverty in Romania. This will allow policymakers to better target the

problem and quantify the effectiveness of policy implementation. Depending on data availability and resources, we propose three methods of measuring energy poverty in Romania.

2.3.1. Multidimensional macro assessment

In order to gain an overall understanding of the issue, a multidimensional macro assessment can be conducted. Such an analysis would be based on a set of diverse indicators (social, economic, technical, medical) that could be combined to offer a multifaceted measurement of energy poverty in Romania. This type of approach would serve to outline the problem from various perspectives, an outcome that could prove to be very useful given the cross-sectorial impact of energy poverty. Different versions of such an approach have been proposed or implemented in studies across several continents (Chester and Morris, 2012 on Australia; Tirado Herrero and Bouzarovski, 2014 on Europe; Wang *et al.*, 2015 on China), which can provide a starting point in the methodological design of an assessment focused on Romania.

2.3.2. Comparative objective assessment

Due to the predominantly exploratory nature of energy poverty measurement research being conducted outside of the UK and Ireland, comparative objective assessments seem to be one of the most common approaches used. These are based on the analysis of data regarding household energy expenditure and income patterns collected from secondary sources. Energy poverty is defined and measured according to several definitions, most of which are selected from the widely accepted set discussed in Section 1.1. The overall energy poverty figures are then compared and adequate policy measures are then proposed. When possible, researchers also assess the structural distribution of the problem (usually based on socio-demographical data, if available) in order to provide a qualitative assessment of whether a certain definition is effective in the local context, but also to help improve the targeting and identification of energy poor households.

As stated above, studies using this approach tend to be predominant outside the UK, where an official definition and measurement of energy poverty does exist (Heindl, 2013; Tirado Herrero and Ürge-Vorsatz, 2012). However, given the ongoing debate regarding the establishment of a revised definition, some UK focused comparative assessments have also been conducted (Moore, 2012).

Experts involved in the UNDP sponsored project on energy efficiency have recommended that the high cost/low income definition proposed by Hills should also be used in the case of Romania (Househam, 2012; Househam and Musatescu, 2012; UNDP Romania, 2015), in spite of the

controversies that it has attracted (ACE *et al.*, 2012; Bouzarovski, 2014; Moore, 2012). The implementation of such an approach in a study would have a significant contribution to the informed debate regarding the establishment of an adequate and official definition of fuel poverty within the country.

2.3.3. *Complementary subjective-objective assessment*

An alternative approach in measuring energy poverty involves the use of self-reported subjective assessments made by the households themselves. As stated before, data from Eurostat's SILC survey can be used to provide an overview of national levels of energy poverty that can be directly compared across European countries.

However, such an assessment is limited by the fact that the nature of the data is strictly subjective and that SILC is not specifically intended to assess energy poverty. In order to address these shortcomings, a new methodological approach can be designed, which would be specifically aimed at measuring this problem among Romanian households. In order to increase the usefulness of the study, the subjective assessment can be complemented by the integration of objective measures (such as household structure, income, characteristics of the building, types of energy services being used and various socio-demographics). A statistical model can then be designed to identify determinants of energy poverty and to calculate the probability of specific households being affected by this issue. A relevant example of such an assessment is provided by Waddams Price *et al.* (2012).

This type of study could be implemented at a local, regional or national level in Romania and would provide a more consumer oriented understanding of energy poverty. The approach could prove to be useful especially for the purpose of exploratory research or as a solution for limited availability of data for objective assessments.

Out of the three proposed methodological approaches, we expect that the comparative objective assessment will generate the most valuable contribution to the discussion and understanding of energy poverty in Romania. Such an assessment is needed in countries where this topic has not been widely explored, primarily because it allows specialists and policymakers to comprehend the implications of different types of definitions and variables. However, the successful implementation of a study may be costly and would require access to adequate data sources.

The complementary subjective-objective approach would also provide valuable insights into the energy poverty phenomenon in Romania. It would be better suited for an exploratory study (rather than a descriptive one), but it may facilitate a deeper understanding of the underlying factors

contributing to energy poverty among various types of households. The results may prove to be useful in adapting the targeting of policy measures in order to increase their efficiency. The successful implementation of a complementary subjective-objective study would not require access to secondary data sources (as it will entail the collection of primary data), but it may require significant resources, depending on its scope.

Finally, the multidimensional macro assessment can provide a high-level measurement of energy poverty. The successful implementation of such a study would only require access to ample cross-sectorial data sources. Due to the limited expressiveness of the expected results, it is recommended that the macro assessment be complemented by a series of case studies or in-depth interviews with members of households affected by energy poverty (as it is broadly defined in academic literature). A multidimensional macro assessment may be an adequate solution for exploring the issue of energy poverty in Romania rapidly and without the need for substantial resources.

Conclusions

Energy poverty, or the inability of households to afford adequate access to energy services, is an issue that can have a significant effect on the quality of life and even the state of health of individuals or households. A thermally inefficient housing stock, low incomes and rising energy prices have increased the severity of this problem in high and middle income countries.

Extensive studies on the topic, as well as abatement policies, exist in the United Kingdom and the Republic of Ireland – the countries from which key proponents and researchers in this field originate. However, there is a limited understanding of energy poverty at the EU level, in spite of growing public and institutional awareness. The lack of systematic research and standardized definitions and methodologies has made it difficult to assess the severity of the problem. Without a structural understanding of the issue, its determinants and its impact, the policies meant to alleviate it are likely to have a limited efficiency.

In addition, locally specific socio-cultural, economic and environmental circumstances imply that the factors contributing to the problem differ among European countries. Because of this variation, there is a need to assess energy poverty at a national or regional level. Another factor that can affect the assessment of energy poverty is the behavioral patterns of the consumers, be they driven by societal norms or personality traits. For example, households may decide that living in temperatures outside the 18-24°C interval is acceptable or that they are not willing to spend more

than a certain amount on utilities (even though that would not constitute a significant financial effort on their part) for what is considered a superfluous level of comfort. This suggests that a study regarding consumers' willingness to pay could also be useful in this field of research.

Our research has sought to provide a renewed discussion regarding the origin, implications and mitigation of energy poverty at the EU level and within the specific context of Romania. A preliminary assessment suggests that the issue affects a significant share of the Romanian population (15% may be a conservative estimation), well above estimated EU averages.

In the absence of a clear or official definition of "energy poverty" and "vulnerable consumer", this paper has also sought to identify a methodological approach to adequately measure the extent and the nature of energy poverty in Romania. Three types of assessments have been proposed, their adequacy depending on data and resource availability: multidimensional macro assessment, comparative objective assessment and complementary subjective-objective assessment.

A comprehensive measurement of energy poverty would help contribute to an informed debate on adequately defining and addressing the problem within Romania, which would be crucial before the establishment of any long term policies. Furthermore, any large scale assessment on this topic may serve as a starting point or a guideline for the measurement and monitoring of energy poverty in other Eastern European countries.

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THE EVOLUTION OF THE MEDICAL SYSTEM AND HEALTH STATUS IN ROMANIA AFTER THE COLLAPSE OF COMMUNISM

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Abstract: *The purpose of the present paper is to analyse the changes that occurred in the Romanian medical system since the communism's collapse and until nowadays and to determine the evolution of the population's health status during this period. During the last 25 years, the public Romanian healthcare system has been struggling to cope with underfunding. Our results indicate that this fact had a significant influence on both the medical assistance, reflected in physicians' emigration and poor healthcare conditions, especially in rural areas, and on the individuals' health status, Romania being far behind other EU states from this point of view.*

Keywords: health status; healthcare system; healthcare expenditures; medical assistance

JEL Classification: I11; I15; I18

Introduction

After the Second World War and until 1990, Romania, as most of the former socialist countries from the Eastern Europe, implemented a Semashko healthcare system. This type of system was characterized by the fact that all the funds required to develop the medical activities were public and the state was the only owner of the material resources and the only supplier of the healthcare services. It was based on the centrally planned principles, on rigid management and on the state monopoly. Consequently, the healthcare system created by the Ministry of Health was integrated and centralized, completely controlled by the state through taxes, without freedom of speech, but available to all people. Under the Semashko system, there was a severe scarcity of various forms of capital, from pharmaceuticals to technology, and the healthcare workers were underpaid and usually poorly trained (WHO, 2006).

The reform of the Romanian sanitary system has started after the collapse of communism, in 1990. However, in Romania these reforms were more difficult to implement than in other Eastern European states due to the long-lasting underfunding of the healthcare system during the communist regime. The problems that existed in that period in the healthcare field were analysed in the project “A Healthy Romania”, financed and implemented by the World Bank between 1992 and 1993

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(Vladescu *et al.*, 2008). This project includes some recommendations that have influenced, since 1994, the transition to a healthcare social insurance system, more decentralized, pluralist, with connections between the healthcare insurance funds and the services' suppliers.

Despite many attempts to reform the national healthcare system, nowadays it still confronts with many problems, caused mainly by the political and social changes that occurred after 1989, which influenced the implementation of the reforms. Moreover, as in many other former communist countries, in Romania the healthcare was not one of priorities of the public financing. From the point of view of the public expenditures on the healthcare services, Romania has constantly been placed on the last positions among the EU candidate countries, between 2000 and 2006, and among the EU states, since 2007 (when Romania's EU adhesion took place).

Considering all these aspects, the present paper intends to analyse the changes that occurred in the Romanian medical system from 1990 and up to nowadays and to determine the evolution of the population's health status during this period. In order to achieve this purpose, statistical information from various reports and databases was collected, tabulated and analysed for the case of Romania in close relation with the EU situation.

1. Overview of the healthcare system in Romania after 1990

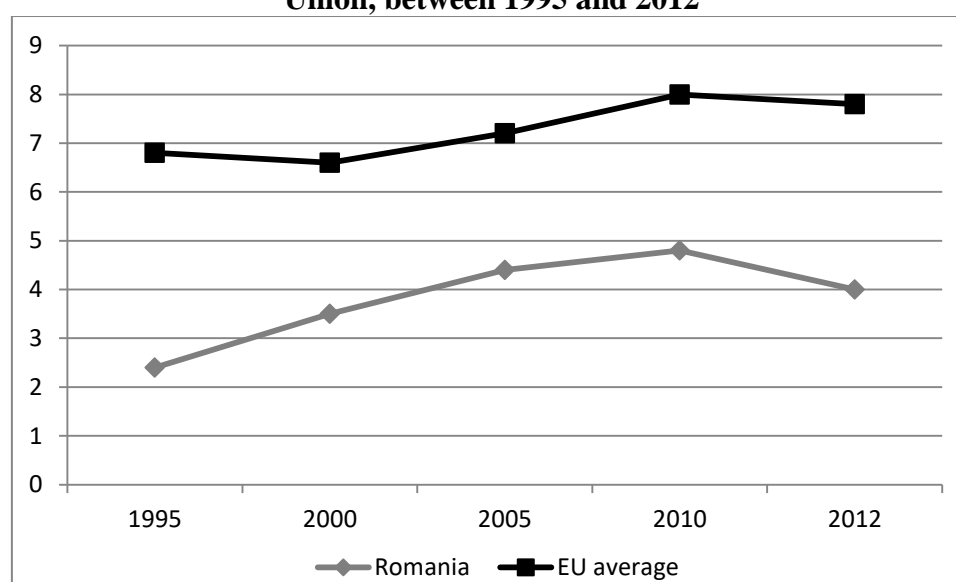
After the centralized healthcare system from the communist period, the decentralization process started with the Public Administration Law which was adopted in 1991. This was the first step in the healthcare reforms which were aimed to improve the health status of the population and to offer an efficient usage of the resources.

Between 1990 and 2000, the Ministry of Public Health issued several decrees and laws regarding the organization of the Romanian medical system, which changed its entire structure. These were mainly focused on the hospitals' organization and financing sources, the physician's role and status, the development of the social health insurance system, funded through the employment-related premiums, and on the management of the major health problems. The healthcare private sector emerged between 1993 and 1999, but this process was very slow in most of the medical fields (Bara *et al.*, 2002).

Since 2000, the basic laws regulating the health system have been modified and adjusted several times, depending on the political changes and in the context of Romania's preparations for the EU membership. A more comprehensive Health Reform Law came into force in May 2006.

Despite all these reforms and regulations, from the early 1990s and until today, Romania's healthcare system has struggled to cope with underfunding. Like in all the other European states, in Romania this system is financed from public and private resources, combining the state budget financing, public and private health social insurances, co-payment or direct payment of the medical services to the patients (Vladescu, 2004). However, the majority of the resources come from the public sector (around 75-80% according to the World Bank statistics) and, as in many other former communist states, in Romania the medical system has always been at the end of the governmental priorities list. Therefore, even if the percentage of the public health expenditure in GDP has almost doubled during the last 25 years in Romania (World Bank, 2014), it still has a very low value, placing the country on the last positions among the EU states (Eurostat, 2014a).

Figure 1 – Evolution of public health expenditure as share of GDP, in Romania and European Union, between 1995 and 2012



Source: Authors' compilation and adaptation from World Bank, World Development Indicators, The World Bank Group, 2014, <http://data.worldbank.org/data-catalog/world-development-indicators>

In 2003, the social problems of the public medical assistance have worsen due to the impossibility of offering, for a period of time, the compensated and free medicines. This fact generated an increase in the healthcare private spending. Looking at the data offered by the National Institute of Statistics (NIS), between 2001 and 2006 the percentage of the healthcare private spending in the total private spending has increased for all the types of households. The highest increases were felt especially by those with low revenues: the unemployed persons and the pensioners – from 3.8% to 7.5% and, respectively, from 3.8% to 5.2% (NIS, 2008). Considering this aspect and the fact that

Romania is, according to the statistics, a middle income, developing country, the need to invest in people should be a priority.

The public amount spent for the healthcare is very important because, according to Stancu (1996), it generates three main types of effects: *medical consequences*, determined at the individual level through the person's capacity of recovery, *economic effects*, which reflect the "un-production" due to the illnesses (the average period in which a person is unable to work), the eradication of some diseases, the increase of the average active life etc., and *social effects*, such as: the average life expectancy, the morbidity, the general and infant mortality and the public medical assistance (number of inhabitants per physician, per bed in hospitals etc.).

If the *medical impact* of the public healthcare spending is very difficult to evaluate at a national level, the *economic and social effects* can be noticed by analysing the statistics. Actually, almost all the indicators that measure these two types of consequences (with the exception of the *public medical assistance*) offer an image of the general health status of a nation, which will be discussed in the next part of this paper. Considering the low public amount spent for the healthcare system in Romania, the hypothesis of our study is that the country is lagging behind many other EU states from the point of view of the economic and social effects of the public expenditures.

From the point of view of the *public medical assistance*, the level and the quality of the health care provided nowadays is substantially higher than in 1990. This is due to the implementation of *new and modern medical equipment, technologies and therapies*, the introduction of various types of *medicines* on the Romanian market, the emergence of the private healthcare system and of a large network of private pharmacies. However, despite these progresses that were made especially in the large hospitals from the urban areas, the healthcare system from the rural environment is far lagging behind. For example, in 2011, in the rural areas the *number of beds* from the public and private hospitals represented only 12% of the total number and the physicians counted only for 11% of the total (NIS, 2013). Considering that approximately 45% of the total population lived in 2011 in the rural areas (NIS, 2011), the situation is alarming.

Looking at the statistics, we notice that, actually, the public medical assistance from the entire country is lagging behind almost all the other EU states. Between 2000 and 2010, while the total population decreased approximately by 9% (NIS, 2015), the number of beds from public and private hospitals decreased by more than 18% (Eurostat, 2014b). Considering the *number of the physicians* at 100,000 inhabitants, table 1 shows that the value registered in 2010 in Romania was 28% below the EU average.

We can see from table 1 that the number of physicians per 100,000 inhabitants has constantly increased in Romania between 1995 and 2010. However, this evolution was not because the total number of the physicians has increased, but because the descending trend of the population, which diminished with more than one million inhabitants between 2005 and 2010. In reality, the total number of the physicians has diminished. After the EU adhesion, but especially since 2010, Romania confronted with massive migration of physicians mainly to the Western and Nordic European countries. According to the data offered by the Romanian College of Physicians, 3,000 doctors enter into the medical system per year and approximately 3,500 come out, through retirement, death, but mainly through migration (Romanian College of Physicians, 2015). The main reasons that encourage the physicians to migrate are the low incomes received in Romania, which are 10 to 15 times lower than in the Western Europe (Haivas, 2010), and the poor working conditions.

Table 1 – Number of the physicians per 100.000 inhabitants

	1995	2000	2005	2010
EU average	313	337	318	331
Romania	177	193	195	237

Source: Authors' compilation and calculations from Eurostat (2014b); World Bank (2014); WHO (2007)

The most worrying situation is in the hospitals, where the number of doctors and nurses has dramatically decreased during the last years. If in 2011 there were 20,648 physicians in Romania, in 2014 their number decreased to 13,521, while the number required by the Ministry of Health's normative, given the population of the country, is 26,000 (Romanian College of Physicians, 2015).

2. Trends of the health status in Romania

As mentioned in the previous part of the paper, in Romania the health status can be influenced by the level of the public health expenditures, since this amount has a considerable share in the total medical spending. To determine the health status, it is necessary to analyse some indicators such as *average life expectancy, general and infant mortality rate, fertility rate, progresses made in eradication of some diseases* etc. These indicators are important to identify the *economic* and *social effects* of the public spending.

If in the early 1950s the health status in Romania was comparable to that in the Western European countries, during the communist period it has significantly lagged behind these states.

Between 1990 and 2000, a sharp decline in the living standards, due to the increasing poverty, had a negative influence on the Romanians' health status.

In 1990, the *life expectancy* in Romania was five years lower than in the Western European states and the *infant mortality rate* was three times higher (McKee, 1991). The infant and maternal mortality are relevant indicators for the problems that some mothers and new born children confront with when trying to accede to the medical assistance, for the low quality of the medical services and for the insufficient information regarding the methods to prevent the diseases and to maintain the hygiene.

However, the gradual decrease in maternal mortality rates, equipment, technologies and medicines contributed to the increase of the life expectancy. If in 1990 the average life expectancy at birth was of 69.9 years, in 2012 it augmented up to 74.5 years (European Commission, 2014). Moreover, during the same period of time, the infant mortality rate per 1,000 live births has decreased almost three times. Despite the fact that these values reflect an improvement in the health status of the population, Romania still remains among the states with the lowest life expectancy in EU in 2012, together with Bulgaria, Latvia and Lithuania (European Commission, 2014). It is also the country with the highest infant mortality rate – 9‰ (European Commission, 2014).

Related to the life expectancy, it is important to know the average number of years of a person with a good level of health. This aspect could be determined with the help of another indicator: healthy life expectancy – HALE. The data offered by the World Health Organization reflect that, between 2000 and 2012, the Romanian individuals have been healthy almost 88% of the duration of their lives, the HALE indicator showing a slow increase from 63 to 66 years during the analysed period (WHO, 2014). However, considering that the average value of this indicator at the EU level is 73 years (European Commission, 2014), we can argue that Romania has to catch up with the other member states from this point of view as well.

While the *mortality rate* has increased since the collapse of the communism, from 11‰ in 1989 to 13‰ in 2012 (World Bank, 2014), the *fertility rate* has significantly diminished between 1989 and 2012 (from 2.22% to 1.53%), the lowest value being achieved in 2000, of 1.31% (European Commission, 2014). Meanwhile, analysing the same statistics we can see that, even if the fertility rate in Romania has been below the EU average since the end of the 1990s, after 2007 it has been surpassing the values registered in those EU countries worst hit by the recession, such as Greece, Spain, Italy or Cyprus.

The decreasing fertility rate together with the increasing old age dependency ratio – from 16% in 1990 up to 22% in 2013 (World Bank, 2014) – have generated a so-called “ageing at the bottom”

phenomenon, visible in the population pyramid through a reduction at the base. Some analysts consider that this current demographic situation, which is present not only in Romania but also in many other states, could have been influenced by the longer schooling period, the changes occurred in the role of women in households and by the early retirement schemes (Carone, 2005).

Traditionally, it is considered that there is a positive relation between the *income level* and the health status because the raise of the salaries allows the individuals to buy not only more expensive and better quality food, but also a larger range of medicines. Despite these evidence, some studies have underlined that, in the end of the XXth century, the most important improvements regarding the health status are influenced more by the technological and medical progress than by the increase in the income levels (Preston, 1975; Jamison *et al.*, 2001).

In the case of Romania, the decrease in the population's purchasing power due to the decline of real income, the increase of the prices between 1990 and 1999 and to the nowadays economic recession had a negative impact on the nutritional habits. During these periods, it was noticed a reduction in the consumption of fruits, fish, meat, eggs or milk (Constandache and Nenciu, 2013), aliments included by the specialists in the category of healthy food (Willett *et al.*, 1995). By contrast, between 2000 and 2008, when Romania registered significant economic progress and increases in the consumers' incomes, these nutritional habits have improved.

It is known the fact that the *lifestyle*, reflected in the nutritional habits, physical activity, smoking or high consumption of alcohol, correlated with factors such as high blood pressure, high cholesterol or overweigh, positively influence the premature mortality rate, especially due to the cardiovascular diseases and cancer. Actually, analysing the statistics offered by the European Commission, we can notice that the top diseases that foster the mortality rate in Romania are the cardiovascular and cerebrovascular ones, followed by cancer (European Commission, 2014). While the first two have registered a descending trend since 2000, the malignant neoplasms had, unfortunately, a positive evolution. Despite this evidence, in Romania there are no screening programs for the most frequent types of cancer. Consequently, the patients are detected in advanced stages of the disease, fact that favors earlier retirement of the young persons, higher expenses and lower life expectancy.

Table 2 – Main diseases fostering the mortality rate in Romania and in EU, in 2011 (the death rate per 100000 inhabitants)

Diseases	Romania	EU average
Diseases of the circulatory system	1040.3	395.1

Ischemic heart diseases	344.9	139.2
Cerebrovascular diseases	316.8	94
Malignant neoplasms	265.6	268.5
Diseases of the respiratory system	76.1	80.5

Source: Authors' compilation from European Commission, ECHI - European Core Health Indicators, 2014, http://ec.europa.eu/health/indicators/echi/list/index_en.htm

The increasing number of the people that neither have a job nor are registered as unemployed led to the rising number of the uninsured persons. Since they cannot benefit from medical assistance for chronic diseases, they get to hospital as emergencies, with severe illnesses, which usually are associated with multiple untreated comorbidities. Therefore, the *duration of hospitalization* gets prolonged, the *costs* increase and the *recovery chances* diminish.

According to the diagnosis and disease's severity, the *hospitalization period* can differ very much. In Romania, it was noticed that the average duration of hospitalization had very small changes between 2007 and 2011, decreasing from 7.8 to 7.5 days (European Commission, 2014). Again, these values are among the highest in EU.

Regarding the types of illnesses, during the last 25 years, in Romania we can observe an increase in the number of both contagious and non-contagious ones. Meanwhile, significant progresses in *eradication of some diseases* have not occurred yet. A study conducted by World Health Organization presents the ten leading risk factors of the diseases in Romania. While in the case of men the main factors are the cigarettes and alcohol, for women the high blood pressure and the high Body Mass Index (BMI) are the most important ones (WHO, 2003). These results allow us to argue that, together with the physical, social, hereditary and financial causes, the behaviour has also an important impact on the health status and on the general welfare level of the population.

Conclusions and perspectives

Despite all the reforms and regulations implemented since the early 1990s, the Romanian healthcare system has been struggling to cope with underfunding. Nowadays, the country occupies one of the last positions in the EU top states regarding the percentage of the public health expenditure in GDP. This is a very concerning aspect since in Romania the majority of the financial resources come from the public sector.

Considering this aspect and analysing various health indicators, the research has confirmed our hypothesis from the beginning of the paper: Romania is far behind many other EU states from the

point of view of the economic and social effects of the public expenditures. Therefore, we found out that the number of the doctors from the hospitals decreased by almost 35% in the past three years, reaching an alarming level in 2014 of only half of the value required by the Ministry of Health's normative. This situation was mainly caused by the "brain" migration, due to the low incomes received in Romania and to the poor working conditions. This dramatic situation is worsened by the fact that the number of beds from public and private hospitals has also diminished since 2000.

However, Romania's improvements in maternal mortality rates, equipment, technologies and medicines contributed to the increase of the life expectancy during 1990-2012. Meanwhile, the infant mortality rate has significantly decreased. Despite these improvements, Romania still remains on the lowest positions among the EU states according to the life expectancy and healthy life expectancy. It is also the country with the highest infant mortality rate.

Another worrying situation in Romania is related to the ageing population phenomenon. Our research has found out that the fertility rate has substantially diminished after 1989 while the old age dependency ratio has augmented.

Analysing the statistics, we have noticed that the top diseases that foster the mortality rate in Romania are the cardiovascular and cerebrovascular ones, followed by cancer. Actually, they seem to be in close connection with the lifestyle (including the nutritional habits), which may depend on the consumers' purchasing power.

Considering all these aspects, our concern is that the Romanian health care system will have to cope with three major challenges in the next decade. The first one consists in the demographic changes, especially the ageing population and the decline in the number of the working age individuals. This aspect will put a greater pressure on the medical services in the context in which it will have to respond to an increased demand of the aged persons. Secondly, the advances in medical science, such as innovation in surgery, screening and diagnosis, will generate new demands within the health services. Related to this, the third challenge refers to the rising public expectations from the health services, people wanting to be treated more as consumers than as patients.

In conclusion, we can argue that it is vital to reorganize the Romanian sanitary system and to restructure the politics regarding the public health expenditures in order to have a high efficiency.

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THE MANIFESTO ON EUROPEAN CRIMINAL PROCEDURE LAW – FOUNDATION FOR CREATING A COMMON SPACE OF EUROPEAN CRIMINAL JUSTICE

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Abstract: *In this article, we propose to analyze the content of the Manifesto on European Criminal Procedure Law of 2013, and how this document can represent a foundation for the legal cooperation of the European states, and also for creating a unique, common space of European criminal justice. Elaborated by the European Criminal Policy Initiative and launched on November 2013, the Manifesto on European Criminal Procedure Law contains the principles and the rules that should be followed by the European penal legislator when gives shape to the laws in the field of Criminal Procedure. This document represents a natural following of the first Manifesto, in the field of substantive criminal law of 2009. The Manifesto concerns mainly the rules and the principles of criminal procedure because, as its authors affirm, this kind of rules have increasingly been shaped lately in European regulations, and also because the regulations in this field must reflect and respect the highest standards of the rule of law, as they must continuously and without exception guarantee the fundamental rights. In this study, we propose to focus upon the legal solutions found out by the authors of the Manifesto in order to attain, during the criminal proceedings, an equilibrium between the interest of the state and even of the Union to realize an effective criminal proceedings, and the individual human rights that are affected, and also an equilibrium between the actual legal order and the traditions of the member states.*

Keywords: European Criminal Procedure Law; Manifesto; European Criminal Policy Initiative; European criminal policy; legal cooperation

JEL Classification: K14; K40

Introduction

On 12th November 2013, in Bruxelles, the second Manifesto of European Criminal Policy Initiative (ECPI) was released a document that contains recommendations of the scholars in law regarding the principles of criminal procedure law that should be taken into consideration by the European legislator when elaborates law regulations in this field. This second Manifesto is a sort of a sequel to an earlier project which ended with the publication of a Manifesto on European Criminal Law, focusing on basic principles for the development of EU substantive criminal law. (Asp, 2013)

The releasing conference was also attended by Viviane Reding, Vice-president of the European Commission and Commissioner for justice, fundamental rights and citizenship, who appreciated that the first Manifesto was a real help for elaborating regulations in the criminal field: *“In 2009, you presented me the first Manifesto on EU criminal policy. It listed the key principles of European criminal policy, rooted in the different legal traditions of the Member States. The Manifesto has been*

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a very important source of inspiration for the European Commission. Our Communication on criminal policy of 2011 echoed many of your calls.” (Reding, 2013)

As said in the introductory part, the Manifesto has been conceived by its authors as a recognition of the fact that the spirit of enlightenment is the major contributor to and the driving force behind European civilisation and current integration and that the purpose of this document is to provide guidance for the preservation of European culture - in all its forms we would say, here including the civic and juridical culture, and also to provide guidance for the future cooperation between Member States. (European Criminal Policy Initiative, 2013)

In addition to the first document, this second Manifesto concerns mainly the rules and the principles of criminal procedure because, as its authors affirm, because this kind of rules have increasingly been shaped lately in European regulations, and also because the regulations in this field must reflect and respect the highest standards of the rule of law, as they must continuously and without exception guarantee the fundamental rights. But The Manifesto also concerns the rules and the principles of the legal mutual assistance between the member states of the EU, because this assistance becomes essential in this area of law, where various interests of states, societies and individuals meet and have to be balanced (Bogdan, 2013).

Regarding the conditions under which European Union and the member states can work together in order to put in place a coherent and consistent EU criminal policy, the European commissioner for justice said that, on this purpose, European Commission stated four fundamental guiding principles: *„That criminal law remains a measure of last resort; that criminal law sanctions are reserved for serious offences; that new legislation respects fundamental rights as guaranteed by the EU Charter of Fundamental Rights; and that every decision on criminal law is accompanied by clear factual evidence. These four principles have been guiding our work ever since then”* (Reding, 2013).

Moreover, regarding the importance of criminal law, the same commissioner said that *„criminal law is a very specific field of law. It is about designing and implementing intrusive sets of rules, which can result in depriving people of their liberty. The Charter of Fundamental Rights sets limits for EU action in this field. And the Charter is the yardstick by which I measure criminal law. It is an area where diversity between the national legal orders in Europe is considerable; and these differences will not go away soon. The Lisbon Treaty obliges EU institutions to respect the different legal traditions of the Member States. And rightly so, as, like no other area of law, criminal law reflects the basic values, customs and choices of any given society”* (Reding, 2013).

1. About European Criminal Policy Initiative

The European Criminal Policy Initiative (ECPI) is an academic group of 14 criminal law professors from ten Member States of the European Union. It was founded in 2008 in Munich in order to analyse critically the criminal policy of the EU, and benefits of the financial support of the European Commission.

As it is declared in their statement of purpose, „*The ECPI is devoted to contributing to a coherent criminal policy at the level of the European Union. This international group of scholars aims to promote the respect for fundamental legal principles such as the principles of legality, proportionality, subsidiarity or coherence, the principle of guilt or the rule of law and to individual rights by analysing present and proposed legislation.*” (European Criminal Policy Initiative, 2013b)

Also, the ECPI is committed to achieving three project objectives: the definition of principles for an European law of criminal procedure; the evaluation of current European legislative acts with regard to substantive criminal law, and organising seminars for postgraduates and doctoral students to discuss European criminal policy with the next generation of aspiring legal professionals. On this purpose, in 2009 the group published a *Manifesto on the European Criminal Policy*, that contains basic principles which – if respected – guarantee a consistent and acceptable criminal policy in the EU. The Manifesto contains an evaluation of current European legal acts in the field of substantive criminal law and it should serve as an evaluation tool that can be used to evaluate new proposals for European legislation with an influence on criminal law. (European Criminal Policy Initiative, 2013b)

As professor Sergiu Bogdan (2013), the Romanian member of ECPI, said: “*The members of the group are not politically enrolled, neither do they represent governments in the solutions they propose. The national experience is evaluated and analyzed by comparison. Their work has a scientific specific, but it is done with the wish and the hope to be able to propose solutions in order to make better the way of conceiving and elaborating criminal laws, and also with the wish to avoid the negative effects of the European laws over the national criminal laws but also over the European citizens*”.

In the doctrine it is considered that the European Criminal Policy Initiative is now able to provide an in-depth analysis of the previous and proposed legal acts aimed at harmonising the substantive criminal laws of the Member States and at the same time to develop principles for a European policy on criminal procedure (Bogdan, 2013).

2. The necessity and the importance of the Manifesto on European Criminal Procedure Law

The importance and the necessity of this document have been also shown up by the European Commissioner Viviane Reding (2013) in her speech in the day of launching the Manifesto: *“To make EU criminal law more effective, we must ensure that the promises made on paper correspond to the reality on the ground. EU criminal law has in many cases neither been transposed nor used in practice at national level. The Lisbon Treaty provides us with the possibility to change this state of affairs. It enables the Commission to ensure genuine implementation and enforcement, as rigorous as any other EU policy. Post-Lisbon criminal law is monitored by the Commission and subject to judicial control by the Luxembourg court. The time of dead letter laws – agreed in the Council and hardly implemented – is over”*.

Reding (2013) also expressed her hope that this second Manifesto would be at least as useful as the first one for the European legislator, *“Let me thank you once again for the Manifesto presented today. I expect it to be an important contribution to the debate on the future of EU criminal justice. After all, as you mention in the Manifesto: effective criminal justice is a basic prerequisite for peaceful coexistence in any society”*.

As stated in the preamble of the document, being aware that effective criminal justice is a basic prerequisite for peaceful coexistence in any society, the Manifesto emphasises that the inevitable clash with the fundamental rights of those persons against whom the proceeding is conducted or who are otherwise affected by it may not, however, be resolved one-sidedly in favour of the criminal prosecution - regardless of whether it is conducted by national or supranational authorities.

The authors of the Manifesto also affirm that what led to this second document was the growing influence of the Union law on criminal proceedings, which manifests itself in three respects: 1. the principle of mutual recognition has had a profound impact on the traditional system of mutual legal assistance and in many ways has weakened the position of the suspect considerably; 2. national law in the field of criminal procedure is increasingly being harmonised by EU instruments, which may not only disturb the coherence of the Member States' criminal justice systems but can also result in a “race to the bottom” which curtails more extensive rights that a particular legal order grants to the individual; 3. criminal proceedings are supplemented more and more with supranational elements that facilitate the work of prosecutorial authorities, particularly through the establishment of new European institutions such as a future European Public Prosecutor's Office. (European Criminal Policy Initiative, 2013b)

The authors of the Manifesto affirm that these developments call for a thorough, principle-based criminal policy that strikes a fair balance between the interests of the Member States involved in cross-border proceedings and those of the individuals affected by it. Otherwise, the objective of countering organised cross-border crime – although legitimate in principle – may result in a one-sided enhancement of the efficiency of criminal prosecution to the detriment of citizens' rights. Furthermore, the differences that continue to exist between the Member States' criminal justice systems, as well as factual difficulties, render an effective defence considerably more complicated when a criminal proceeding is conducted across borders. (European Criminal Policy Initiative, 2013b)

3. Principles and demands proposed by ECPI for a European law of criminal procedure

The ECPI proposed „to define principles for transnational criminal proceedings within the EU by directing its attention in particular to the necessity of outweighing the reinforcement of prosecution powers brought about by the mutual recognition of judicial decisions in criminal matters. Thus the different principles will serve to strengthen the suspect's position in transnational criminal proceedings. Most of these principles will turn out to be facets of the fair trial principle, which can be regarded as the core requirement for criminal proceedings under the rule of law.” (European Criminal Policy Initiative, 2013b)

ECPI also proposed that these principles shall serve as a measure to evaluate the European legal instruments and that they must not be derived from the laws of the Member States. Instead, they have to be enrooted directly in European Union law – i.e. primarily in the Treaties and the Charter of Fundamental Rights.” Another source for the genesis of these principles will provide the European Convention on Human Rights.

The ECPI proposed also that the relevance of these principles would be exemplified with various provisions taken from existing legislative acts to illustrate to what extent the European legislature has or has not respected these principles in the past.

Moreover, the ECPI proposed to conduct a detailed evaluation of harmonising measures in the field of substantive criminal law, if they aim directly at the approximation of the Member States' criminal law. The evaluation will cover, however, the instruments in the fields of terrorism, trafficking in human beings, sexual exploitation of women and children (including child pornography), illicit drug trafficking, fraud against the Union's financial interests, money laundering, corruption, counterfeiting of means of payment, computer-related crime, organised crime, environmental crimes including maritime pollution, racism and xenophobia. As a result of this

evaluation, for every legislative act a detailed proposal for amendments shall be presented and explained. (European Criminal Policy Initiative, 2013b)

Regarding the demands of the manifesto for being taken into consideration by the European legislator, the Manifesto states that in order to pursue a coherent and well-balanced policy in the field of criminal procedure law, the Union legislator should thus satisfy the following demands, each of which can be derived from primary Union law:

1. Limitation of mutual recognition through the rights of the individual as well as through the Member States' national identity and their order public on the basis of the principle of proportionality.
2. Balance of the increasingly supranationalised European criminal proceeding
3. Respect for the principle of legality and judicial principles
4. Preservation of coherence
5. Observance of the principle of subsidiarity
6. Compensation of deficits in the European criminal proceeding. (Satzger and Zimmermann, 2013)

Conclusions

The Manifesto on European Criminal Procedure Law represents a clear and strong foundation and also an expression of the fact that, by realizing the desideratum of creating a common space of European criminal justice, the European Union would become one of the most important international actors in the area of establishing and guaranteeing the human rights, with all its inherent consequences, in the social, political and even economic field. As stated in the preamble of the Manifesto, being aware that effective criminal justice is a basic prerequisite for peaceful coexistence in any society, the Manifesto emphasises that the inevitable clash with the fundamental rights of those persons against whom the proceeding is conducted or who are otherwise affected by it may not, however, be resolved one-sidedly in favour of the criminal prosecution - regardless of whether it is conducted by national or supranational authorities. In particular, the laws of criminal procedure and mutual legal assistance, which recently have increasingly been shaped by Union legislation, must adhere to the highest standards of the rule of law and must continuously guarantee fundamental rights, notwithstanding the fact that in this area of law various interests of states, societies and individuals have to be balanced, in order to reinforce mutual trust among Member States and citizens' trust in the Union.

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FINANCING DEMOCRACY OR CORRUPTION? POLITICAL PARTY FINANCING IN THE EU'S SOUTHEASTERN AND EASTERN MEMBER STATES

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Abstract: *Fighting public-sector corruption has become a priority for most governments and international organizations. The public sector is the source of many benefits. Realizing improper private gains from these benefits has long been the core definition of corruption. As the public sector grows and expands its activities, the complexity of its activities also increases. The opportunities for improper private gains grow, too. Therefore, not surprisingly, the EU admits that the public sector, including political parties and public administrations, are especially vulnerable to corruption. Political parties, for instance, depend on the funding destined for their capability to win elections and otherwise to influence public policies. In turn, this dependency creates opportunities for a variety of corrupt activities. Ensuring that campaign funding promotes democracy and not corruption requires well-crafted, vigorously enforced laws. This article analyzes the legal framework of political party financing in the Eastern and South-eastern European EU member states, in order to assess how well it works in preventing political party corruption.*

Keywords: public-sector corruption; political party; corrupt practices; anti-corruption initiatives

JEL Classification: D73; H83; K42

Introduction

Fighting public-sector corruption is a challenge for any government or international or regional organization that has joined the fight. Often, the public sector is a source of improper private gains. The fight against public sector corruption is difficult and discouraging, due to the complexity and the diversity of the activities taking place in the public sector. The European Union (EU) admits that the public sector, including political parties and public administrations are the most vulnerable to corruption.

Any democratic system is supported by political pluralism. Political parties and alliances depend on financing their capacity to win elections and otherwise influence public policies. However, paradoxically, this dependency creates opportunities for a variety of corrupt activities ranging from the conversion of campaign funds to private use, to rewarding donors by improperly diverting public benefits to them, through “pay to play” and other schemes. Commonly, politicians abuse their positions by taking bribes, fostering nepotism, money laundering and channelling public financial resources to party leaders and supporters. This means that political parties fail to perform two of their

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fundamental functions: representing and informing their citizens. In the long run, political party corruption destroys public trust, the legitimacy of government, and, ultimately, democracy.

This is the reason why it is vital for any country to have a well-crafted and vigorously enforced legal framework addressing political party funding.

Around the world, including in the European Union countries, the behaviour of the political parties' members varies according to economic, social, political and cultural realities. Nevertheless, there are some similarities regarding their corrupt behaviour. For example, political parties in power often take control over public institutions and their activities, giving them monopoly over the distribution and management of public resources. Also, vote buying is a common practice during electoral campaigns. As a result, national laws dealing with political party funding share some common features such as regulating private funding, increasing public funding, setting spending limits and requiring the disclosure of the sources of party funding (OECD, 2011). The goal is to increase transparency and fair political competition between parties, to increase public awareness and to reduce opportunities for corruption.

The European Union has moved in the right direction on political party funding, but its progress has been slow. All European Union members have legal frameworks dealing with political party and campaign funding. However, positive results are scarce, due to the lacunas in the law or/and its inconstant enforcement; essentially, the lack of political will is the main cause.

Among all of the EU members, the South-Eastern and Eastern European states have to make extra efforts to tackle political party corruption, due to their Communist heritage, which left corruption long-embedded in their national political culture.

2. Political party law and enforcement in the EU's South Eastern and Eastern member states

Statistics show that most Europeans perceive politicians as being corrupt. Eurobarometer reports that only one in five Europeans (22%) considers that political party financing is sufficiently transparent and supervised, while only one in twenty 'totally' agree (5%). Two thirds of Europeans think the opposite, and over a third of them 'totally' disagree (Eurobarometer, 2014).

In 2003, the Council of Europe made extensive recommendations on political party's legal framework to the European countries. The aim was to provide some common rules against corruption, generated by the funding of political parties and electoral campaigns. The main issues are public and private funding of political parties; general principles of donations, tax deduction and records for

donations; donation limits and disclosure; electoral campaign expenditures and their limits and records; and supervision and sanctions for infringement of these rules (Council of Europe, 2003).

Several international organizations, such as the Organization of Security and Cooperation in Europe (OSCE), the Organization for Economic Co-operation and Development (OECD), the International Institute for Democracy and Electoral Assistance (IDEA) and Transparency International (TI) joined forces in providing information on the progress of European countries on these recommendations.

All European Union members have developed national laws addressing political party registration, funding and operation. However, reality proves that, often, the law itself and its poor enforcement generate disparities between the 28 members in their anti-corruption fight. Political party corruption thrives, especially in South Eastern and Eastern European member states. These members have to make meaningful changes concerning either their legal framework or its enforcement, or both.

In this respect, the law has to target political parties and also candidates for elections. However, this is not always the case. For example, in the newest EU member, Croatia, the law makes no reference to individual donations given to party candidates, but only to political parties.

At the same time, most European countries opted for defining the term “political party” in their legislation. However, the definition is not always complete or it does not exist in countries such as Greece.

Also, one of the key elements that have to be addressed by law is transparency in party funding and party accounts. In general, in Europe, political parties are financed from public and private sources. Public funding usually comes as a fixed percentage stated by law. Private funding refers to donations, sponsorships, loans, and rewards assimilated to donations.

2.1. Donations and loans

The law should address different aspects regarding donations. Specifically, it should define “donation” as a legal term, precisely state the types of donations allowed (money or in-kind), and require the disclosure of donors’ identity and the amounts donated, their maximum limits, and the timeframe for disclosure.

Article 12 of Council of Europe Recommendations draws attention to the rules regarding anonymous donations and their rigorous registration, due to their potential corruption risk. There are a few European countries, including EU members such as Greece and Romania, that allow anonymous donations if they do not exceed a certain amount. For example, in Greece, anonymous

donations are possible in coupons if the amount of money does not exceed 600 Euros donated to political parties and coalitions, or 200 Euros for regional and local candidates. In Romania, disclosure of donors is not required if the amount is at maximum 0.006% of the total amount of the state subsidy provided in the state budget. Such donations could be in cash. However, if donations are greater than this threshold, they have to be made via bank accounts. Also, in countries such as Bulgaria and Greece, the law does not require using banking system transfers for donations, thus encouraging anonymous donations that can be made in cash.

The public disclosure of donors has been extensively debated. The main argument against it has been the confidentiality of private data (GRECO, 2014). We believe that this problem can be avoided by limiting the disclosure of donors' information only to independent control authorities, where the public servants are bound by the confidentiality clauses written in their employment contracts. At present, in Romania, the donors can request non-disclosure in writing if the amount donated stays under 10 minimum gross salaries (GRECO, 2014). However, the identity of donors and the amount donated which exceeds a certain threshold are published in Bulgaria and Hungary. Also, the timeframe of publication is also vital for ensuring transparency of political party funding schemes. Thus, we believe that political party's financial statement should present a detailed list of all donors and amounts donated at the end of every fiscal year.

At the same time, the rules regarding donation's threshold have to be carefully drafted if coupled with rules addressing anonymous donations. The higher the threshold for anonymous donations, the greater is the danger for corruption. South Eastern and Eastern EU member states maintain reasonable thresholds for political party donations, unlike some of the Western EU members. It is the case of Germany, where the threshold level is 10.000 Euros.

Beside financial donations, some national laws allow donations in-kind made by private or public entities. However, the rules on this matter vary greatly. Thus, in Romania, discounts above 20% of products and services provided by companies to parties or independent candidates are also listed as in-kind donations. Donations made by companies are primarily considered contributions in-kind. In Slovenia, the labor of employees for a political party or the direct payment of its bills falls under this category (GRECO, 2014). Donations in-kind from public entities are sometimes permitted by law or not explicitly dealt with. For instance, Bulgarian legislation does not clearly state how public facilities can be used by the candidates during electoral campaigns. Also, in Greece, donations in-kind are permitted, but they are not considered sources of income for political parties and candidates. For example, Greek public administrators worked for their national and EU parliament representatives, yet, indirectly, they also worked for the benefit of political parties and alliances to

which they belonged. Their work was labelled as voluntary and it was assimilated to in-kind donations from public sources, a practice not favored by the Council of Europe.

Other means of financing political party and independent candidates besides donations are loans. South Eastern and Eastern EU members do not have explicit legal rules regarding loans. Within the European Union, the most advanced in this respect is the United Kingdom.

Presently, in Slovenia loans are covered only by the law on election campaigns, while the law on political parties is silent about them. In Greece, loans that are written off by the lender do not have to be included in the financial statement. Romania is in the process of changing some of the provisions of its political party funding law to impose new, clear rules regarding loans made to political parties by natural or legal persons. Loans made to political parties will have to be made public if their amount will be more than a hundred minimum gross national salaries. Also, the value of the loans in one fiscal year cannot be more than 0.025% from the amount allocated from the state budget for political parties every year. The loans will also have different caps depending on whether the creditor is a natural person or a legal person.

2.2. Political party accounts

Political party funding provisions should also refer to party accounts. The accuracy of political party financial books and records is essential for preventing corruption. Thus, legislation should cover standardized maintenance, presentation, content and publicity of political party accounts. However, few EU members are meeting the standards. In Bulgaria and Greece, due to the absence of specific rules governing pre-election accounts, parties can avoid the caps on electoral expenses by spending more before the election period itself. Similarly, Hungarian legislation does not require political parties to keep specific books and accounts and also it fails to state the precise duration of an electoral campaign, making the monitoring of campaign accounts' situation difficult.

A widespread problem among all EU members concerning political party accounts is the lack of a standardized format for their presentation and publicity. A single computerized format is a must for EU countries, ensuring transparency, comprehensibility and ease in monitoring the financial situation of political parties and alliances. Only in 2014, the Council of Europe recommendations become part of European Union Council proposal for new rules concerning EU political parties.

A standardized format should present a sufficient amount of detail relating to political party assets, income sources and expenditures in order to obtain a consolidated form of political party accounts. The Council of Europe recommendation concerning this issue has constantly been ignored

by European countries, as well as by most of the EU's members. A consolidated regime of political party accounts cannot be obtained if there is no accounting information regarding the income sources and expenditures of entities related to political party, as it is the case for Slovenia, Romania, and Hungary. For example, in Romania, local foundations of political parties are not subject to any special financial or fiscal control. Their supervision relies solely on their yearly financial statement.

Also, some European countries do not have provisions referring to the accounts of local branches of political parties or the law allows for parties to decide for themselves whether their local branches accounts will be kept in a consolidated or in a simple form. For instance, Romania's local branches have occasionally opted to keep their accounts in a simplified form. This, however, is not acceptable when local branches are located in highly populated areas, where public funding is substantial.

Political party finances have to be made public within certain timeframes, in order to maintain transparency and public trust. Many EU members do not impose a rigorous publication requirement; among them are states such as: Cyprus, Greece, Slovenia, Bulgaria, and Romania. In Cyprus and Slovenia, the law does not impose a deadline for publication nor for the amount of financial information that has to be made public by the political parties. Greece requires the publication of financial statements detailing income and expenditures only for local and regional electoral campaigns. In Romania, the financial statement has to comprise all electoral income and expenditures and be presented to the Permanent Electoral Authority (PEA), but the law does not explicitly require submitting a consolidated statement of accounts to this authority. In Bulgaria, independent candidates are not required to publish their financial statements (GRECO, 2014).

2.3. Enforcement

Despite all of these legal imperfections, the biggest challenge for most EU members, especially for South Eastern and Eastern ones, remains the enforcement of the law. Of course, enforcement relies on the institutional system. Specialists in sufficient numbers and quality, simple and transparent procedures complemented by a reasonable bureaucracy are key requirements for an efficient enforcement. European Union members respond differently to these requirements.

Auditors and public supervisory bodies have to exercise their powers independently. They should not be members of political parties or independent representatives in Parliament or Government members, and they should not be under the control of such political institutions, for this

would raise the risk of conflicts of interest. However, this happens in Greece, where members of Parliament represent the majority of the Control Committee.

At the same time, too many supervisory bodies could alter the accuracy of the control itself, favoring a poor exchange of information and, ultimately, corruption. This is the case in Romania and Greece. For example, in Romania, although the financial statements on campaign funding, comprising all income and expenditure, must be provided to the Permanent Electoral Authority, parties are not explicitly required to submit their overall consolidated accounts to this authority. At the same time, monitoring of public funds is assigned to the Court of Accounts, whereas monitoring of private funds falls to the Permanent Electoral Authority. However, the law does not provide for the exchange of information between the two institutions, preventing a general overview of political party financing. In practice, all European countries, including EU members, have to improve the efficiency of monitoring political party funding, whether it refers to independence, scope or practice (Popescu, 2015).

In Greece, various bodies with electoral competencies exist at regional level (54) and at local level (67), maximizing the risk of corruption due to the closeness of these bodies to candidates and political parties at sub-national level.

The supervisory bodies do not always verify the accuracy of information provided by political parties or candidates in the most rigorous manner, due to their lack of investigatory resources. For example, in Bulgaria the auditors accept a margin of tolerance between the political parties' financial statements and their actual situation of up to 70%. In Croatia, the auditors do not verify if an electoral campaign might be financed with money that was not declared. In Cyprus, the auditors are monitoring only the political parties' regular accounts. In Greece, the national supervision body relies mostly on reports of auditors that are working for private auditing companies, making its control one of pro-forma nature. In Slovenia, the auditors are legally constricted to only check if political parties' financial reports are complete and submitted on time (GRECO, 2014).

Unfortunately, there are also some cases where the control is limited to: political party regular accounts, excluding presidential campaign funding (Croatia); campaign income only and not to expenses (Cyprus); or to entities that are directly or indirectly linked to the political parties (Hungary). Sometimes, the law differentiates the scope of supervision between the financing of political parties and their electoral campaigns, making control look superficial (Bulgaria).

The lack of human resources is also an impediment for timely and accurate supervision in Romania, Bulgaria, and Hungary.

The infringement of the political party funding rules should be sanctioned. Supervisory bodies should enforce administrative, criminal, and electoral sanctions. However, in the European Union, sanctions regarding political party funding do not exist (Malta) or they exist on paper but not in practice. At the same time, sanctions are sometimes weak (Belgium, France, and Romania), inappropriate, inflexible (United Kingdom, Sweden, Denmark, Czech Republic, Croatia, Bulgaria, and Romania) and disproportionate to the offence, having a too-short statute of limitation (Romania, Bulgaria, and Latvia) or not even enforced. Moreover, criminal sanctions are rarely applied.

In Romania, for example, the failure to submit a financial statement or refusal to provide documents is subject to a maximum fine of €6,000. Administrative sanctions are favored over criminal ones. The statute of limitation for imposing an administrative sanction is too short, of only 6 months.

In the light of all these problems, and taking into account the Council of Europe Recommendations, as well as the electorate's revolt often manifested in the streets, the European Union decided to amend its regulations regarding the statute and funding of European political parties. The deadline for implementing the new rules by EU members is the first of January, 2017. At the same time, the EU Commission admits there is an acute "need for a clear harmonization of criminal liability of elected officials for corruption offenses", but there is no political will to do so (EU Commission, 2014, p.9).

Conclusion

Political party and political leader corruption is a major threat to democracy and to the respect for human rights. Thus, since it affects us all, the fight against this type of corruption has to be well planned, consistent, and merciless.

The European space, including the European Union, is one of the most difficult anti-corruption fronts, one difficult to conquer due to the diversity of its many nations.

The EU legislative anti-corruption framework has to ensure integrity, transparency and accountability of party members, candidates and leaders. Under the European Union's close supervision, its members have to improve their legal framework and their practices regarding political party funding, in order to minimize, if not eradicate, corruption in this field and to regain the trust of millions of Europeans.

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THE KNOWLEDGE USER PROFILE IN THE RURAL AREA OF ROMANIA

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Abstract: *The economic entities today are struggling to find the most effective way of combining the resources they have, tangible or intangible, in order to produce and sale the most wanted products, their purpose is to gain and keep the highest share of the market. These intangible resources, in our era, which is changing from industry based to knowledge based, are represented by knowledge, brain capacity and the power to use it at the highest rate. Knowledge has started to be considered a primordial factor, along with energy and matter, factors that hold the origin of the universe. The economic agents have realized that holding the latest information, in any domain or activity, and its proper use, also means holding a greater share of the market for a longer time, which leads to the final purpose of every economic unit, the profit. They can be called knowledge consumers. In Romania's rural area things are not the same, the knowledge consumer is theoretically represented by any economical unit activating here, but, as shall be presented further in this paper, things are far from theory. Those who should be knowledge consumers are using old methods and technologies, they are based on their own experience and do not know how to use the information that regards them directly, things that have to be changed in order to be an active and competitive member of the E.U.*

Keywords: information; consumer; rural area; knowledge transfer; cooperation

JELL classification: A14; D13; D83; D84; I21; J43

Introduction

The Romanian rural environment is currently seen as a piece of history that we can see with our eyes. Unlike Western countries, where traditions and the specifics of the villages have been preserved, but at the same time benefit from the same living conditions as the population of urban and economic activity is equally intense. The association and cooperation developed naturally between western rural actors gave their ability to choose the segments they want to go, to do their own strategies based on the needs that they know best, so today cooperatives are the most powerful form of work in rural areas, exceeding the borders of a single country.

Romania, in terms of the association and cooperation is in its early stages. Times of “scheduled agriculture” and the reforms of the past 25 years have stopped keeping pace with the development of Western countries. Western farmers know what they want and know where they can get what they want, are informed and appreciate the information. Romanian farmers have to catch up in this area.

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1. Literature review

The E.U. has concluded, after years of observation that in order to remain one of the dominating powers of the world it needs to have well trained people, to offer the possibility to study to everybody, because an organization's power is in its people so the European Commission wants to count on the Europeans for progress. The base of evolution has always been the use of information, losing it causes a gap in evolution and the need to start over again, so the possession and use of information gives the advantage of moving forward. If we think about public data, we can see an unused source of information, this information has great potential, currently untapped in terms of reuse in new products and services and increase efficiency in administration.

Global economic benefits derived from opening the public data resource could amount to 40 billion Euros per year in the EU. Also, open public data encourages citizens participation in political and social life and contribute to policy areas such as the environment. "Big data technology and services are expected to grow worldwide to 16.9 billion USD in 2015 at a compound annual growth rate of 40% – about seven times that of the information and communications technology (ICT) market overall." (Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions, Towards a thriving data-driven economy, 2014, p. 2).

Information and the ability to use it represent strategic resources for the development and survival of any economic activity, the progress we are witnessing is clear evidence that the role of knowledge in the global economy is the most important. "Intellectual capital is the possession of knowledge, applied experience, organizational technology, customer portfolios and professional skill that confers a competitive advantage on the market" (Edvinsson and Malone, 1997, p.3). Lisbon Strategy, adopted in 2000, establishes that the European Union should become "To become the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment" (Lisbon Strategy, 2000, p.11).

National economies today are based on international flows of goods, services, people, and not least ideas. An economic entity is thought of today as an institution encompassing knowledge, this includes the application, operation, use and transfer of information. The success of an economic entity can be even greater as intangible assets held are fully utilized. Examples of intangible assets are patents, copyright agreements, trademarks or intellectual property and customer lists, reputation,

customer loyalty, organizational structure of the unit and its specialization in productive scientific or technical knowledge.

1.1 The information market

As any other resource, information needs a market with supply and demand, not everyone is a consumer of information and knowledge and not everyone has the capacity to be a producer of information. This market works based on the same economical laws as any other market and it holds the characteristics of this newly recognized resource.

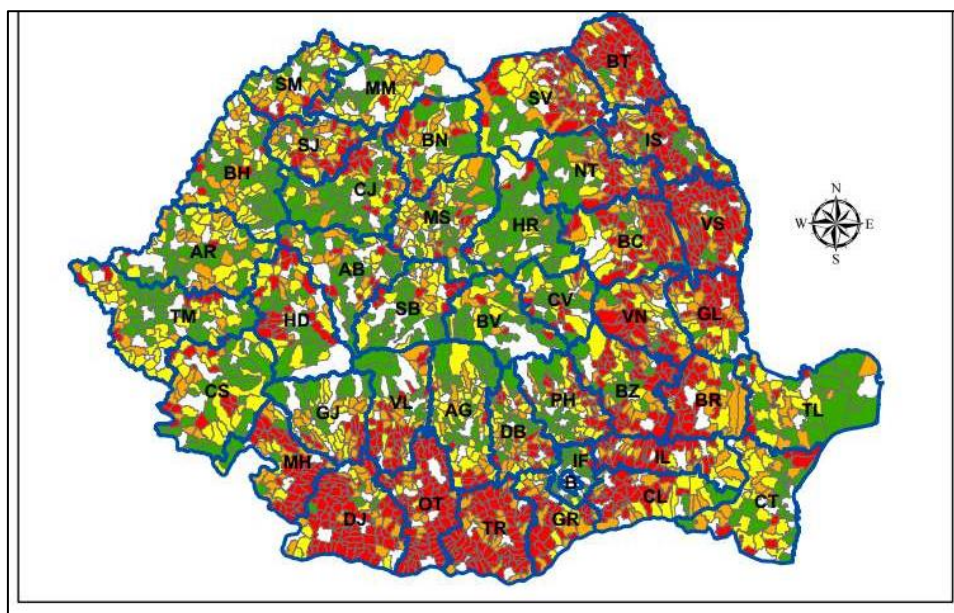
The European Union has based its development strategy on information usage, considering the year 2020 a deadline for becoming an economic power based on knowledge, that being the key to solving all other problems.

We have now 5 more years to accomplish the purpose of 2020 Strategy and 5 years have passed since it was started. If Romania has an urban environment and an academic environment that follows the same trends as the western countries, the rural environment is far behind, and although its inhabitants are perceptive and clever, they lack basic education which can help them use their natural perceptiveness, a study of The Ministry of Agriculture and Rural Development (2014) has ranked the rural areas by their socio-economical potential in order to see which are those we can expect to ask for European funding for development.

Even if at first sight we could think that the poorest areas are the first to search development, the situation is opposite, and the areas first in line to ask for development funding are those with a high potential for it. In Figure 1 we can observe where are the rural areas which are considered capable of creating useful development projects,” in green, in yellow are the places 601-1200, in orange places 1201-1800 and in red last places, and most undeveloped rural areas” (ASE, *n.a.*, p. 30).

“The potential is based on a series of factors such as the population density, number of doctors for 1000 people, access to water resources, health infrastructure, educational infrastructure, roads and even internet access, all of them important factors in knowledge market” (ASE, *n.a.*, pp.13-15) so a conclusion that can be extracted from the similarities of this study and the conditions of a functioning information market is that the map below is a potential map of the intensity of information transfer processes and where is expected for them to grow along with the development of economic and social activities.

Figure 1 - The socio economical potential of rural areas



Source: ASE, n.a., p 169

2. Information in agriculture

Although cross-border cooperation measures aimed at economic and social development have intensified, the development of rural areas has not seen good progress, due to insufficient promotion of the existing opportunities for investment, lack of information and mobilization of the population remaining in many areas, population with modest outlooks and concerns.

Farmers represent a segment of the population facing problems related to the development of economic activities due to: lack of preparation, lack of information on business opportunities, including through association and business development, reduced capacity to access funds to finance the modernization and streamlining practiced agriculture, commerce practiced empirically, recovery inefficient intermediaries interposing the marketing of agricultural products, the weak presence of foreign investors or domestic in rural areas and the need to attract them to boost efficiency retrofitting and agriculture, insufficient awareness of green technologies in agriculture, the mismatch supply and demand. In other European countries farmers represent a segment with a high interest for new technologies, new ways of production and processing products and not least better ways of living.

2.1. Who is the producer of information dedicated to rural areas?

From a practical standpoint, anyone can be considered a producer of information and also can be regarded as a consumer of information. Producers of information or carriers of information goods supply is a category made up of producers or suppliers of such goods.

The most relevant economic information, not only, in the EU comes from the European Commission, the EU Parliament and the other decisional institutions, this information is retrieved, processed and adapted by the Member States so that their people can advantage in the most efficient way to them, but they take both global and national information in order to synthesize new work strategies.

Those in the position of information producers can also be information consumers, they need to see the market flows, to process the information they take from the market and put in a new form, easy to be swallowed in a new flow by other consumers.

Besides the official institutions, producers of information for the rural area can be the research institutes, profiled Academies or Universities, Institutes of Statistics, agriculture fairs or undergraduate institutions in the agriculture field.

2.2. The level of education in rural areas

Because in theory the information consumer in the rural areas must be well prepared in order to be an active actor in the knowledge market, in practice the situation of educational infrastructure is shown in the next tables.

Table 1 - The number of scholar unities

Residential areas	Total	Kindergartens	Primary education	Secondary education	Post-secondary education	Higher education
2011						
Total	7 099	1 367	3 923	1 615	86	108
Urban	3 911	1 265	1 126	1 329	84	107
Rural	3 188	102	2 797	286	2	1
Rural/Total	45%	7%	71%	18%	2%	1%
2012						
Total	6 961	1 222	3 925	1 606	101	107

Urban	3 784	1 131	1 113	1 335	99	106
Rural	3 177	91	2 812	271	2	1
Rural/Total	46%	7%	72%	17%	2%	1%
2013						
Total	6 967	1 187	3 945	1 605	127	103
Urban	3 792	1 116	1 122	1 329	123	102
Rural	3 175	71	2 823	276	4	1
Rural/Total	46%	6%	72%	17%	3%	1%

Source: Data processing of Tempo online database

“Rural areas represent about 87% of the total surface of Romania and the population living it is 45%” (NPRD 2014-2020, p.1), the proportion is kept in the total number of scholar unities in 2011, the trend is slightly ascending in 2012 and 2013.

The highest percentage of scholar unities in rural area is in primary education sector, 71% in 2011 also slightly ascending in 2012 and 2013, secondary education sector in represented by 17-18% in rural areas, the other sectors cannot be taken into account, the percentage being very low, even in the kindergarten sector. Out of the total number of 286 high schools in rural areas, in 2011, only 34 or 11% were represented by agricultural high schools, 7 or 2% were veterinary high schools and other 8 high schools have a specific domain connected to the rural areas (NIS, Tempo online database). That can be interpreted as a very low correlation between the activities that mostly take place in the rural area and the education supply for this area, because the supply does not meet with the demand in the education market causes a short-circuit in the flows of information market. The youth learns by its self or from elders the processes of agriculture and that causes a self-sufficiency in knowledge and not the need of consuming information, to progress to new technologies and methods. This can be a primary reason for the break in natural chain of information transfer from producer to consumer and the other way around.

Table 2 - The number of students enrolled in school

Residence area	Total	Enrolled in kindergartens	Enrolled primary education	Enrolled in secondary	Enrolled in post-secondary education	Enrolled in higher education
2011						
Total	4 797 357	673 641	2 610 022	901 150	72 692	539 852
Urban	3 547 167	370 124	1 737 248	829 134	71 206	539 455
Rural	1 250 190	303 517	872 774	72 016	1 486	397

THE KNOWLEDGE USER PROFILE IN THE RURAL AREA OF ROMANIA

Rural/Total	26%	45%	33%	7%	0.2%	0.07%
2012						
Total	4 206 811	581 144	2 688 590	851 544	85 533	
Urban	2 964 762	324 288	1 775 345	781 209	83 920	
Rural	1 242 049	256 856	913 245	70 335	1 613	
Rural/Total	29%	44%	33%	8%	1%	
2013						
Total	4 115 662	568 659	2 649 040	803 109	94 854	
Urban	2 902 296	319 320	1 752 634	737 182	93 160	
Rural	1 213 366	249 339	896 406	65 927	1 694	
Rural/Total	29%	43%	33%	8%	1%	

Source: Data processing of Tempo online database

The situation is even more relevant if we see the number of persons enrolled in school in rural areas, in 2011 only 26% of the enrolled children was in rural areas, the percentage increases to 29% in the next two years, but most of them are enrolled in kindergartens and primary school, it is natural for the number to decrease when it comes to secondary school and higher education because of the low number of unities, but a percentage of 7% enrolled in high school is much more than concerning if Romania wants its future farmers to be an active part of the knowledge market.

An easy conclusion is that the actual structure of the educational system is not proper for all its potential beneficiaries and does not favor the access to knowledge market by the time we speak and not by far for the future. So the educational system in the rural area of Romania in its actual form cannot create producers or consumers of information.

3. The profile of information consumer in the rural area

If the above conclusion is a very hard one, I wanted to see how the Romanian farmer does line up to the other European countries and what is his position in relation to the other farmers.

Two variables with a high importance are, first, the time that has passed since a country is a full member of the EU, this can be translated to the amount of funds that was available to each one and the transition period from an extensive form of agriculture to an intensive one. The second variable in the capacity of adaptation to changes of each population.

Setting the two stated variables for Romania, a country with full member rights since 2007, a new “neighbor” in the community of countries who benefited from the Common Agricultural Policy for far many years, who were active parts to the changes brought to its form and who had time to adjust

to every change. The other variable is, by the way I see it, an advantage for the Romanian population, due to its capacity to adjust to the high number of major changes though time, so the transition to information market should be accepted as a fact in a period of about 15 years.

Table 3 - Number of farms

Juridical status	Number of farms			
	2002	2005	2007	2010
Total	4 484 893	4 256 152	3 931 350	3 858 993
Individual farms	4 462 221	4 237 889	3 913 651	3 828 345
Agricultural society/association	2 261	1 630	1 475	1 381
Trading companies	6 138	4 824	5 147	16 500
Government units	5 698	4 818	4 177	3 263
Cooperative units	87	108	71	68
Other	8 488	6 883	6 829	9 436

Source: Year 2002 General Agricultural Census, year 2005 and 2007 Structural Surveys in Agriculture and 2010 General Agricultural Census.

The proportion of individual farms to cooperative units is opposite to the one in countries with tradition in CAP (Common Agricultural Policy), they understood the necessity of working together in order to have low prices for inputs, quality products and power to sell them, all of these combined create the information market of the rural area.

Because the information producers I mentioned in the previous chapters are big and very big, they cannot address to 3 858 993 small individual farmers, the information producers need to have relations with big production units, such as cooperative units. The European model promotes the cooperatives as the best way of transition to a knowledge based market in the rural area. Cooperatives present themselves with already mentioned economic advantages and also with social advantages, the possibility to solve the educational problems, the unemployment problem and infrastructure problems.

A survey I conducted in 2012 on a number of 22 individual farmers in three agricultural villages of Romania creates a profile of the potential user of information based on 35 questions regarding the sources they use for information, their management skills, their attitude towards European funding and belief in public policies, their desire to invest in their farm in order to make it more profitable and the attitude they have towards cooperation and association.

The conclusions of my survey are:

There are two categories of farmers, those with advanced age, small farms, traditional methods and those younger who want to make agriculture a business and follow training courses to pursue their goals.

Information can penetrate into rural areas by all means, written, spoken and digital, but its quality from these sources isn't considered to be very high.

Information centers, as interviewees say, are built only to meet the terms imposed by the EU and consultants on issues of accessing funds do not have great credibility. Also accessing European funds is an opportunity only towards young people, older farmers see them as a loophole for authorities to control their activity, notice the communist era which caused deep wounds in the community spirit.

The technologies used are outdated, the new ones are very expensive for Romanian farmers income, pesticides and fertilizers are used at most as directed on the label, or as it deems the user, certified seeds have become priorities, but within the limits imposed by budget.

The production obtained is sold fresh, rarely exist processing or storage capacity so the value added to the production is zero, prices that farmers get are small and the production is uncompetitive on the European market.

Cooperation and association are rarely seen as an opportunity for development because of many reasons such as the forced collectivization experience, the fractioned information farmers receive or a very attached to land attitude of farmers.

Lack of well-regulated markets for agricultural products makes the development of a market for information to be hampered because farmers still do not see the need for it.

Conclusions

Romania's situation is described by a lack of structured markets for agricultural and food products, due in part to the lack of information and tools to support existing in the CAP before our accession in the EU. Lack of proper markets makes it all the more difficult for the development of a market of information in rural areas, the demand and production of information do not find their meeting point in the majority of Romanian farmers.

Romanian rural inhabitant is characterized by old age, lack of specialized knowledge on agriculture and also by a restrictive attitude towards the new policies. His attitude is fully understandable because of all the reforms and changes he's been through only in the last 25 years. The rules imposed by the EU on agriculture are known in a large proportion of Romanian farmers but

their fulfillment is too difficult or almost impossible for them because of the low income. This becomes a vicious circle, farmers do not have the resources to meet European standards, compliance which could bring the needed revenue for development.

The information dedicated to rural exists and it can reach those interested, but the problem occurs in the inverse proportion between information producers and its consumers, a ratio of high to low, which can only be a hindrance to a natural development of market information.

The solution promoted for the development of EU agricultural potential, as is the case of Romania and for initiating information market actors is to create modern agricultural cooperatives on the models of Western Europe. They have proven over time to be the winning formula for rural development, bringing it to the knowledge of urban and while keeping its specificity and traditions.

The cooperative offers its members the power to decide and thus ensure the participation of local actors by developing their need to be informed to make good decisions by relating their own activity and community.

Information empowers its owner, in order to decide what is best for them, the Romanian farmers need to be informed, to use the information and step up in the “development game”. The fastest way to catch up with the western countries and become a competitor to them is to follow their example, their strategies or in another way of putting it take their good examples and make them work in our favor.

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IMPLICATIONS OF THE ASSOCIATION AGREEMENT WITH THE EUROPEAN UNION ON THE FINANCIAL PUBLIC MANAGEMENT IN THE REPUBLIC OF MOLDOVA

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Abstract. *European integration is not just a goal of the foreign policy of the Republic of Moldova, but also a natural aspiration of an European nation to join the European family and the signing of the Association Agreement between Moldova and the European Union is an important step in achieving this goal. The Republic of Moldova has developed and continues to promote rigorous reforms in the area of public finance management. In this article we have analyzed the main reforms and achievements in the field of public finance management in the Republic of Moldova, their importance by reference to good European practices, but also the need to continue them in the context of signing the Association Agreement. The authors argue that until now, the public finance management reform had been focused mainly on the planning and execution phases of National Public Budget, nonetheless the main problems lay in poor budgetary reporting and control. Corruption and fraud are the main risk areas for all the promoted reforms. The conclusion of this paper is that the most urgent actions that should be undertaken consist in improving public procurement procedures, enhancing the internal control, financial inspection and external audit. Only in such a way trustful relation with EU could be created and this is particularly important as it could permit to absorb more European funds to invest in the economic and social development in our country.*

Keywords: European integration; Association Agreement; public finance management reform

JEL Classification: F36; H61; H83

Introduction

The relations between the Republic of Moldova and the European Union (EU) were formally launched on the 28th of November, 1994, by signing the Partnership and Cooperation Agreement (PCA), which entered into force on the 1st of July, 1998. This agreement created the basis for cooperative relations with the EU. The cooperation in the area of public finance was manifesting at that time as a financial support for other reforms. Thereafter, relations between the EU and the Republic of Moldova have evolved by signing the EU - Moldova Action Plan, within the European Neighbourhood Policy, on the 22nd of February, 2005, which has complemented the PCA. The Republic of Moldova has taken initial commitments to reform public finances by signing the Action Plan with the EU. Generally these commitments consisted in the consolidation of public finances,

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tackling debt and reforming the fiscal system. At that time the EU support for public finance management reforms evolved from budget financial support to twinning initiatives in the field of public internal financial control and public procurement system. At present the legal framework of the relations between Moldova and the EU is defined by the Association Agreement, which replaced the CPA. The signing of the Association Agreement between the EU and the Republic of Moldova is an important step to European integration, a new stage of the relations between both sides, which brings Republic of Moldova closer to the European values. The agreement, signed on the 27th of June, 2014 recognizes Moldova's European aspirations and represents not only a base for a cooperation in about 25 sectors, including public finance, but and a connection of the Republic of Moldova's political and economic systems to European values and EU regulations. The Republic of Moldova has developed and continues to promote rigorous reforms in the sphere of public finance management since obtaining its independence. The paragraphs below provide the overview of reforms which are currently in progress in the Moldovan public finance system and budget management, including the assessment of their importance by reference to good European and international practices, but also their perspective in connection to the commitments that result from the Association Agreement.

1. Literature review and theoretical background

European Integration requires changes in the management of public finance. There are two main motivations for the changes in the public finance management in this context. First, as it is argued by Hallerberg and Yläoutinen (2008), is the need for the country to comply with the Maastricht criteria, which includes direct restrictions on fiscal policy (deficits and debts) and this requires more advance techniques of public finance management. The second motivation is the need to create trustful relations with European authorities by demonstrating good abilities to manage public funds. As it is argued by Vasicek and Maletic (2010, p.26), „by introduction of pre-accession assistance programmes the European rules for managing public finance were also partially introduced”.

Vasicek and Maletic (2010, p.25) also note that the preparatory activities for the accession into the European Union is associated with important changes in the management of public finance through the introduction of the following elements: strategic planning, multi-annual budget framework, fiscal discipline, internal audit as well as financial management and control system based on clearly set work processes and procedures. Basing on previous studies on this subject Wescott (2008, p. 2) complements this key elements of the public finance management reform in developed

countries with greater flexibility to managers and organizations in reallocating funds within budget, the emphasize on targets and the use of performance information and computerized information systems providing timely financial and related information. We consider that these reform actions represent an adaptation of the public finance management practices as to correspond to a far more wide reform of the public sector administration, known as the „New Public Management”. This reform of the public management represents a shift from the governance of „rules” to the governance of „scopes”. Translated into budgetary practices this means a shift from the incremental line-item budget to medium term program based budget. According to the World Bank (1998, p.17) and Allen and Tommasi (2001, p.19-20) the main three goals that should be pursued by the public finance management reform are the aggregate fiscal discipline, resource allocation based on strategic priorities and efficiency and effectiveness of programs and service delivery. These goals are very hard to be achieved as this represents a complex change of the public finance management practices, starting with the national public budget preparation, its execution and finishing with public financial control.

2. Data and methodology

The study of the ongoing public finance reforms in the Republic of Moldova performed in this paper is based on the synthesis of the information from several reports on the activity of the Ministry of Finance, the World Bank reports on the technical assistance project in Republic of Moldova, the Strategy on the Development of Public Finance Management 2013-2020 and the Public Financial Management Performance Report prepared in 2011, that has been commissioned by the European Commission.

Regarding the conclusions on the impact of the Association Agreement provisions on the management of public finance reforms, the conclusions were deducted from the analyses of the Association Agreement, EU-Moldova Association Agenda and the Financing Agreement between the Government of the Republic of Moldova and the European Union.

3. Achievements and problems in the area of public finance management in the Republic of Moldova

The analysis of the experience of the countries that are already EU Members shows that European integration has coincided with the application of best practices in public financial management to ensure sustainability, performance, transparency and accountability of public finance.

The main directions of the reforms for strengthening public financial management in the Republic of Moldova coincide with those goals. As it follows we will shortly describe the main reform actions that are being performed in our country.

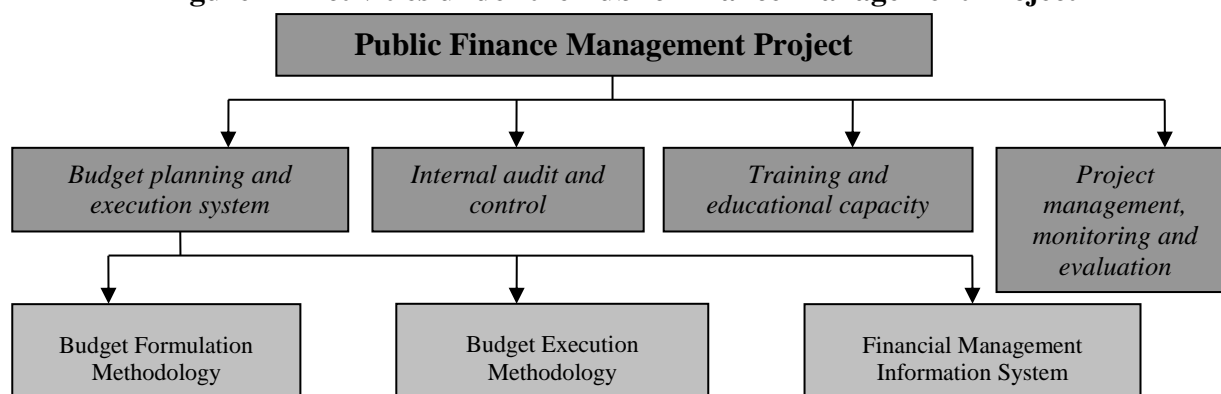
The public finance management reform actions were started in the Republic of Moldova mainly after 2000 and resulted from the commitments that our country has taken to achieve the Millennium Development Goals at the New York Millennium Summit in September, 2000. That is why the period after 2003 was marked by the strategic planning actions at the country level through the development of national strategies in the Republic of Moldova, the first such strategy being the Strategy for Growth and Poverty Reduction. In order to support the practical application of the strategy's provisions it was necessary to review the myopic budget planning process by increasing the time horizon for planning, shifting the emphasis from resources to results, but also linking policies and budget planning. This was performed by introducing a new tool in planning the National Public Budget (NPB) in 2002, namely the Medium Term Expenditure Framework (MTEF) (since 2011 – the Medium Term Budgetary Framework (MTBF)). So we can say that Moldovan authorities have a rich experience with MTF application as so far 11 such documents have been already developed. This area however should be considered as work in progress because MTBF practice has some limitations related to the credibility of the forecasts. More than that, there is still much room to improve detailed processes as well as organisational capacities and skills in the central and local government institutions. There is also a need to advance to a Medium Term Performance Framework that would include sector budgets based on performance indicators.

The main project supporting the Moldova's public finance management developments during 2006-2013 have been the World Bank - funded Public Finance Management Technical Assistance Project, which was completed in December 2013. The Public Finance Management Project (PFMP) represents the most complex program of reforms in this field and includes several activities (Figure 1). According to the World Bank reports the project has accomplished many of its intended results.

First of all the project was concentrated on continuing the previous MTEF reform and enhancing its results. Subsequently, new methodological guidelines for budget preparation have been developed as to integrate medium-term budget planning into the overall budget cycle and enable stronger links between budget allocations and government policy priorities. Besides that, in order to ensure the economic, efficient and effective management of public expenditure, the program-based budget methodology has been applied into practice. As a start it is implemented at the central level. At present the State Social Insurance Fund (SSIF) and the Compulsory Insurance Funds for Medical Assistance (CIFMA) are already being planned and executed basing on expenditure programs. The

share of the State Budget's expenditures that are included in expenditure programs is also growing. Subsequently, a new budget classification was developed and implemented in accordance with the requirements of the IMF GFS standards 2001. The new budget classification, which includes and program classification was adopted by the Ministry of Finance's Order No.190 of 31 December 2014 and entered into force from the 1st of January 2015, for the 2016 draft budget. Alignment of the newly developed budget classification and chart of accounts with international standards has laid a solid foundation for improved transparency of budget and financial reporting.

Figure 1 - Activities under the Public Finance Management Project



Source: Prepared by the authors based on data from the Ministry of Finance of the Republic of Moldova

Concerning the budget execution, the development of the Single Treasury Account (TSA) system was finalised in March 2007 when all budgets, including the whole local level as well as SSIF and CIFMA, were executed via the TSA, which is held in the National Bank of Moldova. All revenue is thus collected on the TSA and all payments are executed from there. Expenditure control is concentrated in the State Treasury within the Ministry of Finance and in the Territorial Treasuries. This contributed to increased transparency and efficiency of budget management through consolidation of all national public budget balances.

Another important action of this project, that represents the largest project activity, is the replacement of the current incomplete and non-integrated information system used by the Ministry of Finance for budget planning and execution with the Financial Management Information System (FMIS). This measure is not simply a technical task, but aims primarily to become a real support for the practical implementation of the new methodology of budget preparation and its execution. The automation of budget operations and financial controls will reduce the time to perform transactions and processing errors, will provide timely and reliable information for effective public expenditure management and enable reliable audit. The Treasury system, implemented through the FMIS is the main factor in providing proper authorization processes and controlling expenditure, ensuring that

budget institutions do not exceed the available appropriation and the monthly allocation. So FMIS will ensure the Government with necessary tools for an effective planning and management of local and central government budgets. Unfortunately this reform measure is still underway.

The application into practice of an internal control and audit system in central government bodies in accordance with best practices and international standards is also one of the latest reform actions within PFMP. According to Moldova - EU Action Plan, Moldova has committed to implement the system of public internal financial control (PIFC) at national level in accordance with internationally recognized methodologies and standards and best EU practices. Subsequently this assumed a comprehensive reform of the internal control and audit in the public sector. Hence, the strengthen of the public financial control was achieved by developing and updating the legal framework for public internal financial control, the establishment of the Central Harmonization Unit (Directorate for the harmonization of public internal financial control within the Ministry of Finance) and internal audit units within central public institutions (77 units at the end of 2013), as well as staff training. According to the consolidated annual Report on public internal financial control prepared by the Ministry of Finance of the Republic of Moldova for the 2013 financial period (Ministry of Finance of the Republic of Moldova, 2014), the development of public internal financial control has registered important improvements, surpassing the implementation phase, during which the institutional foundation were laid, and moved to the consolidation phase, which supposes that the internal audit function should become fully functional and should make an important contribution to the sound management of funds public. We believe that strengthening the external public financial control performed by the Court of Accounts, the Financial Inspection and the National Anti-Corruption Centre is a natural step that should follow after that.

Besides the activities within PFMP there were and other important reforms that have been promoted in our country as to bring the public finance management closer to sound international practices. Regarding the external audit, the new Law on the Court of Accounts, effective from the 1st of January 2009 provides the basis for further development of external audit in line with the INTOSAI standards. Key change introduced by the new law is the shift from external financial control to regularity audit, which the Court of Accounts has carried out for the first time in 2010 by certifying the 2009 Government financial statements. Due to the lack of staff, the Court of Accounts is not able cover the whole spectrum of activities and shares its tasks with the Financial Inspection who audits smaller budget institutions, focusing however mainly on ex-post control of budget execution and regulatory audit.

Basing on the international best practices, the transparency in public finance management has been increased. At present the data on national public budget execution and on the government debt is publicly available through publication on the Ministry of Finance's website. The information on the execution of the NPB is presented not only for the entire financial year but is reported and monthly. Moreover, public expenditure BOOST database allows the public to have access to detailing information on all NPB expenditures since 2005. Transparency is ensured and at the stage of state budget's preparation when the draft budget as well as the amendments to it are being placed on the official website of the Ministry of Finance for public consultation. The Ministry of Finance of the Republic of Moldova ensures transparency and direct participation of members of civil society in working groups responsible for developing the MTBF, which precedes the preparation of central governments budgets. However, amending and supplementing the law on state budget in Parliament remains less transparent.

There have been continuing efforts on the reform of fiscal decentralization lately. According to the National Decentralization Strategy, approved in April 2012, amendments to the Law No.397 on local public finance were adopted in December 2013. They mostly refer to the calculation mechanism of the transfers from the state budget and the local budgets, as well as shared taxes (breakdowns of general state taxes to finance local budgets). This actions come to ensure that in the future it will reduce the mixture of the political factor from the central level in the decision making process at the local level, and therefore it will enhance the capacity of local governments.

The impact of the promoted reforms on performance public finance management can be analyzed from the latest report on Public Expenditure and Financial Accountability (PEFA) that was conducted in 2011. The 2011 PEFA assessment has examined the fiscal system and practices in 2008, 2009 and 2010 and was commissioned by the European Commission. The assessment performed in this report included the evaluation of 31 performance indicators and concluded that there is a general improvement in public finances management in the Republic of Moldova, despite the fact that the assessed periods refer to adverse circumstances due primarily to external shock caused by the global economic crisis as well as the internal disruptions related to the protracted electoral period in 2009 and 2010. However, there are several indicators that show deterioration in the management of public finance. For example, the situation regarding the credibility of the public budget has registered a slight slowdown because the indicator of the composition of expenditure out-turn compared to original approved budget has worsened lately. As experts say, that is due to the impact of the economic crisis. Another limit refers to the disruptions in the preparation process of the budgets because of the political instability, which has lead to a deterioration of the orderliness and participation in the annual budget

process. The most important issues regarding the performance of sound management of public finance refer to the predictability in the availability of funds for commitment of expenditures, effectiveness of internal audit, quality and timeliness of in-year budget reports and of annual financial statements, legislative scrutiny of external audit reports and what is more important there are weaknesses that refer to donor practices. However, since the performance of the PEFA report, the situation of public finance management has been slightly improved. We believe that the adoption and the implementation of the Law on public finance and fiscal responsibility on the 25th of July, 2014 as well as the development of the Strategy on the development of public finance management for 2013-2014 mark an important step in understanding the main weaknesses that remain to exist so far and the necessary actions that should be taken to strengthen previous efforts to enhance the public financial management.

3. The role of the Association Agreement on the management of public finance reforms

The provisions of the Association Agreement on the objectives to be followed in the field of public finance represent a natural continuation of the reforms that are underway in the Republic of Moldova. Issues relating to public finance management are set out in Chapter 7 of Title IV of the Association Agreement between Moldova and the EU and the Association Agenda of the EU and Moldova. Thus according to article 47 of the Association Agreement, cooperation in public finance management „will focus on the implementation of international standards as well as EU good practice in this field, which will contribute to the development of a modern public finance management system in the Republic of Moldova compatible with basic EU and international principles of transparency, accountability, economy, efficiency and effectiveness”.

In the budgetary sphere this cooperation is aimed at removing the shortcomings identified from the assessment of the public finance management. Thus it will focus mainly on improvement and systematisation of regulatory documents on the budgetary, treasury, accounting and reporting systems and their harmonisation on the basis of international standards respecting also good practice in the EU public sector; continuous development of multi-annual budget planning and the alignment to good EU practices; studying the practices of the European countries in inter-budget relations, in order to improve this field in the Republic of Moldova etc. A special attention will be given to the fight with budget fraud and corruption by improving public procurement procedures, strengthening public financial control, including efficient cooperation with the relevant EU institutions. The Agreement does not indicate specific measures to be taken; however, it states that there will be a regular dialogue

on these issues. The dialogue between the two sides has already begun and it is accompanied by financial support for further reforms of public sector management, offered to the Republic of Moldova under the Financing Agreement between the Government of the Republic of Moldova and the European Commission on Support to Public Finance Policy Reforms in Moldova. It supports the efforts of the Government of the Republic of Moldova to progress in some of the crucial areas foreseen by the Association Agreement, including the improvement of public governance. The funding is included in the Single Support Framework for EU support to the Republic of Moldova (2014-2017), which was adopted on 11th of June, 2014 before signing the Association Agreement. Sound management and control of public finances, as well as improved public finance management and transparency, are key political dialogue and reform areas. The financial support is intended to enhance the capacities of the Ministry of Finance, Parliament and the Court of Accounts of Moldova in the management of public money.

The assessment of the objectives supported by the financial agreement shows that the purpose of the management of the public finance reforms in the Republic of Moldova, which are being funded by the EU, is the need to ensure effective use of public funds as to create trusting relationships with Member States, European institutions, and in particular the European Commission. The measures to be promoted include a much larger area of beneficiaries. Unlike previous reforms which were concentrated on the executive authorities, the new reform actions will also focus on legislative authority's capacity building, especially by strengthening the capacity of legislative control, increasing the transparency of the budget adoption procedure and enhancing the accountability of public finances by developing the institutional capacities of the Court of Accounts. As regards to the executive authorities, the reform will focus on improving tax administration and increasing independence of the State Tax Service and the Customs Service, strengthening medium-term planning, improving public access to budget information, improving debt management and strengthening expenditure control and public reporting. Unlike the previous reforms, the objectives of the present reforms envisaged in the Association Agreement, are defined more precisely. This allows us to assume that the EU puts much more hope in the management of public finance reforms, and thus the future European course of our country depends on achieving these objectives.

Until now, the public finance management reform had been focused mainly on the planning and execution phases of NPB. Nonetheless it is obvious that the main problems lay in poor budgetary reporting and control. More than that, we consider that corruption and fraud are the main risk areas for all the reform promoted in our country. Financial control fails to satisfy the needs of sound management of public finance. Although several actions regarding public financial control have been

undertaken until now, they were made separately, without coordination. This has led to the current situation when public financial control is regulated in a fragmented way through several legal acts and is exercised by several institutions with an overlapping and duplication of functions. The low effectiveness of financial control in recent years should prompt policy makers and specialists to concern about the reorganization of the existing public financial control system basing on internationally recognized principles and taking into account the realities of our country. Improving financial control should not be formal, but actual, realized through a productive cooperation with all the institutions involved that would contribute to the improvement of financial control in the Republic of Moldova.

Conclusions

Moldovan public authorities are involved in a complex process of public finance reforms and the agenda of these reforms is very ambitious and optimistic. The bases of the promoted reforms lays in strategic budget planning that was initiated back in 2002, by the introduction of the MTEF, that was continued afterwards with efforts made on enhancing sustainability, performance, transparency and accountability of public finance. Although a lot of work has been done already, many lacks remain to exist. The main problem with the financial public management is the weak public financial control. For this reason it is necessary to continue public finance management reforms that were initiated in the Republic of Moldova but with an emphasis on the fight with budget fraud and corruption. The most urgent actions that should be undertaken consist in improving public procurement procedures, enhancing the internal control, financial inspection and external audit. We believe that only in such a way trustful relation with EU could be created and this is particularly important as it could permit to absorb more European funds to invest in the economic and social development in our country.

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PATTERNS OF THE AGRICULTURAL INCOME AND IMPACT OF STRUCTURAL CHANGES POST-ENLARGEMENT AMONG EU STATES

Mirela-Adriana RUSALI*

Abstract: *The article presents the results of analysis on the pattern of agricultural income structure and changes in EU Member States related to the enlargement impact, highlighting gaps and major contributions. While marked differences appear between the EU-15 and post 2004 acceded countries, the major contribution of the Romanian agriculture to the EU economy and the proportion of employment in agriculture, are indicators of a divergent sector development. With a substantial contribution to the UAA, i.e. the 7.9% share in arable land places Romania among the first 6 countries, while the 8.3% share in the area of permanent pasture reveal a potential advantage for livestock grazing. Nevertheless agriculture remaining the foremost source of income for rural households in Romania, its importance has been evidenced a decreasing trend in the post-accession period of time 2007-2013, by comparing to the previous period of time 2001-2006.*

Keywords: agricultural income; structural changes; post-enlargement; Romania

JEL Classification: Q17; Q12; F15

Introduction

Agricultural income is an important indicator on the agricultural sector's viability of each state and grounds the debates on perspectives regarding the economic and social policies.

There is a wide range of driven factors affecting the trends of income produced by the agricultural sectors across the EU region, depending on each agricultural production systems that make the impact very much regional specific. The potential impact of the uncertainties is related mainly to price developments of input costs on commodity balances.

Production systems highly dependent of inputs use are the most exposed to price changes. This is because crop production systems need higher input use than livestock systems, therefore are affected more from a negative impact as a result of the fact that greater costs are only in part transferred to higher producer price (EC, 2012).

As well, in addition to potential impact, at regional level on farmers' income, of the uncertainties related to variability of input costs, might be noted those related to climate changes variables on the agricultural sector and different EU bio-fuel policies on feedstock markets (EC, 2012).

The article presents the results of analysis on the pattern of agricultural income structure and changes in EU Member States, highlighting gaps and major contributions across the region related to the enlargement impact.

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1. Methods of assessing agricultural income

Agricultural income comprises the income generated by agricultural activities, including non-agricultural, secondary activities, over a certain period. Moreover, it is a different indicator than the total income of farming households as it does not comprise income from other sources e.g. non-agricultural activities, salaries, social benefits, income from property.

The estimates provided by Eurostat, i.e. calculated aggregate figures, have been compiled by the EU Member States according to the methodology of the Economic Accounts for Agriculture, as indicated by the Regulation (EC) No. 138/2004, closed to the methodology of the national accounts but incorporates a number of changes to take account of the special features of the agricultural economy (EC, 2014).

The real income of factors in agriculture, per annual work unit, corresponds to the real net value added at factor cost of agriculture, per total annual work unit. At the same time, the net value added at factor cost is calculated by subtracting from the value of agricultural output at basic prices the value of intermediate consumption, the consumption of fixed capital and production taxes, and adding the value of production subsidies.

In order to take account of part-time and seasonal work, agricultural labour or their changes, are measured in annual work units (AWU), defined as work-time equivalent of a full-time worker. The agricultural income per worker is calculated as factor income per AWU, in real terms. It corresponds to the net value added at factor cost of agriculture, per annual work unit and deflated by the implicit GDP price index. This measure is commonly expressed as an index of the real income of factors in agricultural per annual work unit.

2. Analysis on the pattern of agricultural income in EU and background factors

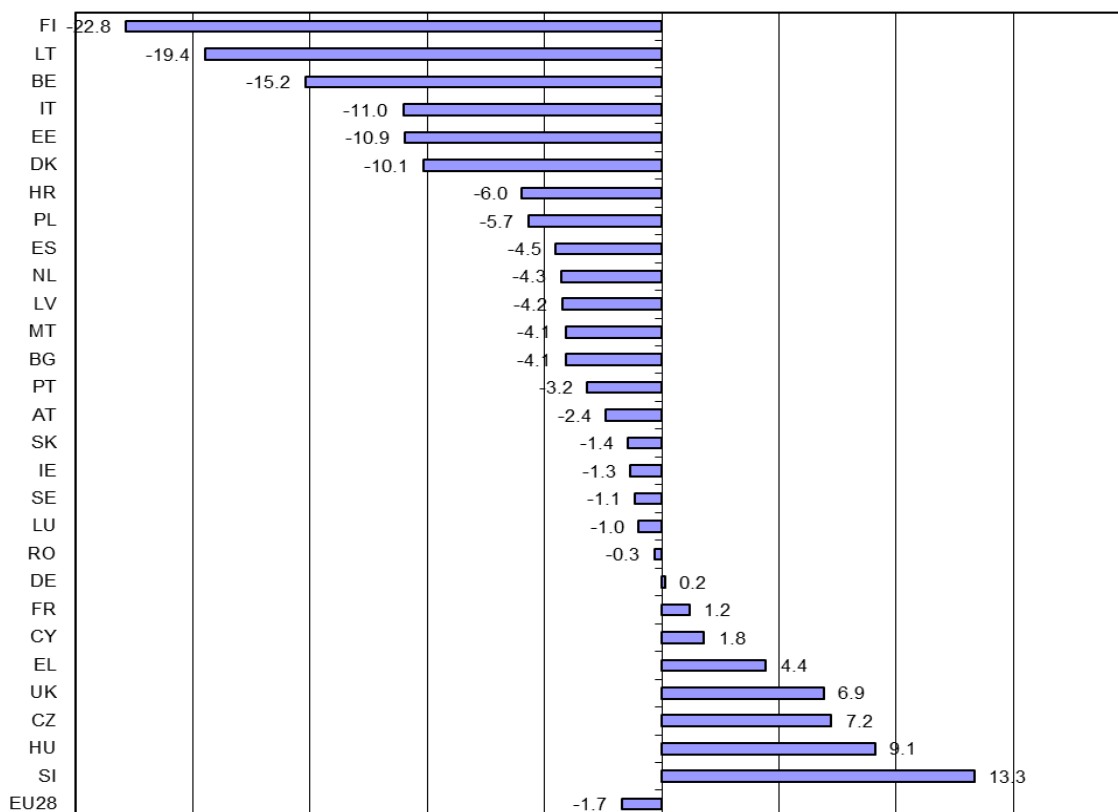
Against the background of real agricultural income per worker, marked differences appear between the EU-15 and the newly accessed countries aggregates post 2004.

Agricultural income per worker in real terms decreased on average by 1.7% in 2014 in the whole region comparing to the previous year, although about 33% higher than in the crisis year 2009. The reduction in average income is stronger in the EU-15 (-2.4%) than in the countries that accessed the EU since 2004 (-0.4%) (EC, 2014).

The income development per worker in 2014 reflects a 4% decrease in factor income in the EU-28, which is similar in the EU-15 (-3.9%) and the EU-N12 (-4.3%), combined with an average reduction in labor input by 2.3% which is more marked in the EU-N13 (-3.4%, including Croatia) than in the EU-15 (-1.3%). Similarly, the agricultural labour force keeps declining more strongly in the enlarged EU area than in the EU-15. Results by Member State differ substantially, both in terms of changes from 2013 to 2014 and in terms of the absolute index value.

Agricultural income per worker declined in over 70% of the EU-28 in 2014 (20 countries). As indicated in fig. 1, the highest decrease (-22.8%), was in Finland, mostly because significant decrease of animal output value (-17.7%), and less to the decline in the value of milk production (-2.7%) when real milk prices drop by 5.5%.

Figure 1- Change in agricultural income per worker in the EU-28 (2013-2014) (%)



Source: EC, 2014

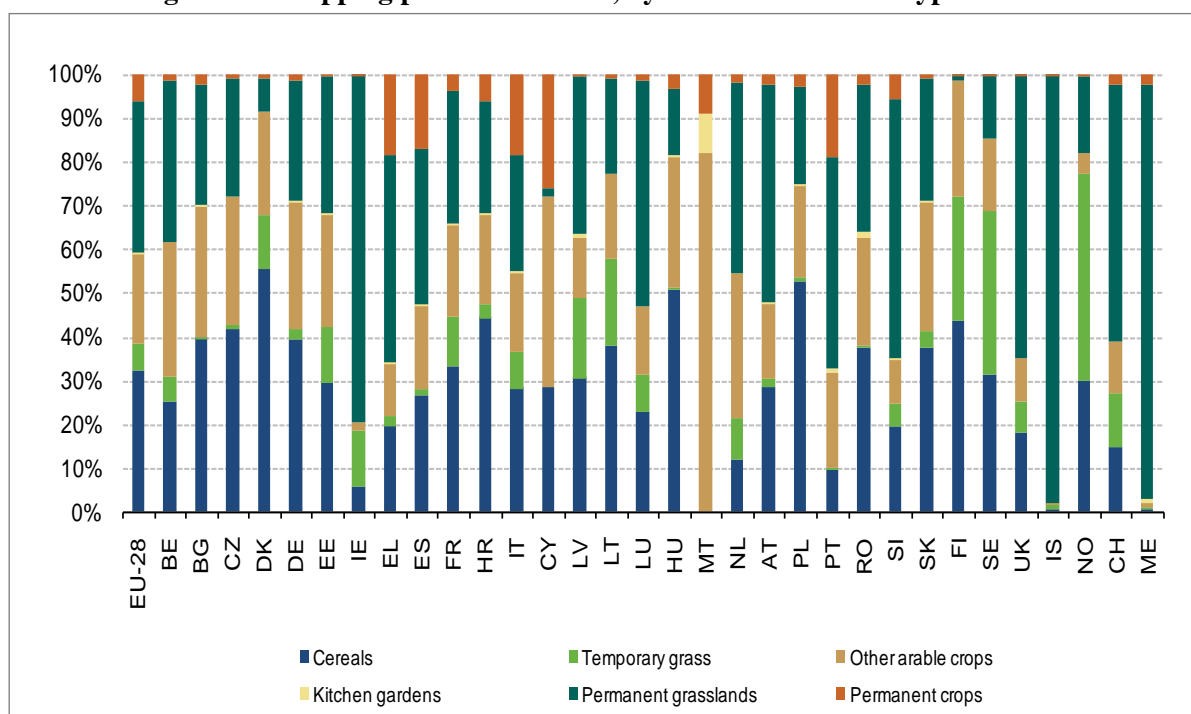
Lithuania (-19.4%) and Belgium (-15.2%) also experienced important diminish in agricultural income per worker, for different reasons: in Lithuania declined the value of both crop (-9.4%) and animal output (-7.2%), combined with a 10.5% decrease in subsidies and a 5% growth of fixed capital consumption, while in Belgium the most affected was the value of crop output (-13.8%).

The highest income increase was estimated in Slovenia (13.3%), due to a substantial increase in the output value of animal products (11.8%) and a drop in production costs of 5.8%. As well, Hungary (9.1%), the Czech Republic (7.2%) and the United Kingdom (6.9%) performed strong increases. Only 8 countries shown, however, an increase compared to 2013 values, while Romania experienced the leased decrease (-0.3%).

The output value and production costs are the most variable elements in estimating the agricultural income. The overall agricultural output value in the EU-28 fell by 3.5% between 2013 and 2014, mostly due to a reduction in crop output value. Cumulatively, Romania's contribution to the total value of agricultural production in EU-27, obtained in 2013 was of 3% in crop production, respectively, of 1% in animal production.

Income sources provided by the agricultural structural indicators related to the land utilization are shown by the cropping pattern across the EU countries. The fig. 2 indicates the diverse structure of the utilized agriculture area (UAA) in EU.

Figure 2 – Cropping pattern in EU-28, by share of main land types in UAA

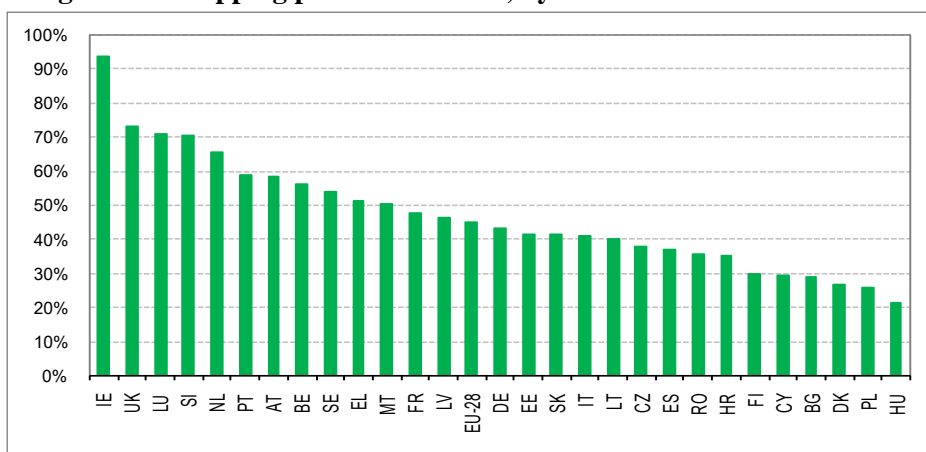


Source: Eurostat (FSS 2010)

Of the 175.8 million hectares in EU-28, the arable land covers over half (58%), represented by cereals (32%), temporary grass (6%) and a quite important share of other crops (20%), while permanent grassland is the most spread (35%), followed by a less share of permanent crops in the UAA (6%) and the kitchen gardens (0.2%). The cereals areas are wider spread in France (33%) and

Spain (26%); temporary grass areas in Sweden (37%) and Finland (28%); permanent grasslands in Ireland (65%) and UK (59%); and permanent crops are mostly in Cyprus (26%), Portugal and Italy (19% each). The EU-28 covers 79.4 million hectares of fodder areas, that is 45% in UAA. The cropping pattern depicted by the shares of fodder area in the UAA (fig. 3) reveal that the greatest shares are in Ireland (94%) and UK (73%), and the least are in Denmark (27%) and Bulgaria (29%), while although below the EU average is Romania (36%) with 4.7 million hectares.

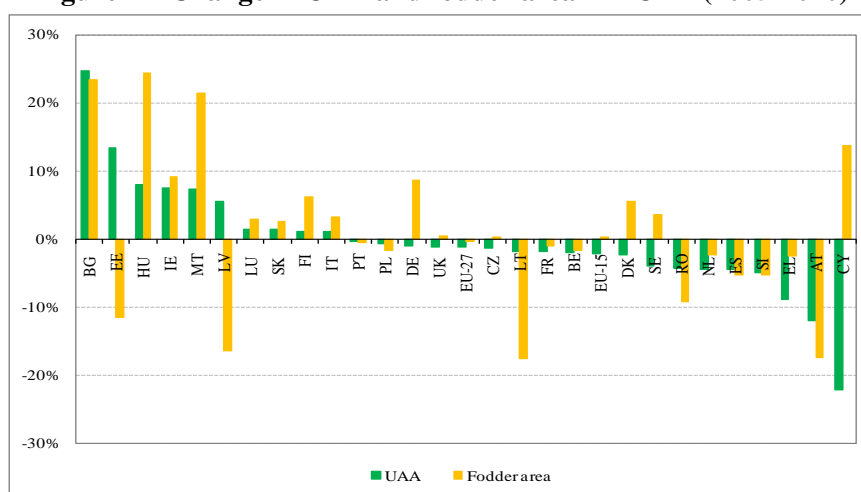
Figure 3 – Cropping pattern in EU-28, by share of fodder area in UAA



Source: Eurostat (FSS 2010)

The fig. 4 presents the changes in the UAA in EU in average and by Member States, in period 2005-2010, compared to the changes of the fodder areas.

Figure 4 – Change in UAA and fodder area in EU-27 (2005-2010)



Source: EC, 2013

Despite the decreasing trends, Romania numbers among the EU countries with a substantial contribution to the UAA. Following the structure of the agricultural land, with 8.3% share they

occupy in the area of permanent pasture, EU gives to Romania a potential advantage for livestock grazing. Also, as of 2013, the 7.9% share in arable land places Romania among the first 6 countries, after France, Spain, Italy, Germany and Poland.

While the 8 billion of Gross Value Added (GVA) places Romania among the first 10 states, after France, Italy, Spain, Germany, Poland, UK and the Netherlands (Table 1), the labour productivity in the sector stands at a modest value of 5 thousand Euro per annual work unit (MADR, 2013).

Table 1 – GVA in primary sector* in EU-27 and shares in Member States economy (2013)

	GVA in Primary sector (Million Euro)	GVA in Primary sector share of country's total (%)
European Union	194664	1.7
France	33198	1.8
Italy	30045	2.1
Spain	24109	2.6
Germany	19060	0.8
Poland	13115	3.8
United Kingdom	10813	0.6
Netherlands	8892	1.6
Romania	7964	6.4
Greece	5931	3.7
Sweden	5588	1.5
Finland	4696	2.8
Austria	4366	1.5
Hungary	3944	4.8
Portugal	3502	2.4
Czech Republic	3181	2.4
Denmark	2815	1.3
Ireland	2733	1.9
Belgium	2691	0.8
Slovakia	1939	3.0
Bulgaria	1696	4.9
Lithuania	1199	3.8
Latvia	1021	4.9
Slovenia	885	2.9
Estonia	629	3.9
Cyprus	403	2.7
Luxembourg	139	0.3
Malta	99	1.6

*) agriculture, forestry and fishery

Source: Author's processing using Eurostat data

The results of evaluations based on Eurostat statistics show a 4% share of the Romanian agriculture in GVA achieved in average during 2001-2013, amounting to 7 billion Euro, in the EU-27 agricultural sector. This performance resulted based on increasing the share of crop production

value, from 3.9% in 2001 to 5.7% in the value of crop production in the EU-27 produced in 2013. At the same time, the share of animal production in GVA decreased from 2.7% to 2.3%.

However, the major contribution of the Romanian agriculture in the EU economy and the proportion of employment in agriculture, are indicators of a divergent range of Romania toward the development of the sector in most Member States.

From the data provided by the Romanian Statistical Yearbook (table 2), Romanian average farmers' income represented 60% of employees' income in the period 2001-2013.

Table 2 – Structure and changes of farm households' income in Romania (2001-2013)

	2001-2006	2007-2013
Total income of farmers (lei, monthly per household)	433	2098
Money income (%), of which:	42.3	53.1
<i>Gross salaries and other salary rights</i>	6.5	8.4
<i>Income from agriculture</i>	23.4	26.1
<i>Income from non-agricultural independent activities</i>	2.1	3.7
<i>Income from social provisions</i>	7.6	9.0
Equivalent value of consumption of agricultural products from own resources (%)	57.5	46.0

Source: NIS, 2014.

The estimations of the average subsistence equivalent income from the consumption of own agricultural products accounted for 47%. The main source of money income came from agriculture, accounting for 24%, while 11.6% from social provisions, 7.8% from salaries and only 2.9% from non-agricultural independent activities, though a slight increasing trend has been observed since the year 2007.

Summary remarks

Against the background of real agricultural income per worker, marked differences appear between the EU-15 and the newly accessed countries aggregates post 2004.

Income sources provided by the agricultural structural indicators related to the land utilization are shown by the cropping pattern across the EU countries. The arable land and the fodder areas cover the major part of EU's UAA, while the crop output evolution had the greatest influence on the value of agricultural income.

However, the major contribution of the Romanian agriculture in the EU economy and the proportion of employment in agriculture, are indicators of a divergent range of Romania toward the development of the sector in most Member States.

The importance of agriculture, as a foremost source of income for agricultural households in Romania, was estimated at 80.9%, in average, in the period of time 2001-2006, while, with a decreasing trend, at 72.1% in the post-accession period of time 2007-2013.

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GREECE FACES A YIN-YANG DEVELOPMENT PHASE

Stefania Andra SIMIONESCU*

Abstract: *The concept Yin-Yang represents the unity of opposites and complementarity. In this respect, from the economical point of view a positive Yin phase represents the cash flow, brings nutrition, gentleness and protection, while a negative Yin phase means capital loss, sloth and passive obedience; a positive Yang phase is translated as an action based on funds, emphasising the creation, the construction and the development of infrastructure thanks to an economical action plan, while a negative Yang phase leads to conflicts, to excessive product stocks and to a stock market collapse, causing, in this line, crisis and inflation by increasing prices and decreasing purchasing power.*

In the European Union, Greece faces a Yang negative phase. When having too much positive Yin monetary stimulus from the EU, the Yin-Yang balance turns in favour of a negative Yang bankruptcy and unemployment. Thus, I explore not only the Greece's economical dimension, but also its geographic role, the synergy between culture and DNA and the last, but not the least, the human's ability in creating a new positive Yin-Yang flourishing future.

Keywords: Greece; the European Union; Yin-Yang; development; gravitation

JEL Classifications: I30; N40

Introduction

This paper aims to provide an overview of Greece's social and economic aspects. In order to understand its long-run development, it is reasonable to take into account that there is a wide range of differences between EU Member States and Greece, from matters of education, income, labour market, communication, language, gravitation and geography, to DNA, technology, energy and transport.

In addition, the type of analysis undertaken here is based on the Yang-Yin concept. The Yang-Yin concept is very famous in China, yet, the specific drawing has also been discovered on ancient sculptures dating back 5500 years BC, in villages such as Cucuteni (in Romania, Iasi) and Trypillia (in Ukraine, near Kiev). On the one hand, Yang is the element which provides the possibility of existence, meaning the possibility of *to be*. Moreover, by the power it holds, it describes both the Active Principle of Creation and the Cohesion Force, giving rise to electricity and movement everywhere in the universe. In this respect, Yang represents the bright side and stands for the Hard Force and for *you are what you are* concept. On the other hand, Yin is the magnetic and the Soft Force, which is equivalent to the dark side and the passive principle, describing the acceptance through obedience, therefore, bringing change in the movement. Dictated by a negative state, we

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witness transformation, hence, the *not to be* condition, usually called *you are not what you are* (Incappucciato, 2000, pp. 68-70). The *you are not what you are* component is necessary, so that the entity can live in a specific world in order to enrich the spiritual experience. The Yang-Yin symbol is very complex because it represents Yang with a point-source Yin and Yin with a point-source Yang. Each one of them can control a part of the other one, thus, the mechanism describes the complementary duality. For example, someone may act dictatorial, if someone else allows this to happen.

I will outline that from the economical point of view, the Yin-Yang concept serves as a forecasting technique, representing both the Yin-conservatory society and the Yang-progressive society. Furthermore, the Yin positive phase represents the cash flow, brings nutrition, gentleness and protection, while an Yin negative phase means capital loss, sloth and passive obedience; an Yang positive phase is translated as an action based on legislation, funds, emphasising the creation, the construction and the development of infrastructure thanks to an economical action plan, while an Yang negative phase leads to conflicts, to excessive product stocks and to a stock market collapse, causing, in this line, crisis and inflation by increasing prices and decreasing purchasing power.

1. Yang-Yin aspects regarding the “*Unity in diversity*” among EU’s Member States

The union of the European States traces its origins in 1951, respectively 1958, when Belgium, France, West Germany, the Netherlands, Luxembourg and Italy had created the European Coal and Steel Community, respectively the European Economic Community (EEC). Yet, November the 1st, 1993 represents the Yin-Yang moment, when the Maastricht Treaty established the European Union (EU) under its current name. Today, the European Union is an economic-political partnership consisting of 28 Member States located primarily in Europe.

Europe is one of the seven continents on planet Terra and, in terms of gravity and of rocky particles, the European continent is a Yang positive element, the gravity force representing attraction (Yang positive force), and the centripetal force representing the rejection of gas and particles (Yin positive force). According to the discoveries of the European Space Agency's satellite known as GOCE (European Space Agency, 2011), the gravitational pull (Yang positive) is not exactly the same all over the planet, for instance the gravitational pull from the United Kingdom and Germany is weaker than the gravitational pull from Greece, and the gravitational pull from the Mediterranean Sea is stronger than the gravitational pull from Greece, Germany and the United Kingdom. These Yang positive differences have Yin positive impact on each country’s profile and go hand in hand with

everything related to matter and substance, such as relief, wind, soil moisture and water as well as with energy and electricity, motion and transport, human's height, age and DNA. For example, in 2002 researchers pointed out that due to the gravity field, tectonic features, global heating and ice melting, the sea levels increased considerably, as follows: along the shorelines of Northern Europe (Sabadini *et al.*, 2002), in the periphery of the region occupied by the Fennoscandian ice sheet, especially along the coasts of the Netherlands and Germany, the sea-level has been increasing up to 2 mm/yr; further to the south, in the central Mediterranean Sea, the sea-level has been increasing with 0.6-0.8 mm/yr; whereas in the periphery of the Mediterranean Sea, sea-level rises with rates from 0.2 to 0.4 mm/yr in the Adriatic Sea; and 0.4mm/yr in the Mediterranean coast to France. Hence, changes lead to long-term Yang effects on highly populated regions, territorial cohesion and policies, and last but not least, on the EU's economy.

The European Yang-Yin efficiency of economic growth also depends on Yang positive trade activities, such as transport and communication. Starting with Jonathan Pool's findings regarding the relation between linguistic diversity and GDP per capita, in 1991 Joshua Fishman warns about a negative Yin effect of ceasing upon economic development, caused by linguistic heterogeneity. In 1972 Jonathan Pool highlighted that if a country is "*linguistically highly heterogeneous is always undeveloped or semi-developed, and a country that is developed always has considerable language uniformity*" (Desmet *et al.*, 2015, pp.8-12). Words are Yin-Yang handy mnemonics, but the diversity of Yang languages causes different ways of Yin thinking and different conceptual Yin worlds called *Whorfianism*, after researcher Benjamin Lee Whorf, giving rise to a complex Yang diversity on Yin income levels. Furthermore, not only linguistics investigations prove the necessity for linguistic uniformity, but also physicists plead for a similar result, called hiper-communication. Hiper-communication is the ability which helps human beings both to talk and understand any language on this planet and any universal type of language, due to human's DNA features. Based on Pjotr Garjajev's researches, a Russian biophysicist and molecular biologist who discovered that our language is a reflection of our DNA and vice-versa, the study made by Fosar *et al.*, (2001) reveals that only a group consciousness, such as the way of thinking of ants, leads to hiper-communication, because atoms from a person's DNA communicate with other atoms from an another person's DNA.

Despite the Yin legal personality of the European Union, the European citizenship and the fact that "*English was the most studied foreign language across the EU, with 96.7% of students learning it in 2012 (at ISCED level 2)*" (Eurostat, 2015, p.114), in EU exist 24 Yang official languages and many dialects. Nevertheless, differences of languages and DNA between Europeans across EU are

also due to the glacial period, to geographical isolations and to migrations. For instance, Greeks of Crete show a significant different DNA compared to the Greeks of Northern Greece:

An analysis of Y-chromosome haplogroups determined that the samples from the Greek Neolithic sites showed strong affinity to Balkan data, while Crete shows affinity with central/Mediterranean Anatolia. ...In the Greek data overall, the most frequent haplogroups include E3b1a2-V13 (28%), R1b3-M269 (13%), R1a1-M17 (11%), I2a-P37 (9.0%), J2b-M12 (6%). In Crete, the most frequent haplogroups are R1b3-M269 (17%), G2-P15 (11%), J2a1-DYS413*(9.0%) and J2a1h-M319 (9.0%). ... Crete clusters with the central and Mediterranean Anatolian samples, together with those of southern Iran, Iraq, Lebanon and Jordan (King *et al.*, 2008, pp. 205-208).

With regard to the Greeks of Northern Greece also known as Aromuns (or Aromani, Romani, Romeni, Rumeni and Vlachs) (Comas *et al.*, 2004, p. 124) the maternal and paternal DNA lineages results (H, I, T, J, U haplogroups were the most prevalent in the Balkans) suggest a common Thracian ancestry of all Balkan populations (from Albania, Macedonia, Bulgaria and Romania from Maramures, Constanta and Ploiesti), separated from the Slavic populations (Croatians, Polish, Ukrainians, Czech-Slovakians and Hungarian) (Bosch *et al.*, 2006, pp.461-469).

Paul Krugman highlights that the world's economy is a "*complex system of relations with retroactive effects*" (Brailean, 2009, p. 21), hence, respect, cooperation and love among the EU citizens, and less individuality and competition, will help us not only to achieve hyper-communication with our DNA (Yang positive), but also offer us the ability (Yin positive) to think broadly, to be more conscious regarding the Yin-Yang business decisions and to build eco-friendly technologies, leading to a society of type I, as foreseen by scientists like Michio Kaku. In this sense, education, training and research (Yin positive) lie at the heart of the EU's technological development (Yang positive) and are seen as key drivers for productivity, growth, jobs and globalization. Furthermore, the EU's problems can be effectively addressed with strong collaboration and partnerships (Yang-Yin positive) at various levels. Thus, the European Monetary Union (EMU) is no longer the EU's main driver, but technological cooperation is, changing, in this respect, the territorial diversity of each EU Member State into strength for the benefit of every EU citizen.

In contrast, at the current stage, the European dream and the European hyper-communication are threatened by a Yang-Yin negative domino effect in the education and research area and, at the same time, on the labour market concerning the employment and unemployment area. Concerning the EU's slow motion (Yin negative) regarding the language uniformity is linked to the early leaving

from education and training over the period 2008 to 2013, especially in Southern European countries such as Portugal, Spain, Malta, Greece and Cyprus (Eurostat Statistical Books, 2015, pp. 107-110). Furthermore, between 2008 and 2011 “cuts in education expenditure were significant in Estonia, Ireland, Latvia, Hungary, Bulgaria, Greece, Italy and Romania, where spending levels in relation to the GDP were already low and have been cut further”(Eurostat Statistical Books, 2015, p. 128). EU invests less in research and innovation, those two steps representing Yin and Yang positive stages for development. According to the latest official data provided by the European magazine *Smarter, greener, more inclusive?*, in 2013 the EU’s overall research effort ranged from 0.48% to 3.32%, the most innovative countries being Denmark, Germany, Finland, Ireland, the Netherlands, Sweden and the United Kingdom.

Northern European countries such as Finland and Sweden not only share a pattern of high expenditure, but also have the most ambitious national targets. In 2013 Denmark achieved its national target of 3%. Countries with lower R&D expenditure levels, below 1% were mostly in Eastern and Southern Europe, for instance Romania, Bulgaria, Cyprus, Malta and Greece. In some countries (Poland, Romania, Croatia, Slovakia, Lithuania, Latvia, Cyprus and Greece), R&D efforts relies predominantly on the public sector (higher education and government) (Eurostat Statistical Books, 2015, pp. 51-52).

From the Yang-Yin balance point of view, as regards the labour market in 2013, the Yang employment rates among EU Member States ranged from 52.9% to 79.8%. The highest employment rates also appear to be located in the most innovative countries, in particular Sweden, Germany, the Netherlands, Denmark, Austria and the United Kingdom. Most of these countries exceeded the 75% EU target. “Countries at the lower end of the scale, with employment rates below 60%, were Greece, Croatia, Spain and Italy. ...The strongest falls were in Greece (-13.4 percentage points)” (Eurostat Statistical Books, 2015, p.30), while Malta and Germany have experienced the strongest Yang positive growth in employment rates since 2008. Over the medium and long term, if the crisis of the European Union continues to worsen (Yang negative), Yang negative consequences occur at all levels, leading to poverty (Yin negative) and, eventually, to difficulties (Yang-Yin negative) to invigorate all EMU economies. Hence, in order to ensure that every EU Member State lives the European dream, Yang-Yin positive changes should be supported by an appropriate range of Yang-Yin positive policies such as apprenticeship and lifelong learning, continuous research, adequate employment jobs and wages, adequate agriculture and fiscal policies, as well as a group consciousness, more collaborations and partnerships across the EU.

2. Greece faces social and economic Yang-Yin challenges

The Yin-Yang moments of Greece (Yang through legislation) concerning the European integration, begun with January the 1st, 1981, when it was already a member in the European Economic Community (EEC) since 1980. On January the 1st, 2001, Greece decided to abandon its national currency in favour of the Euro (€). Between 1983 and 2014, Greece had the honour to hold the rotating Presidency, 5 times, at the Council of the European Union. Since January 1st, 2000 Greece is also a Schengen Area member.

2.1 The Yang Greece's geography shapes Greek's Yin heritage

The Greece's location (Yang element) is at the southern tip of the Balkan Peninsula in south-east Europe and at the north-eastern corner of the Mediterranean Sea. Its geographical size is 131 957 km², 80% being mountains, which has contributed to the preservation of the purity of the Greek culture. Its territory includes more than 1400 islands throughout the Aegean, Ionian and Mediterranean seas, of which 227 are inhabited. As described in Section 1, part of the responsibility for the Greece's culture and biodiversity concerning the morphology of its terrain, geological features, the distribution of rainfall and water, rests with the gravitational field and the sunlight, which have enhanced the DNA communication between plants, leading to environmental and agricultural cues for development. Thus, in response to “*geotropism*” and “*phototropism*” (Forbes *et al.*, 1992, pp. 200-201), 20%-25% or approximately 3.3 million hectares of Greece is forest land (European Communities, 2000, p. 100), and trees grow taller in response to a weak gravitational force. The agricultural land covers about 3.9 million hectares, out of a total area of 13.1 million hectares with cultivated land at about 3.5 million hectares. Due to stronger gravitational forces, trees and plants grow smaller, like grapes and olive trees. For instance, Crete, Laconia, Lygourio, Kefalonia, Olympia, Lesvos, Preveza, Rhodes, Thassos, Samos, Zakynthos, Thrapsano, Agios Matthaïos and Troizinia, are all places that have been recognized for their great contribution to the culture of olive oil and have won distinctions. Furthermore, according to the *Agriculture statistics-family farming in the EU*, in 2010, Greece recorded the largest agricultural area among the EU Member States, with an average of almost 2 600 hectares for each farm without any family labour force (Eurostat – Statistics Explained, 2014).

As it is expressed in the Treaty of European union, the EU aims both to develop and to respect Greece's culture, but at the same time emphasises the common strands of the European culture. This approach is consistent with geographical indicators (GI) and with the designation of zones of land development [*zones oikistikou elenchou (ZOE)*] (European Communities, 2000, p. 100), which provide the needed economically and culturally Yang positive opportunities to create value for Greek local communities through products that are deeply rooted in tradition, culture and geography, in order to support not only Greece's rural traditions, but also to create job opportunities in production, processing and other related services. There are at least 89 Greek PDO products (Protected Designation of Origin), such as the ouzo, tsipouro and raki drinks, the wine from the Greek island of Chios, the Naxos citron drink and kumquat liqueur from Corfu, the "Tomataki Santorini" (the cherry-tomato of Santorini), the Kalamata olives and the "throumpes" (black wrinkled olives) of Thassos, Chios and Crete, the traditional Messolongi avgotaraho (salted flat-head mullet fish roe), 20 different types of cheese, 27 different types of olive oils, 23 vegetables and pulses, as well as several varieties of honey.

2.2 The Yin-Yang Greece's balance: import and export activities

The Greek's PDO products reflect their contribution to the Yang-Yin balance of Greece's economic flows. Greece's Yang intra-EU trading partners are Italy, France, Germany, Holland, the U.K, Belgium, Bulgaria, Cyprus and Romania, while its Yang extra-EU main trading partners are USA, Turkey, Algeria and United Arab Emirates. Nevertheless, according to the National Statistical Service of Greece, the Yin-Yang "*Balance of Trade in Greece averaged -2396.48 EUR Million from 2001 until 2015, reaching an all-time high of -1157.30 EUR Million in August of 2001 and a record low of -4209.20 EUR Million in June of 2008*" (Taborda, 2014). Before 2008 the Greek Yang exports ranged from 12.722 Million Euros in 2000, 11.013 Million Euros in 2002, 12.306 Million Euros in 2004, 16.525 Million Euros in 2006 and 17.334 Million Euros in 2008, while the Greek Yin import activities ranged from 36.250 Million Euros in 2000, 33.386 Million Euros in 2002, 42.415 Million Euros in 2004, 50.668 Million Euros in 2006 and 60.669 Million Euros in 2008(MAGOULIOS *et al.*, 2013, p.195). The Observatory of Economic Complexity reveals that trade deficits have continued due to high volume of imports. For instance, in 2012, Greece's imports indicated values of \$60.5B, while Greece's exports indicated values of \$33.8B. Despite exporting refined petroleum (35%), packaged medicaments (3.1%), aluminum plating (1.9%), non-fillet fresh fish (1.7%), raw cotton (1.7%), pure olive oil (1.3%), processed fruits and nuts (1.2%), Greece's main imports ranged from

mineral fuels (34%), machinery and transport equipment (14%), chemicals (13%), passenger and Cargo ships (4.0%), semiconductor devices (1.9%), cars (1.2%), meat and cheese (2.6%), computers (0.68%), video displays and telephones (1.05%)(Taborda, 2014).

On one hand, Yin import activities such as natural gas, mineral fuels and chemicals, are in response to the Yang protection of Greek's environment, considering that the expenditure of public sector on environmental protection was 0.74% of GDP in 2012 (Eurostat, 2014, p. 26, p. 248). Greece has oil production and fossil fuel resources, especially in the form of lignite coal, but if Greece were to explore more of its natural resources, the natural radioactivity caused by water, soil and vegetation, along with the artificial radioactivity, such as geopathogenic outbreaks due to mining industry, oil and gas exploration, would harm Greece's specific biodiversity and would threaten its long-term sustainability. On the other hand, the high volume of imports reflects Greece's deteriorating Yin-Yang economic situation. The most severe financial and economic crisis to have hit Greece, has had a major impact on employment, health and education system, as well as on GDP growth. For instance, labour force represents the Yang-Yin balance of the total number of employment (Yang positive) and unemployment (Yin negative), therefore, Yin negative phases request Yin positive measures and policies, such as adequate education and training, research and innovation, which will lead to Yang positive situations, such as employment. Unfortunately, in Greece, the unemployment rate was at 11.80% in April 2010, which increased to 21.40% in December 2011, followed by 26.40% in December 2012 (Ycharts Eurostat, 2015). Furthermore, some of the peaks on Yin negative unemployment (27.90% in September 2013 and 27.20% in February 2014) are due to school leavers (Yin negative), low educational attainment [in 2007 the proportion was 24.8% among 25-34-year olds (European Commission, 2009, p. 282)], the lack of skills (Yang negative), the difficult work conditions, the low quality of managers and in-firm training (Yang negative), the weak levels of industrial activity (Yang negative), as well as due to high prices for natural gas for household and industrial consumers (Yang negative). Eurostat reveals that "*the largest prices increases for households among EU Member States (between the half of 2012 and the second half of 2013) were observed in Estonia (22%) and in Greece (20%)...In industrial sector, the highest prices were observed in Sweden (0.06EUR/kWh), Greece (0.05EUR/kWh) and Germany (0.05EUR/kWh)*"(Eurostat, 2014, p. 26, p. 39). Between 2003 and 2012, in Greece, the share of each fuel to total production (Eurostat, 2014, p. 65) results from coal and lignite (77.1%), renewable energy (21.8), crude oil (0.9%) and natural gas (0.1%), while there is no production of nuclear energy. As a consequence of Greece's deteriorating situation, poverty and material deprivation have increased dramatically, generating social and political instability, which have harmed investment and growth.

2.3 Yin-Yang challenges ahead for Greece

Although in 2015 there is a slight Yang progress concerning Greece's GDP per capita (-20.3%), compared to the peak from 2013 (-25.70%)(Hanley, 2015), as well as a slight decrease concerning the unemployment rate (25.70% for January 2015) (Ycharts, 2015), Greece still has the highest inflation rate from the Euro Zone (-2.5%), the highest debt-to-GDP (180%) and the highest deficit-to-GDP (-3%) than any other EU Member State. The crisis had a major impact on the Greek population. For instance, in 2013, the study of the Institute of Mental Health of the University of Athens discovered a continuous and alarming rise of depression among Greek population, from 3.3% in 2008 to 6.8% in 2009, to 8.2% in 2011 and to 12.3% in 2013 (Korologou, 2013). In terms of gravity, human's depression and fear can cause earthquakes and climate disturbances. Quantum physics researches reveal the influence of man thoughts on space and time, in other words, every living being perceives time and space according to its genetic line and to its individual cerebral programme. As Einstein described, space-time is a married couple, space and time are not separated one from another, thus, the human brain can change the subjective time flow in correlation to the environment coordinates and factors, hence, we have the possibility to change our space according to our happy or sad moments. Thus, Grazyna Gosa and Franz Bludorf have explained in their book "*Vernetzte Intelligenz*" (Networked Intelligence) that a group consciousness can influence the space-time the environment, for instance the weather (nothing new to some tribes who sing for rain, while performing a specific circle dance), due to Schumann frequencies present in the Earth atmosphere, as well as in the human's brain. Therefore, when many persons synchronize their minds, their thoughts act like a laser beam, in other words, when a mass of people interact their Yin negative thoughts with the morphic fields on a low frequency (fear and depression emit on low frequencies), they cause an impact with the tectonic energies, and earthquakes occur (Yang negative). Hence, it is observed that in December 2008 Greece experiences an earthquake measuring 5.2 on the Richter scale, in April 2009 another earthquake strikes with a 4.5 magnitude on the Richter scale, in 2013 three earthquakes have hit Crete with 5.6 and 6.2 magnitude and another one has hit the middle of Greece, in 2014 in Halkidini another earthquake occurs with a 5.1 magnitude, and, recently, in April 2015 the earthquake shakes Crete again with a 6.1 magnitude.

Yin positive feelings of love, joy, gratitude, appreciation, as well as Yang positive activities, such as a walk in the park or in the mountains, can change Greek's situation, not only from the gravity's point of view, but also from the perspective of health. Thanks to the existence of electrons

at the same time in two and more places at once (Kaku, 2012), and to instant corpuscular speeds (Yin-Yang positive quantum events), scientists proved that DNA can be changed on high frequencies by optimistic thoughts and good words. Therefore, any human being, including the Greek population, has the possibility to improve the mental and body health (Yin-Yang positive). In 2013, 2011 and 2009, 74.1% of the Greek women and 79.0% of the Greek men (Eurostat, 2015) believed they were healthy, while Greece's health expenditure ranged from 8.67% of GDP in 1995, to 7.88% of GDP in 2000, then it has grown to 9.66% of GDP in 2005, to 10.79% of GDP in 2010 and to 10.83% of GDP in 2011 (Ycharts Eurostat, 2013).

A healthy life also means a healthy environment (Yang positive). *“Given the fact that 62% of the Europeans believe climate change is the most significant problem facing the world today”* (Panorama inforegio, 2009, p. 4) and that 25.1% of the Greek population is exposed to air pollution, noise pollution from the street (Eurostat, 2013), pesticide, grime and other environmental problems (Yang negative), Greece decided to comply with EU's environmental protection policies (Yin positive), regarding renewable sources of energy, in order to encourage applications in the use of wind, hydroelectric and solar energy. In this regard, Enel Green Power built wind and photovoltaic farms in Crete, Evia, Thrace and in Peloponez (Biszok, 2012). Furthermore, it is believed that *“carbon fertilization”* (Phillips, 2014) of forests and other land vegetation removes during photosynthesis, more than 30% of human carbon dioxide emissions from the atmosphere (Yin negative); however, there are side effects like water unavailability in some areas and polluted agricultural areas (Yang negative). In this sense, I shall outline that in Greece, between 2000 and 2010, the utilised agricultural area decreased to about a quarter of Greek territory and 94 050 farms from 723 010 agricultural holdings, ceased their activity because the agricultural labour force decreased from 1.4 million in 2000 to 1.2 million in 2010 (Eurostat, 2012). Yet, this situation can be changed, for instance, in the Aegean islands, where in the absence of a comprehensive energy plan, rainwater (Coxworth, 2014) and human walking, meaning Yang positive movement, may create and provide clean energy for households for free. The same energy system could be developed in highly populated cities like Athens, Thessaloniki, Piraeus or Patras, where clean energy and electricity may be obtained from the city's pipes flow (Peters, 2015) or the vehicular flow (Investigación y Desarrollo, 2013). The infrastructure already exists and there is no need for major investments.

Conclusions

Some overall conclusions could be drawn from the analysis presented in section 1 and 2.

Firstly, at the national level Greece's main short-term target is to put public finances in order, because it helps in terms of Yin-Yang growth such as income, employment and pensions, all these being linked to prosperity, access to education and health services.

Secondly, Greece's Yin-Yang progressive transformations can only be sustained by a virtuous circle of continuous research and innovation, those being the main drivers for developing the industrial system and the technology, as well as protecting the environment and natural resources.

Thirdly, if Greece were to invest more in human capital and share human capital more equally (Yin-Yang positive), then Greece will experience a higher resilience, as well as a higher level of optimism, less stress and worries, leading to hyper-communication among Greeks.

These conclusions suggest that competition among EU Member States is not, always, the best solution. At the same time, it has to be recognized that only respecting the legislation, the culture, the people and the environment will ensure that opportunities are widely shared, hence, the European dream may be achieved by every euro-citizen.

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THE FAILURE OF THE FIRST ROMANIAN CENTRAL BANK: BAD DESIGN, BAD LUCK, OR BOTH?

Tudor Gherasim SMIRNA*

Abstract: *In this paper we will analyze the failure of the National Bank of Moldavia, a bank that was chartered by the Principality of Moldavia in 1856, to act primarily as a privileged source of liquidity for its economy. Although the project of a state chartered, privileged bank was planned many years in advance by the princes of the Romanian Principalities, the National Bank of Moldavia suspended payments shortly after its establishment, in early 1858, and had its charter revoked. We will discuss, from the point of view of modern monetary thought, the ideas that were advanced in the justification of its creation, and in the rationalization of its failure. We will analyze the structure of the credits and other problems in its balance sheet. Also, we will study the role that the Crisis of 1857, and the already emerging European economic integration, had in its demise.*

Keywords: central banking; international relations; government policy; crisis

JEL Classification: E5; F54; G01; G28; N23

Introduction

The National Bank of Moldavia was a first attempt at central banking in the emerging Romanian State. It was a resounding and scandalous failure that was analyzed back in its time and by later scholars. We are going to point out in this article that, besides being marred by political problems, it was badly designed and it had the worst timing possible.

In the first section, we are going to describe and discuss the official motives that were advanced for its establishment. In the second section, we present and analyze key elements of the statute of the bank. In the third section, we depict the operation of the bank. In the fourth section we mention the world-wide crisis as a source of bad luck for the bank.

1. Rationale for establishment of the bank

Since the relative liberalization of economic and political life in the Romanian Principalities through the Adrianople Treaty of 1829, there were periodical projects and petitions for the establishment of a state chartered bank in both Moldavia and Wallachia. We can see such initiatives in 1832, 1834, 1838, 1845, 1847, 1848, and 1851 from foreign investors and local elite members (Romascanu, 1932; Baicoianu, 1932; Murariu, 2010).

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Since 1850, the German businessmen and bankers Nulandt and Oeschlager started discussions about the idea of a national bank with both Prince Barbu Stirbey of Wallachia and with Prince Grigore Alexandru Ghica of Moldavia. For various political reasons (Smirna and Topan, 2015), their attempts and negotiations did not succeed until 1856, and then they received only a charter from the government of Prince Ghica of Moldavia.

From the charter and from the previous projects for the bank we can see the rationale for its establishment (Romascanu, 1932). The principal official reason for the establishment of the bank is the elimination of the ruining effect of high market interest rates that were four and even eight times greater than in the West.

According to Craciun (1996), the interest rates asked on the unofficial market by private money-changers, lenders and proto-bankers (*zarafi*), were as high as 24% and even 30%, while the official interest rate was regulated at 8% to 12%. The reason of this high level was the uncertainty of property rights and the whimsical results of litigations. It was argued that the high level of uncertainty existent on the market was adding a considerably high component to the “true” interest rates. We can understand how these institutional factors were boosting the entrepreneurial premium of the market interest rate (Mises, 1998, p. 536). This fundamental fact was acknowledged and discussed at the time by the initiators of the bank.

It was considered at the time that the remedy of this situation should come from the state, through an official bank endowed with a monopoly of note issue. By such a bank, the supply of money and credit could increase and the level of interest rates could be brought down. This extra capital could spur industrial activities and it could help with the development of agriculture and commerce. It would increase the local incomes and it would save the wealth of the indebted locals by aiding them in repaying the loans taken from usurers. Also, it could help the government with affordable financing.

While we can understand the local interest in such a source of cheap capital, we have to give an answer as to what was the motivation of foreign investors which were interested and were petitioning for its establishment. Again, we can find the answers in the argumentation included in the various bank plans that were discussed up to its chartering.

The reasons for the prospective investors to get involved was the high interest that the bank promised to pay on their capital, an interest even higher than the present conditions offered. This paradoxical situation, in which the bank would charge interest rates lower than in the present, but would offer its investors benefits higher than those justified by present loan market conditions, was explained by the power to issue money substitutes in excess of the commodity money existent in the

vaults of the bank. Thus, by the doubling of the “capital” invested, the creditors could be rewarded with an interest of 16% or even 20%, although the bank would only charge 8% or 10% on its loans (Romascanu, 1932, p. 51).

2. The bank’s statute

We are going to present here what we consider to be the economically relevant stipulations from the 28 articles of the bank statute that was approved by the government in May 7, 1856 (Romascanu, 1932, p. 65-69; Baicoianu, 1932, p. 81-85).

According to the statute, the bank’s initial capital was 10,000,000 Prussian thalers. After two years, the bank’s issue of paper substitutes could increase to 20,000,000 thalers. The bank substitutes would be covered 1/3 in metallic reserves and the rest up to 100% in short term (up to three months) financial instruments (art. 4).

A special provision stipulated that the value of the lowest-denominated paper money 40 *zwanzigers* (*scoroveti*) should never exceed 1/7 of total initial capital. This stipulation reflected the idea, held by economists popular at the time, such as Coquelin (1834), that low denomination paper money substitutes were more easily demanded and circulated by the large masses and were thus more prone to be used for poorly judged investments (art. 5).

The bank had to redeem its money substitutes in specie, on demand (art. 6). It was authorized to make a virtually unlimited spectrum of banking operations, covering both what we now consider commercial banking and investment banking (art. 9). Moreover, the bank could act as a tax farmer (art. 10), and pawn broker (art. 11). The bank was legally mandated to use 3,350,000 thalers of its capital for mortgages at an annuity of 10%, for 17 years. Other details related to the mortgaging activity were stipulated (art. 14-20). The interest that the bank could ever ask was capped at 8% and, if its annual profits exceed 10%, the interest should descend below 7%. For the governmental loans that bank could not use more than 375,000 thalers at an interest higher than 6% (art. 24). The bank was allowed to open a branch in Galati and, upon government approval, in other locations (art 25). The charter was valid for 25 years, to be automatically extended by 10 years, every 2 years prior to the expiration of the term (art. 26).

3. The short life of the bank

After the authorization of the bank, the capital of 10,000,000 thalers was quickly subscribed, mainly by foreign investors: 48,000 stock titles of 200 thalers each were allocated for foreign investors and only 2,000 for local investors. In July-August 1856, the directors and clerks of the bank were brought from Germany. It is in this incipient phase that the bank is affected by the first of its problems.

In August 1856, Prince Ghica is replaced by Caimacam Teodorita Bals, a personal political enemy of the prince and ally of the Austrians. He suspended the bank's activity in August 1856 and thus dealt a blow to the bank stock that traded at 120% of initial value on foreign stock exchanges. A struggle for the resumption of activity ensued and it ended only with the sudden death of Bals, who was replaced by Conachi Vogoride. The latter reauthorized the activity of the bank on March 9, 1857. However, in the meantime, other important source of troubles for the bank hit: the crisis of 1857 that we will discuss below.

Nulandt coordinated the bank and its branches from Dessau. His other financial firm, Credit-Anstalt Dessau, a type of mutual fund, subscribed 4,000,000 thalers of the National Bank of Moldavia, and only paid 1,000,000. The National Bank of Moldavia quickly opened one branch in Galati, and franchised one in Bucharest to the Prussian General Consul Meusebach.

Nulandt also made convoluted financial schemes in order to fund the bank. He created ex nihilo 5,000 plenary stock titles that he discounted with different other financial institutions. With the funds he then paid the drafts drawn by the bank on fictitious firms. The directors then bought 5,000 partial (10%) shares and converted them in plenary shares, proceeding in the same manner as with the former batch of shares (Romascanu, 1932, p. 77). At the second and third terms for the payment of capital, only a fraction of the payments were made and the direction in Dessau approved the payment to be made in previously paid stock, thus lowering the initial capital endowment of the bank.

A significant amount of the liquidity of the bank, for which it was liable within 8 days from demand for redemption, was loaned long term. We can see that the bank did what is today known as maturity mismatching. 2,000,000 thalers were offered by the bank as mortgaged loans immediately after beginning operations.

The local investors and the government have helped the liquidity of the bank by making deposits. The locals made deposits to the sum of 160,000 ducats. The government entrusted the bank with the keeping and investment of 120,000 ducats from funds of the orphans and of defendants that were held by different judiciary entities in the country, and also 100,000 ducats of other public funds.

However, these deposits were not very effective for the general solvency of the bank, that had at this time a failed attempt made by the direction to raise funds on the London financial market (Romascanu, 1932, p. 82).

After one local member of the direction has made his concerns about its situation public, a run on the bank has started. On March 11, 1858, the direction resigned and the bank suspended payments. In June 14, 1858, the charter was officially withdrawn and the bankruptcy was declared, until November 6, 1858, when the bank was again allowed to function, this time only as a common financial institution, with the goal of avoiding liquidation.

The unprofessional conduct of the directors was accused at the time. The bank had bought advance rights on tax farming at prices that made the competitors withdraw. There is a significant episode related to the Galati branch, whose director I. Hamburger has offered a Jewish businessman from Bucharest a credit of 25,000 ducats for tax farming in Bagdad province. Spit Goldberg disappeared with the money and, when found later in Constantinople, he claimed that he lost the money when he bought camels for the English Army in India and, because the counterpart did not fulfill the contract, he was later forced to free them in the desert because he went out of fodder.

The Iasi branch was accused of offering loans on political considerations to a few privileged, instead of financing the masses, as avowed. Many members of the political elite can be found as beneficiaries in the books of the bank (table 1) and many of them were notorious for their insolvency and did not fulfil the conditions for being granted the loans.

It is significant to see who the beneficiaries of the mortgages were. The following list reveals the low granularity of the structure of mortgages and that the beneficiaries were as a rule members of the political elite. The nominal sum total of the mortgages in 1858 was 633,776 ducats (*galbeni*).

Table 1 – Structure of mortgages offered by the National Bank of Moldavia

Mortgages	Ducats	Mortgages	Ducats
A. C. Sturdza	60,000	G. Ghica	8,000
Rucs Rosnoveanu	49,000	M. Arghiropol	7,500
B. Sturdza	38,000	G. Dimitriu	6,500
A. Aslan	34,000	A. Romalo	6,000
C. Costachi	31,800	M. Negri	5,700
G. Rosnovanu	27,000	Ev. Caligari	5,500
G. Ghica	25,000	G. Cilibiu	3,500
Cat. Ghica	25,000	I. Cantacuzino	4,000
A. Ghica	25,000	D. Dascalescu	3,500
Anus	25,000	A. Cuza	3,500
St. Dascalescu	20,000	C. Stamatini	3,500
A. Florescu	20,000	G. Clopotel	2,769

G. Giurgea	20,000	I. Sacheti	2,500
G. Sturdza	20,000	H. Seltin	2,000
A. C. Catargiu	18,000	C. Bonciu	1,527
P. Docan	17,000	G. Dimitriu	1,500
P. Mavrogheni	16,000	A. Cuza	1,500
C. Dascalescu	15,000	M. Kogalniceanu	1,000
C. Anus	14,000	C. Bonciu	750
M. Jora	12,900	G. Glaise	700
M. Negri	10,300	P. Petit	600
N. A. Mavrocordat	10,200	A. Ber	300
C. Cotebue	9,000	D. Purgia	200
A. Crupensky	9,000	E. Corlateanu	200
E. Plitos	8,180	L. Helenbold	150

Source: The report made for the shareholders assembly by the administrative committee (Romascanu, 1932, p. 90-95, Baicoianu, 1932, p. 140-151). Conversion rates: 1 Ducat = 31 Lei = ~3 Thalers; 1 Leu = 40 Parale.

We can see from the balance of the bank in 1858 that the long term investments in mortgages were much higher than intended by statute. While the mortgages were indeed nominally within the statutory limits, because the capital of the bank was in fact almost three times less than initially projected, the weight of the long term credits was consequently larger. Instead of a third of the capital being used for mortgages, more than a half of it was used in this manner (table 2).

Also, the NBM offered 40,000 ducats loans to the government that were not repaid at the six months maturities, but were cleared later with the funds that the bank received as deposits from the state.

Table 2 – The Balance of the Bank at December 23, 1858

Assets				Liabilities			
Accounts	Ducats	Lei	Parale	Accounts	Ducats	Lei	Parale
Motgages	626,916	9	-	Shares	513,570	10	-
Investments	25,152	29	30	State deposits	47,927	20	-
Effects	44,065	25	-	Creditors in country	11,095	-	-
Cash, different money	1,136	16	2	Creditors abroad	555,431	17	25
Bank headquarters furniture	12,000	-	-	Preferential Creditors	7,422	9	-
Government: 2 loans	40,000	-	-				
Debtors in country	63,325	33	27				
Debtors abroad	151,581	16	9				

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Lombard- conto	5,926	26	10				
Losses	165,338	11	27				
TOTAL	1,135,446	19	25	TOTAL	1,135,446	19	25

Source: The report made for the shareholders assembly by the administrative committee (Romascanu, 1932, p. 90-95, Baicoianu, 1932, p. 140-151). Conversion rates: 1 Ducat = 31 Lei = ~3 Thalers; 1 Leu = 40 Parale.

4. The crisis of 1857

In mid-XIX century, international trade was growing at an accelerated pace and the world was increasingly integrated. According to Evans (1859), English exports more than doubled from £60,110,110 in 1848, to £122,155,000 in 1857. The increase in trade was accompanied by an increase in monetary influx and in credit expansion: “The deposits in the joint-stock banks of London, alone, which in 1847 amounted to £8,850,774, had risen in 1857 to £43,100,724, and the increase in other quarters was proportional.” (Evans, 1859, p. 32)

This exponential growth was also being echoed in the economy of the Romanian Principalities (Hitchins, 1992). But it has temporarily changed into sudden collapse and contagion in 1857. J.R.T. Hughes cites Tugan Baranowsky and others in order to state that

The crisis of 1857 [was] the first world-wide commercial crisis in the history of modern capitalism [...] Within weeks of the initial American crisis which culminated in New York in October 1857, the major industrial and commercial centres of the world were paralysed. By 12 October 62 of New York City's 63 commercial banks had suspended payments. A month later, after a series of bank and mercantile failures, demands on the Bank of England for assistance so reduced the Bank's reserve of notes that the government was obliged to intervene and the Bank Act of 1844 was suspended for the second time since its enactment. On the Paris Bourse the British Government's action detonated a financial panic which was likened to the days immediately following the 1848 revolution, and other Continental centres were shaken from Vienna to Stockholm. Within eight days of the British Government's action, banks and commercial houses in Northern Europe (mainly centred in the old Hanse trading area) were closing their doors, and State intervention was required in all the major money capitals of Northern Europe to keep financial and trading channels open. Thus, in the period from 12 October to the middle of December 1857, the crisis spread over half the world and finance, trade, and industry floundered in depression. (Hughes, 1956, 194-195)

The crisis and contagion have continued world-wide until February-March 1858, with business and growth resuming after the period. It is remarkable that the life of the National Bank of Moldavia has almost exactly coincided with the development of the world crisis of 1857. It seems clear that, besides the more fundamental political and structural problems, the activity of the bank was adversely affected by the crisis. We can understand that the problems at the Dessau bank of Nulandt and the scarcity of credit in London – then as today a leading financial center – made it impossible for the subsequent tranches of the subscribed capital to be paid.

Conclusion

We can say that the bank had design and operational flaws. We can see that the commentators at the time made the claim that the scope of the bank offered in the statute was too large. We can find in this discussion the same arguments that we encounter today in the literature that accuses deregulation as the source of the 2008 crisis (FSB, 2013). We hold that it was not so much the deregulation that was the cause of its demise, as was the wrong institutional incentives and design of the bank.

While the bank did not have the time to issue its own banknotes, thus making the fractional reserve principle work through the issue of fiduciary media, it did take deposits on demand and acted as if the double availability of funds was effective, using those demand deposits for long term loans (Mises, 1980).

Some contemporary commentators accused the bank of lacking “national” character because the bank was initially designed to be 96% funded by foreign capital and only 4% by local capital. We assert that for a growing economy, and especially an underdeveloped economy like Moldavia was, influx of capital is essential. The raw resources and the human resources need a multitude of intermediate goods in order to start and complete the complex processes of production that are possible in more developed economies. These intermediate goods can be produced gradually by local saving, but this process takes a much longer time than the available alternative. Foreign investors that are looking abroad for increased profitability have an interest to invest just as much as local owners of primary resources are interested in the inputs necessary for new and improved production (Rothbard, 2004).

Therefore, the problem of the National Bank of Moldavia was not the foreign character of the injected capital, but that it was fictitious. The financial schemes of Nulandt were not a novelty, but

were rather the rule for the speculation frenzy that led up to the climax of the world-wide business cycle in 1857.

We can conclude by saying that the National Bank of Moldavia was another instantiation of the basic flaw of institutional development of modern Romania: the importation of “forms without substances” (Maiorescu, 1868). In this case, the principle is indeed very clearly apparent: the bank was ultimately a phantom without a body, a form without funding, a failed attempt to create growth with formal capital that lacked its essence: real savings.

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HOW FAR HAVE WE REACHED IN EUROPEAN COOPERATION IN CIVIL MATTERS? A VIEW ON EUROPEAN ENFORCEMENT

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Abstract: *The EU judicial cooperation in civil matters system was developed following the needs of member states to achieve a common goal, which is to create a space of mutual recognition of judgements and distribute the juridical effects of the order created under one jurisdiction thru out the entire European space. One of the main pillars of this system is the creation of European Enforcement Orders, judgements or other titles enforceable in a member state without prior recognition of declaration of enforceability. This system has been developed over the years, starting with the European Enforcement Order for uncontested claims, continuing with the European Order for Payment procedure and European Small Claims procedure, and reaching its peak in Regulation (EU) 1215/2012. By virtue of this Regulation, entered into force in January 2015, a judgment given in a Member State which is enforceable in that Member State shall be enforceable in the other Member States without any declaration of enforceability being required (art. 39). The article analyses the evolution of EU regulation regarding the enforceability of foreign judgements and the system created under Regulation (EU) 1215/2012, given its importance for the judicial cooperation in civil matters and its impact on the legislation of member states. Also, a brief analysis of the provisions of the new Romanian civil procedure Code is made, given its amendments by Law no. 138/2014.*

Keywords: judgement; enforcement; European enforcement order; claim

JEL Classification: K33

Introduction

Any solid economic and social system is based on regulations that guarantee the realization of rights and establish sufficient safeguards to comply with court rulings. The safety of the civil circuit plays a major role in boosting economic exchanges and increasing social welfare. From the point of view of a law system, it should be considered the substantial component, specific to private law, whose rules are mainly discretionary, and the procedural component, specific to public law, whose rules are mainly imperative. In this context, the enforcement law is on a middle position, because its purpose is to regulate effective procedures for completion of obligations under writs of execution. Therefore we are talking about private law relations between private individuals on an equal footing before the law system, but to which procedural rules apply, by public officials mandated with the enforcement¹.

Enforcement is governed by the principle of legality, with two main components: one that refers to the legal provisions, the rights of parties and interested third parties (art. 625 par. 1 CPC), closely

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¹ In this regard, according to art. 2 para. 1 of Law no. 188/2000 on bailiffs, "the bailiffs are invested to fulfill a public service" and par. 2 of the same article states that "the act performed by a bailiff, within its legal competence, bearing the stamp, signature, registration number and date, is the act of public authority and has probative value prescribed by law".

related to the principle of the right to a fair trial within optimal and predictable time; the second, on the prohibition of carrying out enforcement activities by persons other than the enforcement bodies provided by the law (art. 625 par. 2 CPC), closely related to the principle of achieving enforcement activity only through the enforcement body (bailiffs).

The legality of enforcement requires at the same time as all acts of enforcement to be carried out only under a writ of execution (enforcement order). The enforcement order is, both substantially and formally, the basis of enforcement in a positive sense (the procedure can be triggered only under it) and negatively (its cancellation leading to the cancellation of all acts of enforcement). Although the enforcement activity is specific to the legal relationship governed by private law, because it seeks the fulfillment of obligations correlative to subjective right, it has an important and significant public component, because it is carried on after the procedure prescribed by law and by an agent who is performing a service of public interest². Therefore, traditionally, in the international civil trial theory, the enforcement phase of the trial is subject eminently to the enforcement law of the forum; there can be no enforcement activity on the territory of a state other than the one regulated by the law of that state. This component of the general theory of international trial is the result of sovereignty principle and comes under the general rule that the procedure is subject to the law of the court, whether the legal relationship is subject to foreign law. This traditional design led to the generalization of rules on recognition of foreign judgments for enforcement in the territory of another State, via *exequatur*.

The need for international legal cooperation in civil matters gave rise to simplified forms of recognition and establishment of procedural safeguards capable to lead to subjective rights confirmation without significant barriers. In particular to the European Union, the creation of specific mechanisms of supranational law led to the removal of classical conception of *exequatur* recognition of judgments and the establishment of new procedural disciplines, to ensure uniform protection of the rights and minimum procedural safeguards in this respect (Edward *et al.*, 2013, pp. 672-676).

In this direction, two tendencies are observed: on the one hand, the developments of EU law towards the establishment of a European passport for enforcement, i.e. a certification procedure which once covered, leads to the possibility of enforcement in any Member State, without being required acknowledgments or any other formalities according to its legal system; on the other hand, the creation of European procedures, distinct from national and applicable independently of these, which

² In this respect, art. 623 CPC provides that "enforcement of any enforceable title except those which concern the consolidated budget, European Union budget and the European Atomic Energy Community budget is made only by the bailiff, even if by special laws is provided otherwise ". Likewise are the provisions of art. 1 of Law no. 188/2000. Therefore, Romanian law enshrines as a general principle the rule according to which the only competent body to enforce obligations under enforcement orders is the bailiff. This rule is without derogation.

once are followed by the creditor, lead directly to the emanation of a European Enforcement Order also apt to be enforced without be required to fulfill any other formalities (Crifo, 2009, p. 61 et sq.).

1. The evolution of regulation regarding European Enforcement Orders

As pointed out above, the enforcement order is the fundament of enforcement procedure (art. 632 par. 1 CPC), any execution procedure being unable to perform than under a judgement or another document which the law gives this character. This rule is materialized in at least two essential procedural regulations: on the one hand, the requirement that the original or copy of the enforcement order has to be attached to the application for enforcement to the competent bailiff (art. 664 par. 4 CPC); on the other hand, the cancelation of the enforcement order lead to the cancelation of all enforcement procedures performed under it and the restitution of benefits (art. 643 CCP) (Boroi, *et al.*, 2015, pp. 941-942).

Based on the definitions and classifications made in the CPC, we must distinguish between the execution titles represented by judgements and other documents which the law confers this status. In the first category is not required for a declaration of enforceability, while in the second case, the enforcement title may be enforced only after being declared enforceable (art. 641 CCP)³. This distinction is based on the subjective nature of the right claimed and the claim contained in the executory title: with judgments, the *res judicata* effect make the subjective right to be strengthened as a result of facts and legal verification made by the court; with the other documents, the verification made by the court is limited to the formal requirements of the title, in relation to the requirements of the law for it to be enforced. For these title, a potential substantial verification is to be made the enforcement court, if the debtor applies for a contests against enforcement procedures by invoking substantive defence against the writ of execution⁴.

According to the classical theory of international trial, the execution of a foreign enforceable title could be performed in a State only after its recognition under the law of the State where the

³ According to art. 641 para. 1 CPC, "enforcement titles other than judgments can be enforced only if they are declared enforceable". According to art. 641 para. 2 CPC, the application for a declaration of enforcement shall be settled by the court in whose area if located the residence or place of business of the creditor or of the debtor, as applicable. In certain circumstances, the competence for the declaration of enforceability is attributed to another court (for example, contracts between lawyers and their clients are enforceable, under the condition to be concluded according to the law; the declaration of enforceability is a matter for the court in whose jurisdiction is the professional office of lawyers, according to art. 31 par. 3 of Law no. 51/1995 on the organization and exercise of legal profession).

⁴ According to art. 713 para. 2 CPC "where enforcement is carried out under another title than a judgment, the contest can rely on factual or legal reasons relating to the substance of the rights contained by the enforcement order, only if the law provides no other specific procedural remedy to cancel it". The phrase "specific procedural remedy" should be understood as a procedural means other than the application that would invoke the irregularity of the act (for example, an application for nullity).

execution would be carried. Expression of the principle of sovereignty (Cuniberti, *et al.*, 2011, pp. 2-3), the rule that enforcement is conditioned by the prior recognition and declaration of enforceability was adopted, in principle, by the CPC (art. 1103 CCP). The conditions of the declaration of enforceability of foreign judgments are the same as the ones provided for the recognition (art. 1104 and art. 1096 CPC), plus the condition regarding enforceability of the judgment according to the law of the state of the court which passed that judgment.

However, enforcement of a foreign judgment in Romania is conditioned on its definitive enforceability in the state of origin; the enforcement in Romania of a foreign judgments concerning precautionary measures or those that were given with provisional enforcement is not permitted (art. 1103 par. 2 CPC). Thus CPC links the recognition of the enforceability of a foreign judgment of its *res judicata*, reported in two parts: on the one hand, the substantial one, regarding the settlement by the judgment of conflicting rights; on the other hand, the procedural one, regarding the completion of appeals provided by the legislation of the court which delivered the judgment.

The system based on preliminary recognition of judicial decisions is inadequate in the legal order of the European Union. Moreover, the creation of a common economic space requires the establishment of procedural safeguards for individual rights to be exploited throughout the Union, with minimum formal requirements and costs. Otherwise, the imperative of defending the rights would be illusory and the possibility of abuse of rights would increase unreasonably, a debtor could easily speculate the legislative differences between Member States regarding the enforceability of foreign judgments. In this context, the establishment of a European Enforcement Order has been an ongoing concern at the decisional level, since at the time of the creation of the European Economic Community, by the Treaty of Rome (Gaudement-Tallon, 2010, p. 3).

European regulations was, in this respect, gradual, only in 2015 leading to the effective implementation of the principle of enforcement of foreign judgments without any prior formal declaration of enforceability by the courts of the Member State in whose territory the enforcement proceedings should be carried out.

The evolution of European legislation by stipulating a European Enforcement Order has been driven by the need to create a common space in which the free movement of judgments is ensured. It is noteworthy that the foundations of this legal current were laid by art. 220 of the Treaty establishing the European Economic Community (EEC) in 1957 (Treaty of Rome) (Raducan, *et. al*, 2011, p. 120). It stipulated agreements in order to simplify procedures and formalities that were subject to recognition and enforcement of judgments in the Member States. These provisions were developed and adopted by the Brussels Convention of 1968 (entered into force on 1 February 1973), on

jurisdiction and enforcement of judgments in civil and commercial matters. It provided a simplified procedure for granting exequatur, thus helping the establishment and functioning of the common market (Gaudement-Tallon, 2010, p. 51). Subsequently, the Lugano Convention was adopted in 1988 to regulate relations between Member States and non-member States. The two agreements were the basis for the adoption of Regulation (EC) no 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (Brussels I), which, together with Regulation (EC) no 1347/2000 on the jurisdiction, recognition and enforcement of judgements in matrimonial matters and in matters of parental responsibility for joint children (Brussels II) and subsequently Regulation (EC) no 2201/2003 on recognition and enforcement of judgments in matrimonial matters and the matters of parental responsibility, have provided the basis for judgments regulation effectiveness in Union Member States (Stone, 2010, pp. 6-14).

The great shortcoming of Regulation (EC) no 44/2001, however, was that of lack of general regulations regarding the European Enforcement Order. Even if it eliminates the procedure of recognition, the Regulation still provided the need for a declaration of enforceability by the court or competent authority of the Member State in which the execution was to take place (Cuniberti, *et. al*, 2011, p. 48). Basically, in terms of the effect of execution of judgments, the Regulation did not bring anything new to the classical theory, which was considered a constant impediment to the realization of free movement of judgments in the Union. The effect of de jure recognition as provided for in art. 33 para. 1 of Regulation (EC) no 44/2001 was considered insufficient as far as, in order to be enforced in another Member State, it required a statement issued by the court or enforcement authority.

In this context, the theory of the European Enforcement Order was developed and applied gradually, leading to the creation of a tool that, once certified as enforceable by the courts or authorities of the issuing State is able to move freely throughout the Union, without the need for recognition or declaration of enforceability by the courts or authorities of the State where enforcement is to be made. This goal was accomplished by Regulation (EU) no 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast), which eliminates the declaration of enforceability and institutes a procedure of certification of the judgement in order to become a European Enforcement Order (Stanescu, 2015b, p. 261).

At the moment, there are four types of judgements that can be certified as European Enforcement Orders: the European Enforcement Order for uncontested claims, governed by Regulation (EC) no 805/2004 creating a European Enforcement Order for uncontested claims; judgments falling under Regulation (EU) no 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast); the European order for payment,

subject to Regulation (EU) no 1896/2006 creating a European order for payment procedure and the judgement given under Regulation (EC) no 861/2007 establishing a European small claims procedure.

2. The conditions under which European Enforcement Order may be enforced in Romania

Art. 636 CCP refers to the European Enforcement Order, on which European Union law does not require preliminary recognition in the Member State which will be enforced in. We include in this category the following enforceable titles: European enforcement order for uncontested claims (Regulation (EC) no 805/2004), the European Payment Order (Regulation (EC) no 1896/2006), the titles emitted in the European small claims procedure (Regulation (EC) no 861/2007). Also, due to the application of Regulation (EU) no 1215/2012 starting from January 10th, 2015, recast of Regulation (EC) no 44/2001, the possibility of certification as a European Enforcement Order is extended over all decisions adopted in a Member State falling in the application area of the Regulation, no need for any recognition or approval of their enforcement in the Member State where enforcement is to be made.

These securities are enforceable by law without any prior formality. In this regard, Art. 39 of Regulation no 1215/2012 provides that "a judgment given in a Member State which is enforceable in that Member State is enforceable in other Member States without the need for a declaration of enforceability". The phrase refers to the enforceability provided by art. 1103 CPC, but not the declaration of enforceability governed by art. 666 CPC. In other words, the foreign decision, in so far as it is given in a Member State and subject to Regulation (EU) no 1215/2012⁵, is not subject to any prior formalities to be recognized as enforceable in Romania, but the enforcement procedure is the same as if a national title is carried out; therefore, the bailiff shall proceed to verify that conditions provided by art. 666 CPC are met⁶.

In this context, it should be noted that the term "declaration of enforceability" has a different meaning, referring in some cases to the title, while in others to the enforcement procedure itself. Art. 39 of Regulation (EU) no 1215/2012 relates simply to the acquisition by a foreign judgment of

⁵ Art. 1 para. 1 of Regulation 1215/2012 provides in this respect that "this Regulation shall apply in civil and commercial matters whatever the nature of the court or tribunal. It shall not extend, in particular, to revenue, customs or administrative matters or to the liability of the State for acts and omissions in the exercise of State authority (*acta iure imperii*). The meaning of "civil and commercial matters" for the purposes of Regulation (EU) 1215/2012 should be considered not according to the system of one of the States concerned but, on the one hand, the objectives and the system of the Regulation and, on the other hand, general principles emerging from all the national legal systems. (Gaudement-Tallon, H., 2010, pp. 29-33).

⁶ It is to be noted that the declaration of enforceability under art. 666 CPC is made by the bailiff, following the modification of CPC by Law no 138/2014, published in The Official Journal no. 753/16.10.2014. Following this modification, the CPC was republished in The Official Journal no 247/10.04.2015.

enforceable character. This is done *ex lege* without further formality before the courts or authorities of the State where enforcement is to be made only by issuing the European Enforcement Order Certificate (art. 53 of Regulation (EU) no 1215/2012), in a procedure regulated by European law, not by the national one. In this way, European legislation removes the applicability of national legislation on enforceability of foreign judgments (art. 1103 CCP), considering the preeminence of EU law and the mandatory provisions contained in a Regulation to the provisions of CPC⁷. However, as with any other enforcement titles, but it is necessary for the bailiff entrusted by the creditor with the enforcement application to declare the enforceability of this application, according to art. 666 CPC, including the verification of formal requirements for the title to be enforceable as a European Enforcement Order (Boroi, *et. al*, 2015, p. 955).

This conclusion emerges from at least two arguments: first, according to art. 41 para. (1) first sentence of Regulation (EU) no 1215/2012, the procedure for the enforcement of judgments given in another Member State shall be governed by the law of the Member State addressed. In other words, enforcement in Romania of a European Enforcement judgment in this case covered by Regulation (EU) no 1215/2012 will be under Romanian law, namely CPC. European law is governing only the enforceability of the title, materialized in the European Enforcement Order Certificate, but the actual enforcement procedure is governed by national law⁸.

According to art. 622 para. 2 CPC, the enforcement procedure is triggered when the application for enforcement is launched and registered with the enforcement body. It has a dual role: on the one hand, to establish the frame of the enforcement procedures, referring to the obligation to be accomplished and the ways of enforcement; on the other hand, to invest the enforcement body with the fulfillment of that obligation. It is therefore irrelevant to the enforcement proceedings if the title is emitted into the domestic legal order or it comes from the law of another Member State, the enforcement of the judgment being made by the same rules⁹. All procedural forms done after the registration of the application of enforcement are governed by national law. Therefore, the

⁷ In this respect, art. 4 CPC, marginal titled "Priority application of EU law" provides that "in matters governed by this Code, the mandatory rules of European Union law apply as a priority, regardless of the quality or status of the parties".

⁸ In this respect, the CJEU has held that "the term 'enforceable' (...) is to be interpreted as referring solely to the enforceability, in formal terms, of foreign decisions and not to the circumstances in which such decisions may be executed in the State of origin. It is for the court of the State in which enforcement is sought (...) to determine, in accordance with its domestic law including the rules of private international law, the legal effects of a decision given in the State of origin (...)" (Case C-267/97 *Eric Coursier v Fortis Bank and Martine Coursier, née Bellami*). Therefore, European law strictly regulates the formal requirements of the title, certified by issuing the European Enforcement Order certificate, according to art. 53 of Regulation (EU) no 1215/2012. Enforcement law rules, namely those governing the enforcement proceedings are essentially national, at the moment there are no European enforcement rules.

⁹ In this respect, Art. 41 para. 1, second sentence of Regulation (EU) no 1215 / 2012 provides that „a judgment given in a Member State which is enforceable in the Member State addressed shall be enforced there under the same conditions as a judgment given in the Member State addressed."

enforcement of a European Enforcement Order cannot miss a declaration of enforcement procedure, which takes place after the registration of the enforcement application (art. 665 CCP).

Second, art. CPC 636, which refers to the European Enforcement Orders expressly refers to prior recognition of the title. The elimination of the recognition procedure constitutes the essential characteristic of the European Enforcement Order and art. 636 CCP does nothing else that to translate this principle in national legislation. It would be a mistake to believe that the wording of art. 636 refers also to the declaration of enforcement procedure regulated by art. 666 CPC (Gavris, 2013, p. 153). The procedure regulated by art. 666 CPC does not cover checking the conditions for the declaration of the enforceability of the title, but the conditions for proceeding to enforcement. As made clear in the listing of art. 666 para. 5 CPC, concerning the reasons for the request for execution to be rejected, it appears that the verification done by the bailiff cover a lot more substantial and formal issues than the formality of the title.

Basically, in connection with the enforcement order, its certification as a European Enforcement Order dispenses the creditor carrying out any other formalities required by law for the purposes of conferring recognition or enforceability. In the light of the provisions of art. 39 of Regulation (EU) no 1215/2012, the formal enforceability of a judgment is given by the substantial and procedural rules applicable in the trial in which it was given, i.e. enforceability is given by *lex fori*¹⁰. Issuing of the European Enforcement Order Certificate is a sufficient guarantee for the enforcement bodies of the requested State to enforce the title in question without being required any further formalities, including the recognition. At the same time, the enforcement procedure is the same regardless of the nature of the title, therefore the declaration of enforcement of the application launched by the creditor is necessary, irrespective of whether it is a national or European title.

Conclusions

The classical system of recognition of the foreign judgment for reasons of enforcement in the territory of another State proved inadequate for the legal and economic order of the European Union. Therefore, since the advent of Community law, the question of a simplified system of recognition and then eventual elimination of *exequatur* was raised. As regards the enforceability of a judgment, the need to create a European Enforcement is the basic idea of the principle of free movement of judgments in the European Union.

¹⁰ See above, footnote 8.

In this direction, two trends emerged: on the one hand, the development of regulations providing that a judgment given in a Member State according to its judicial proceedings can be certified as a European Enforcement Order, following that with this certification can move freely, without the need for a declaration of enforceability in the State where enforcement is to be made; on the other hand, the creation of European procedures, distinct from national ones, but to be applied by the national courts, of which emanate Enforceable European Orders enforceable throughout the EU. The first category include the European Enforcement Order for uncontested claims, governed by Regulation (EC) no 805/2004, as well as judgments falling under Regulation (EU) no 1215/2012. The second category includes European order for payment, subject to Regulation (EU) 1896/2006 and the judgement given under Regulation (EC) no 861/2007.

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NICHE TOURISM MARKETS – MEANS OF ENHANCING SUSTAINABLE ECONOMIC DEVELOPMENT IN EU'S EASTERN PERIPHERY

Mara URSACHE*

Abstract: *Within Europe, processes of economic convergence and divergence operate at various geographical scales, resulting in a very uneven geographical landscape. As mentioned in the international literature, the European economic space is characterized by a core-periphery structure. From this point of view, tourism has important significance since it is a noteworthy activity in the European Union and contributes to employment, income generation, overall development and economic rejuvenation of rural, peripheral or underdeveloped areas.*

There has been a shift in the nature of tourism demand driven by changes in consumption patterns, namely an increasing emphasis on more personalized or on specialized forms of tourist packages. This aspect required smaller and more flexible provision that created niche markets capable of providing peripheral areas the opportunity to capitalize on their comparative advantages associated with their natural environments, cultural heritage, and the role of local food in reinforcing personal identity and authenticity.

The purpose of this study is to analyze EU's Eastern periphery (Bulgaria, Hungary, Poland, Romania and Slovakia) niche tourism markets potential and identify a few guiding principles that may lead to sustainable economic development.

Keywords: core – periphery; tourism; niche tourism markets; EU

JEL Classification: L83; O52; P52

Introduction

Regardless of the level to which we turn our attention, one of the fundamental features is the tendency of an uneven spread in space and time, as the result of the permanent „game” between centripetal forces – of attraction and concentration and centrifugal forces – of dispersion.

Due to the complexity and economic, social and cultural heterogeneity characterizing the European continent along with EU's enlargement towards East, the conceptual pair core – periphery gained importance, forming the basis for the European policies regarding support for lagging behind areas in terms of development and sustainability. From this point of view the tourism sector has particular meaning, since as illustrated in the literature it can engender employment, infrastructure, investments and earnings and can change polarities, distanced, peripheral places consequently becoming attractive and highly frequented central places within the tourism system.

However, despite the significance of the tourism sector, the dominance of the mass model of tourism development has led to the deterioration of the resources of many places, and, finally, to a decrease of their quality, causing on a series of negative effects on the host destinations. In the face

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of the economic crisis and its associated drawbacks, globalization and rapid technological change, the necessity to turn toward more adequate, specialized and flexible patterns of tourism development and the discovery of new emerging markets are of crucial importance.

Through image creation, niche segments allow destinations to differentiate their tourism products and compete in an increasingly competitive and cluttered tourism environment. Therefore, niche tourism is seen to be a response to a growing number of more sophisticated tourists demanding specialist tourism products. Niche tourism is seen as a means of increasing the attractiveness and competitiveness of places.

1. Conceptual framework

We live in an unequal world. Development inequalities have long been the focal point of academic interest. The territorial organism appears as an asymmetric system often explained in a variety of ways: rich versus poor, north in contrast with south, developed areas in opposition to developing ones, or core versus periphery.

Peripherality (the character of being peripheric) is a matter of perception. In a geographic approach of the world, peripherality is defined as „the outermost boundry of any area” (Stevenson, 2010), an obviously spatial interpretation. However peripherality is more than a simply geographical concept. To be peripheral means to be marginalised, to lack power and influence and it consequently includes social, political and economic implications.

A peripheral area, then, is one that suffers from geographical isolation, being distant from core spheres of activity, with poor access to and from markets. It also suffers from economic marginalization, caused either by a lack of resources, by a decline in traditional industries or agriculture, or by a lack of know-how and training in areas such as marketing and innovation (Brown, 2000, p. 8).

Botterill *et al.* (2002) provide the following set of characteristics that distinguish peripheral from core regions.

Table 1 - Features of core vs. peripheric regions

CORE	PERIPHERY
High levels of economic vitality and a diverse economic base.	Low levels of economic vitality and dependent on traditional industries.
Metropolitan in character. Rising population through in-migration with relatively young age structure.	More rural and remote – often with high scenic values. Population falling through out-migration, with an ageing structure.

Innovative, pioneering and enjoys good information flows.	Reliant on imported technologies and ideas, and suffers from poor information flows.
Focus of major political, economic and social decisions.	Remote from decision making leading to a sense of alienation and lack of power.
Good infrastructure and amenities.	Poor infrastructure and amenities.

Source: Botterill *et al.*, 2002, p. 9

In addition to these features, Müller (2011b) listed characteristics of, and challenges for tourism in peripheral areas. These include: (i) lack of local control over decision-making –communities strive to direct attention towards endogenous growth to reduce the dependence on external actors; (ii) weak internal economic connections and information flows – making individual economic growth more directly linked to the core or other regions instead of encouraging local cooperation; (iii) geographical remoteness from markets and poor infrastructure: an increasing issue of concern for peripheral tourism, mainly in the context of climate change; (iv) ageing societies with decreasing population figures – most peripheral communities face this trend which puts pressure on local businesses and public services; and, (v) lack of innovation and human capital – thus making positive change less likely.

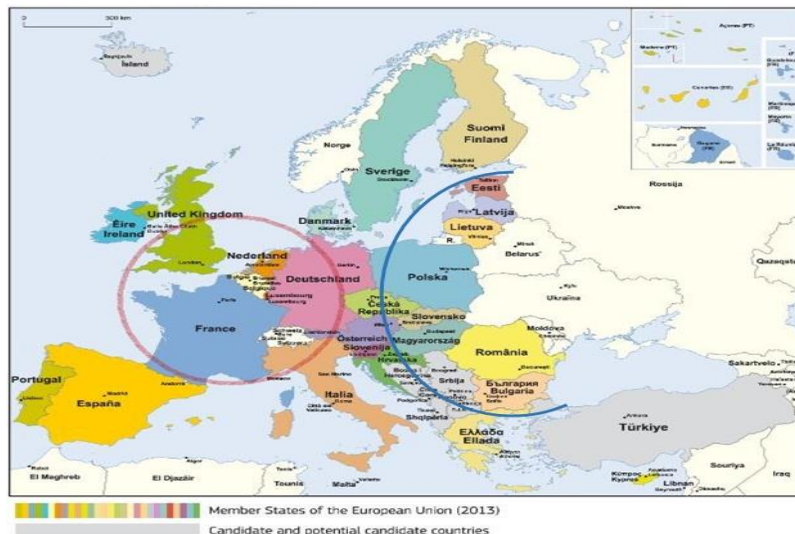
2. The uneven landscape of the European Union

The European economy is one of the wealthiest macro-regions in the world. However, inside Europe itself important disparities and diverging development pathways exist, creating a profound fragmentation of the economic space.

The regional inequalities between EU's countries have turned into a stringent problem mainly after the expansion towards East from 2004 and 2007, leading to serious challenges for the cohesion process. Economic integration leads to an asymmetric spatial structure, resulting in greater congestion and increased specialization at the expense of peripheral countries/regions (Krugman, 1991a). European economic integration of developing economies, causes a number of changes in their economic geography and sector restructuring both at intra and inter-country level (Traistaru *et al.*, 2003), due to variation among the factors that influence the tendency of firms to locate in a certain region (Baldwin and Wyplosz, 2006). Eventually, such restructuring is often considered to determine patterns of divergence between Eastern countries and old EU member states.

In other words, a core – periphery pattern can be identified, as illustrated in Figure 1.

Figure 1 – The core-periphery pattern of EU



Source: Author's representation based on European Commission's Geographic maps of Europe available at <http://ec.europa.eu/avservices/photo/photoByMediaGroup.cfm?sitelang=en&mgid=38>

Although a number of terms are used to define the economic and decision-making center of EU („pentagon”, „blue banana”, „blue orchid”, „golden triangle” etc.) it is unanimously recognized that the core consists of the Western Europe's main growth axis – spreading from London and South – East England through France, Belgium, Netherlands, Luxembourg and Germany to Switzerland and Northern Italy, with a secondary center raising in the South between Barcelona and Milan, known as the European Sunbelt. In the East lies what is defined as Europe's periphery.

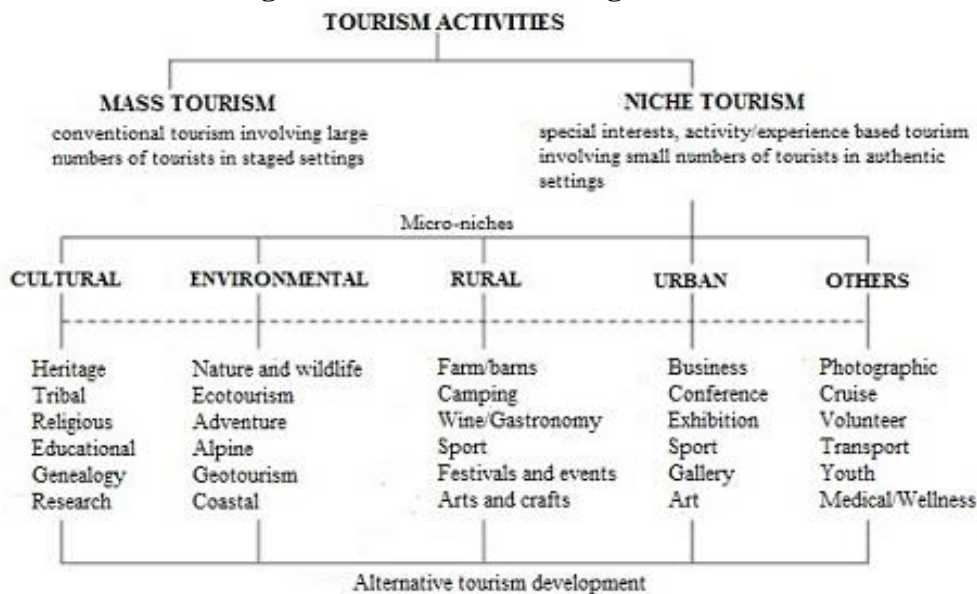
3. Reorientation from the classical thinking pattern towards a personal signature of tourism products

Whenever the objective is to build close and long-lasting relationships with customers, a niche approach is more efficient than a classical segmentation strategy.

At present, travelers are more experienced, have more disposable income and more leisure time to travel, hence tourism allows them to break out from the everyday routine of their normal environment and engage in a world of freedom and novelty (Pascariu, 2006). Therefore, more and more tourists are searching for active participation in courses and tangible learning experiences, and in this search the natural landscapes, cultural heritage and cuisine experiences, in various ways, play an increasingly significant role.

The contemporary tourism market is characterized by a big number of definitions linked to a diverse set of recreational activities, demand for alternative locations, entertainment and attractions, thus new tourism segments are rousing. Niche tourism can be defined in relation to this myriad of factors interrelating and reacting to ever-changing tourism requests and market trends as can be seen in figure 2.

Figure 2 – Niche tourism segments



Source: Author's representation

As it can be observed, the tourism sector is characterized by a varied palette of niche segments. Because the approach is extensive and we can't address all these segments, nor is this the purpose of our paper, hereinafter we choose to present by way of example three of these niche markets: cultural tourism, gastronomic tourism and wellness tourism. The reason behind our choice is twofold. Firstly, natural and cultural heritage assets, gastronomic traditions and experiences have become promoters for regeneration and sustainable growth of a destination. Further, when asked how they sustain their wellness people respond „taking a vacation”. As people started to significantly pay attention to their health considering the daily routine characterized by a high level of stress, they engage in maintaining or improving their health habits even when they travel. Secondly, EU's Eastern periphery is a growing tourism region. The variety of cultural and natural elements, traditional values associated with authenticity and the high number of natural spa and wellness resorts represent key assets for developing and practicing these forms of tourism that bring in revenues, create jobs, and may help improve the well-being of the local communities and tourists.

The demand for long-term development or sustainability and the structural difficulties that hinder the development of peripheral regions bring forward the need of a more integrated and realistic model of the tourism product (Pascariu and Tiganasu, 2014).

3.1. Cultural tourism

Tourism has a major role in the development of destinations around the world. In the majority of cases, culture is a significant asset for tourism. Culture and tourism have a mutual advantageous relationship. On the one hand, culture is being increasingly used as an element of the tourism product which can improve the attractiveness and competitiveness of places, regions and countries. On the other hand, tourism has been incorporated into cultural development policies as a way of supporting cultural heritage and cultural production. The relationship between tourism and culture is perceived as of great significance for promoting a more direct relationship between these two elements. This synergy is even more important, considering the growing importance of both tourism and culture for economies around the globe.

As tourism progressively shifts away from its prior focus on scenery and natural resources (e.g. sun, sea and sand), travelers become more caught up in symbolic and sensory consumption of the images and impressions associated with particular destinations. Tourists are looking for destinations which are related with particular legendary characters, ideas or events, and they want to experience the sights, sounds, traditions, beliefs of the destinations they visit.

According to the UNWTO report „Tourism 2020 Vision”, cultural tourism belongs to the most popular forms of tourism and the interest for it increases faster than for other forms of tourism. As well, UNWTO estimates that cultural tourism accounts for around 40% of all European tourism.

A Eurobarometer survey on European holidays in 2014 indicates that a quarter of respondents mentioned culture as one of their main reason for taking a holiday and nearly half of the respondents said that the natural features and cultural and historical attractions would determine them to go back for another holiday.

3.2. Gastronomic tourism

As tourism destinations are fiercely competing for attention and growth, local customs are becoming an increasingly important source of new products and activities to attract and captivate travelers. Gastronomy plays a fundamental role in the process of attracting tourists because eating is

the only experience that stimulates all five senses and the local cuisine has turned into a significant source of identity formation in postmodern societies (Richards, 2002). The variety of cooking methods, local products and colorful ingredients embrace all the traditional values and promote distinctiveness and authenticity in an increasingly crowded marketplace, respect for culture and tradition, a healthy lifestyle, experience and sustainability.

Gastronomic tourism is a rising phenomenon that is being built up as a fresh tourism product due, *inter alia*, to the fact that as stated in the field literature more than a third of the tourist spending is associated to food, the money being often spent directly with local business.

Maket *al.* (2011) draw attention to the distinctive characteristics of food consumption in tourism: „It is largely essential (tourists need to eat when they travel away from home), it occurs in a foreign and unfamiliar context (in terms of food and foodways), it is of a temporal nature (tourists are usually in a sojourn instead of staying in the destination for a prolonged period of time), and it bears symbolic meaning and can be associated with travel motivation”.

Tourists have differing tastes and demands in terms of food experiences. Uniqueness, genuineness and locality are basic building blocks of food experiences for travelers. Yet, in a globalised world these assets may seem under threat, as to a great extent fast food chains dominate the market. As Groot (2010) highlights in his survey on local food, „Ironically, the emergence of mass tourism has given new opportunities for local products to be celebrated and sold as part of a unique cultural history. As a matter of fact, locally produced food has increasingly come to represent a place in a global market”. Despite the fact that local cuisine may be imitated and globalised, it is the feeling related to the original food experience that has become particular and idiosyncratic in a globalised world. Thus, gastronomy is also a means of improving the image of a destination which is seen as a competitive advantage on the tourism market.

3.3. Wellness tourism

Health and well-being are common aspirations shared by people across all ages, revenues, principles, traditions and continents. The desire to be free of illness, to age pleasantly and to allow our minds, bodies, and spirits to accomplish their potential are as old as civilization itself.

Unfortunately the modern lifestyle is characterized by an aging population, chronic diseases coupled with the unhealthy eating habits (time is money therefore fast food is many times seen as a compromise option) and stress. The rise of wellness tourism is a direct response to combat this trend, mainly determined by consumer demand.

In a search of the literature regarding how tourism and health intermingle, one can observe two approaches of the topic: medical tourism and wellness tourism. But are these two paradigms one and the same thing? Offering a simple answer, no. Below we present the features that distinguish wellness tourism from medical tourism.

Wellness tourism	Medical tourism
Generally people who are healthy – preventive.	Generally people who are sick – corrective.
Travel to maintain, manage or improve health and well-being – individual responsibility.	Travel to receive treatment for a diagnosed disease, ailment or condition, or to seek enhancement – clinical responsibility.
Motivated by desire for healthy living, disease prevention, stress reduction, management of poor lifestyle habits and/or authentic experience.	Motivated by desire for lower cost of care, higher quality care, better access to care and/or care not available at home.
Activities are proactive, voluntary, non-invasive and non-medical in nature.	Activities are reactive to illnesses, medically necessary, invasive and/or overseen by a medical doctor.

Source: Global Wellness Tourism Economy Report 2013, p. 19

Wellness tourism is seen as „a holistic mode of travel that integrates a quest for physical health, beauty, or longevity, and/or a heightening of consciousness or spiritual awareness, and a connection with community, nature, or the divine mystery” (Bushell and Sheldon, 2009, p.11).

Therefore, medical tourism and wellness tourism are essentially different activities that encounter different traveler or patient requirements. The conditions and features that make a destination successful in either form of tourism are as well very different. The overlap between wellness tourism and medical tourism takes place around activities such as thermal baths, health resorts, sanatoria, medical spas, DNA testing, and executive checkups – activities that can be likewise preventive and curative. Wellness tourism is larger than medical tourism.

4. Niche tourism in EU’s Eastern periphery

Tangible-intangible, movable-immovable or spiritual heritage assets create competitive advantages and innovation and become promoters for regeneration and growth of a destination (Bailey *et al.*, 2010).

Through its specificity, the tourism sector is seen as coupled to a country’s heritage more than other industries. The competitiveness of the European tourism industry is intimately interrelated to its sustainability, as the quality of tourist destinations is strongly shaped by their natural and cultural

heritage. Sustainability is recognized as of great potential for bringing heritage conservation, tourism and economic development into a balanced and constructive relationship.

The European Union remains one of the favorite destinations for tourists worldwide and is characterized by the diversity and richness of cultures, arts, cultural and natural heritage. At present, the centre of gravity is beginning to move toward East - EU's Eastern periphery recording consistent annual growth in terms of incoming tourism – 7% in 2014.

Additionally to being an inexpensive destination due to its relatively lower cost of living compared to the countries defining Europe's core, Eastern Europe has also shown to be financially attractive to tourists owing to the lower cost of flights to the region. The shift from the traditional packaged holidays to more personalized vacations is also proving to be advantageous to the Eastern European travel industry.

The five chosen member states (Bulgaria, Hungary, Poland, Romania and Slovakia) are not uniform but diverse entities considering their location, topography, climate, natural landscapes, history, culture and economic development. These countries are known for their cultural legacy and natural beauties, traditional delicious cuisine, natural spa and wellness resorts which have been a local tradition for centuries.

Europe's cultural heritage is „one of the oldest and most important generators of tourism” (Thorburn, 1986), and it maintains its fundamental role in the European tourism industry to this day.

Culture has a significant direct contribution to the economy and society in terms of generated income and people employed and it also brings a substantial contribution to social well-being and to the development and preservation of social capital. The bond between culture and economy has passed thru a major shift, from the simple safeguarding of culture to its economic enhancement, which reveals the relationship among culture, society and economic development (Power and Scott, 2004). Furthermore, the erroneous idea that the economic enhancement of cultural heritage could impede its safeguard and vice versa, is slowly fading (Zanet *al.* 2007).

Culture and cultural heritage should be seen as being essential in a country whose tourism product has been largely based on sun/sea/sand holidays, like Romania and Bulgaria (because unfortunately the share of arrivals in the sea-side area decreased from 13,6% in 2007 to 12,8% in 2011 (WTTC, 2013). Tourism demand is also highly seasonal and spatially concentrated. Hence, cultural tourism is regarded as one promising means for diversifying the basic sun/beach holiday product, for spreading the tourism season and determining travelers to come across hitherto unknown areas, customs, beliefs, values of the Eastern periphery member states.

Cultural tourists stay longer, visit twice as many places, spend more per day and consequently have a significantly greater per trip economic impact. Cultural tourism has turned into an essential instrument of economic and social change in Europe. Cultural consumption has grown and tourism is an increasingly important form of cultural consumption. Bulgaria, Hungary, Poland, Romania and Slovakia are considered particular destinations that people all over the world are visiting in order to know their cultural and natural heritage. However, although the rich cultural and natural assets of these countries is a major pull factor and an important source of competitive advantage in the battle for tourism market share and thus sustainable growth, most tourists coming to these states view culture as one part of the total tourism product, rather than a primary motivation when visiting. Eastern European countries must sustain their development taking advantage of their cultural legacy.

The food of Eastern Europe is healthy and extremely diverse. It is as varied as the history of the region, strongly influenced by several cultures - from the Mediterranean to the Ottoman Empire. The traditional Bulgarian cuisine is universally regarded as one of the healthiest in Europe, not only because of the ingredients used, but also because of the way they are prepared. Bulgarian dishes are very light, made with sunflower oil so that the ingredients retain their natural qualities. The most famous dish is bean soup, whose composition and taste varies from one region to another, depending on local tradition. Among specific foods tourists can also find kebabcheta (seasoned meatballs made from minced pork meat), kavarmakebap (pork meat with various vegetables), moussaka, the well-known shopska (Bulgarian salad) and baclavale (an extremely sweet desert specific for the Balkan region). The excellent Bulgarian cuisine is complemented by numerous high-quality local wines that are (especially the red types) among the most popular in Europe. Typical Bulgarian wines are Gamza and Mavric (red) and Dimi and Pamid (white).

Hungarian cuisine is famous worldwide. Whether we talk about soups, main courses or desserts, all are very tasty. Who visits Hungary must taste the famous gulyasleves, hereafter goulash, a dish prepared from potatoes, meat, onions, carrots and paprika. It is like a consistent soup that can be served more or less spicy. Kürtőskalács is another famous dish, made from sweet, yeast dough (raised dough). Dobos cake and Hungarian wines are also famous brands. If we talk about Hungary's traditional drink, everyone will think of the well-known palinca, which is made from 100% fruit and has an alcohol value of at least 37.5%.

The Polish cuisine is delicious, meat being the main ingredient in most traditional dishes. Pierogi is perhaps the most famous Polish dish, representing dumplings filled with many types of ingredients and can be sweet or salty. Zurek is one of the most popular soups of Poland; it is practically a soup made from rye flour, but served as soup, with meat, usually smoked and then boiled,

sliced sausages, potatoes or boiled eggs. Kielbasa represents all kinds of Polish sausages, internationally renowned for their quality, the vast majority being smoked. Regarding desserts, popular is the poppy cake, served with homemade jam, a treat not to be missed on a visit to Poland. As for drinks, Polish are large consumers of vodka.

The main ingredient in the Slovak cuisine is milk. And rightly so, as Slovakia is famous for its dairy products of excellent quality and delicious taste - various types of cheese from sheep, goat or cow, smoked or not smoked, cheese or traditional butter. A well-known national dish is dumplings with cheese (halusky). Beer is very popular in Slovakia and of very good quality.

Romanian cuisine is diverse and contains many customs and culinary traditions, as a result of the junction with the gastronomic culture and traditions of other nations who came into contact with Romanian people through history. Soups, mamaliga, sarmale, tochitura are just some of the tempting, tasty, flavored, colorful, scent, authentic traditional Romanian meals. One of the most important drinks is wine, with a rich tradition in its preparation.

Eastern Europe's cuisine is still not westernized. Of course one will find the global fast food chains here and there but this region is still characterized by authenticity and tradition. Grandma's still sweep their doorsteps with handmade brooms, fruits are still picked in the forest, folk costumes are still worn in some regions, and gastronomic traditions that go back centuries are performed with pride even nowadays.

Even if the world is globalised and has become more opened, tourists search for experiences based on distinctiveness and local inheritance. Gastronomy embodies all the traditional values of a destination and the feelings associated with them and has become a viable solution to reinforce and diversify tourism, promote sustainable economic development and high quality local products.

Europe is a leading power in the global wellness tourism sector growth, accounting for more wellness trips annually than any other region, according to figures from the Global Spa & Wellness Summit (GSWS). Europe ranks No.1 globally for annual trips taken (203 million) and No.2 for expenditures (\$158.4 billion USD or 115.3 € billion).

Due to high costs of healthcare services in highly developed countries, wellness tourism to developing countries, ranging from dental care to cosmetic treatments, for potential cost savings has emerged in the past years (Antwi and Phillips 2013).

Eastern European states are recognized for natural spa and wellness resorts, which have been a tradition for centuries. Based on the registry of the National Directorate of Curative places, in Hungary there are approximately 1,500 thermal springs, 219 acknowledged medicinal waters, 212 acknowledged mineral waters, 5 medicinal caves. More and more the region is also a chosen

destination for more complex procedures, like heart and orthopedic surgeries, including heart transplants and prostate cancer treatment. According to a survey conducted by portal Treatment Abroad in 2013 regarding top ten fastest European wellness tourism market, three states pertain to EU's Eastern periphery: Hungary, Poland and Slovakia. Romania is home to more than one third of Europe's mineral and thermal springs. Natural factors are complemented under carefully medical care by physiotherapy, acupuncture, electrotherapy and medication produced from plants. Herculane, 1 May and Felix thermal baths are known worldwide.

Most of Eastern Europe states have centuries old traditions of traveling for care, which involves a variety curative, rehabilitative and preventive therapies related to balneotherapy, massage, mud and algae treatment.

Wellness tourism is a niche market with high potential for enhancing the competitiveness and sustainable development of the sector and the economy as a whole. Wellness tourists stay longer due to treatment-based services and spend higher amounts for the specialized services. Wellness tourism is distinguished by lower seasonality, being independent of the weather. The increased need for individually customized services brings a major competitive advantage for this type of tourism, thus contributing to a higher level of guests' satisfaction.

Concluding remarks

Given the growing economic significance of tourism on the global marketplace and due to the fact that the focal point moved to special interests activities and experience based tourism, niche markets are a research area worthy of further investigation. More and more, destinations worldwide are trying to distinguish themselves through the development of distinctive products and experiences based on „alternative” and „creative” forms of tourism.

Niche tourism markets, such as cultural, gastronomic and wellness tourism, provide peripheral areas the opportunity to capitalize their comparative advantages associated with their natural environments, cultural heritage, the role of local food in reinforcing personal identity, authenticity and enhancing sustainable growth.

The most successful destinations are those which recognize the wider implications of the relationship between tourism, culture, traditions, nature, particularly in terms of attracting new residents and inward investment and hence development on long term.

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REGIONAL DEVELOPMENT THROUGH GROWTH AND URBAN DEVELOPMENT POLES IN ROMANIA

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Marius CRISTEA**

Abstract: *In 2008 the Ministry of Development, Public Works and Housing (now the Ministry of Regional Development and Public Administration) prepared the growth poles policy for Romania, establishing seven growth poles to be financed through the Regional Operational Programme 2007-2013, under the Priority Axis no. 1. For 2007-2013 there were also established 11 urban development poles. At present the Ministry is discussing with the European Commission the new Regional Operational Programme 2014-2020 in which the main policy lines regarding integrated territorial development also take into consideration the improvement of the quality of life and the “appearance” of towns and strengthening their role in the region. The main urban agglomerations (county seats) are seen as development engines of the regions. The authors analyze the results obtained and the problems that appeared at regional level in what concerns the projects financed under Axis 1 of the ROP 2007-2013 by answering two main questions: did they really had the estimated impact on the growth and urban development poles and on the regions? and was there really an integrated approach used? Based on the results obtained from the analysis of the previous programming period the authors try to recommend some improvements that could be taken into consideration for the development of the Integrated urban development plans and priority projects that are going to be financed by ESI funds under Axis 4 of the new ROP 2014-2020, recommendations that could be taken into consideration when preparing the Guidelines for applicants for this axis.*

Keywords: growth poles; urban development poles; urban development policy; regional operational programme

JEL Classification: O18; R51

Introduction

At a regional level, urbanization is historically correlated with overall economic development. Trends in most developing countries suggest that urbanization generates important opportunities for growth, employment, environmental sustainability and poverty reduction. Due to the spatial concentration of productive activity (jobs), entrepreneurs, workers, consumers and support institutions (educational, health, financial), cities have the potential to be economically dynamic. At the same time there are big challenges that the cities have to face in what concerns sustainable development and social cohesion, social segregation, environmental (climate change) and mobility issues, urban sprawl.

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In Romania, there is a relatively well-balanced distribution of large towns, but almost 90% of the urban network comprises small and medium sized towns (under 50.000 inhabitants) with very limited urban functions and poor infrastructure.

The quality of life in urban areas is influenced by the level of available urban infrastructure and services. In order to assure a good functioning of a town (better linkages between functional areas), to facilitate the access of people from peripheral areas to main urban services and to areas of jobs (where economic activities are concentrated), a good public urban transport is needed.

The low capacity of roads and traffic congestion within and around the cities represent other big problems that cause an increase in the number of accidents and environmental degradation.

A large number of small and medium towns in Romania still have difficulties in providing basic public utility services. This represents an obstacle in attracting investments and stimulating small entrepreneurship. A common problem for most of the towns and cities in Romania is the high maintenance costs, degradation, low esthetic quality and low energy efficiency of the multifamily houses built in the communist period. There are big differences between neighborhoods within a city. There are areas where the socio-economic indicators reveal a bad situation: high unemployment, poor urban infrastructure, lack of green spaces, deteriorated houses, low level of education, poor health and high level of criminality. Policy makers and experts in the field have to find effective solutions to these problems.

1. European urban policy

Many EU Member States give more and more attention to integrated approaches to urban development. This concept of integrated approach to urban issues was developed at the beginning of the '90s in connection to urban renewal projects for disadvantaged neighborhoods and with time expanded to include all urban issues (Ball *et al.*, 2011). The idea was to promote an approach that takes into consideration not only the physical dimension, but also the economic, social and environmental dimensions of urban development. The integrated approach means to replace the sectoral approaches (one dimension) with transversal approaches (multi-dimensional) and implies the elaboration of unitary strategies and actions at the level of the city, which address the whole complexity of urban development but takes into account the role and functions of each part of the city in the whole structure (Toledo Declaration, 2010¹).

¹ ***, Toledo Declaration, Informal Ministerial Meeting on Housing and Urban Development, June 2010, Spain

There were many policy instruments developed over time (such as the Leipzig Charter on Sustainable European Cities, EU Territorial Agenda, Promoting Sustainable Urban Development in Europe – Achievements and Opportunities, Toledo Declaration on Urban Development or Europe 2020 Strategy) that emphasize the importance of integrated urban development. Toledo Declaration (2010) highlights “the need to promote a smarter, more sustainable and socially inclusive urban development in European urban areas, cities and towns”. European Commission’s regulations regarding the cohesion policy for 2014-2020 aim to stimulate integrated urban policies in order to intensify sustainable urban development and increase and consolidate the role of the cities in the context of cohesion policy. The regulations make direct reference to integrated strategies for investment, a minimum expenditure of 5% of the European Regional Development Fund (ERDF) for integrated urban development (through Integrated Territorial Investments- ITI), special funding for innovative actions in urban areas and the creation of an urban development platform in order to stimulate the dialogue between European cities and the Commission on issues regarding the urban development policy and the creation of urban territorial networks.

One of the main instruments to implement the integrated urban development approach are the Integrated urban development concepts which have been used in many EU member states and proved that they can enable the integration of cross-sectoral aspects into the field of urban development. Another benefit brought by these integrated concepts regards the participative approach used in the process. In this way the owners are motivated and become interested in the improvement of their neighborhood. Also, when the population sees the positive changes around them, they become to feel important and are more open to invest in their properties. This feeling of ownership leads to increased private investment along with the public one. The main elements of integrated urban development are: location and function of the envisaged area, land use, property situation, transport, environment, demographic and social conditions, buildings, technical infrastructure, communication, cooperation and involvement (Ball *et al.*, 2011).

2. Romanian urban policy

Urban development was mainly supported during 2007-2013 through the Regional Operational Programme (ROP). This programme had six priority axes: Support to sustainable development of urban growth poles, Improvement of regional and local transport infrastructure, Improvement of social infrastructure, Strengthening the regional and local business environment, Sustainable development and promotion of tourism and Technical assistance.

The strategy of ROP was to assure the highest influence on regional and local development by mobilizing resources and activating local potentials and one of the objective was to develop regional/local urban growth poles by adopting a polycentric approach in order to increase the economic and social role of urban centers and stimulate a more balanced development of regions.

This objective was to be attained through the Priority Axis no. 1 Support to sustainable development of urban growth poles, Key Intervention Area no. 1.1 Integrated urban development plans. These should have led to increased quality of life and creation of new jobs in cities and their surrounding area. This axis defined three types of target areas: growth poles, urban development poles and urban centers. The growth pole policy was prepared by the Ministry of Development, Public Works and Housing in 2008 on the basis of Law Nr. 351/2001 regarding territorial planning in Romania. Government Decision No. 998/2008 mentions the seven growth poles eligible for support within ROP: Brasov, Cluj-Napoca, Constanta, Craiova, Iasi, Ploiesti and Timisoara². Even though Bucharest is the largest growth pole in Romania it was not included in the list because the aim was to assure a balance between it and the designated poles in the national economy. The seven growth poles were deemed eligible for 50% of the available EU funds for Axis 1. Authorities also selected 13 urban development poles: Arad, Bacau, Braila, Galati, Deva, Oradea, Pitesti, Ramnicu-Valcea, Satu Mare, Baia Mare, Sibiu, Suceava and Targu Mures. The urban development poles also received dedicated funding (20% of the funds allocated for Axis 1). The rest of the funds were meant for financing investments in urban centers, defined as cities with a population higher than 10.000 inhabitants. These cities had to compete for 30% of the funds.

Under this priority axis there have been financed projects that were included in integrated urban development plans. These plans were developed on medium and long term and aimed the development and regeneration of the cities. A precondition for ensuring the sustainability of the plans was to involve in the elaboration process besides local administration, the citizens and other local stakeholders. There was a specific request in what concerns the growth poles to consider the implementation of the plan both in major cities and the surrounding areas (urban or rural). In this regard the 7 growth poles created Inter-municipal Development Associations that included the localities in the existing or newly formed metropolitan areas.

The projects identified in the integrated plans needed to take into consideration interventions in three areas: urban infrastructure, entrepreneurship and employment and social infrastructure and services. The link between the three areas and the established objective is as follows: better urban

² The Government selected the largest population center for each of the seven development region (except Bucharest-Ifov)

infrastructure will lead to improved quality of life for the citizens and will stimulate the establishment of new economic activities, better business infrastructure will determine the creation of a diversified business environment, increasing the competitiveness of cities and the creation of new jobs and satisfying the social needs will lead to better employment, enhancement of life quality and achievement of equal opportunities principle.

As mentioned before there were three possible types of interventions under this axis: rehabilitation of urban infrastructure (physical regeneration of city centers and public spaces, rehabilitation of urban streets and related infrastructure and their connection to surrounding areas of the city, rehabilitation of unused/polluted sites and preparation for new uses, development of an environmentally friendly public transport and alternatives forms of transport), improvement of services, including social services (rehabilitation of social infrastructure, including social housing, acquisition of equipment for increasing security and preventing crimes) and development of business support structures and entrepreneurship (creation/rehabilitation of business structures, creation/rehabilitation/extension of leisure tourist areas and infrastructure, and related utilities).

The Managing Authority for ROP (MA) anticipated that there would be more interest from the beneficiaries for the first type of interventions (urban infrastructure) than for the other two domains: social and economic. In order to assure a minimal integrated approach of the financed interventions, the MA requested that each integrated plan to have individual projects from at least two of the three types. In spite of this measure, most of the beneficiaries only included one social project with a minimum value, mainly supporting the implementation of a video surveillance system in order to decrease criminality rate. The updated Interim evaluation of the ROP showed that the beneficiaries were reticent to include in the integrated plans individual economic projects due to the higher co-financing rate needed in order to comply with the state aid provisions. Another aspect revealed by the evaluation regards the fact that most of the submitted economic projects had an important real estate component and led to limited creation of jobs.

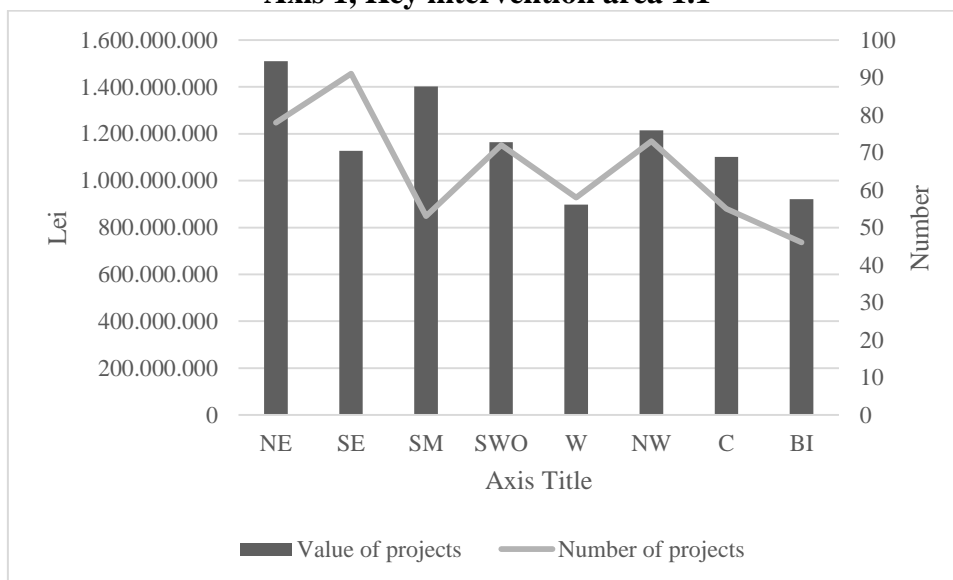
3. Implementation of the Integrated urban development plans financed by ROP 2007-3013

For the 2007-2013 programming period, Romania was allocated 19.69 billion Euros from structural and cohesion funds, out of which 3.96 bn. Euros (20%) were allocated for ROP. Inside the ROP the highest amount was destined to support urban development through axis 1 (30% - 1.156 bn. Euros). The interest for this axis is shown by the high value of the projects submitted, on the second

place after priority axis 2. Improvement of regional and local transport infrastructure. This axis is on the first place in what concerns the contracted funds, but with a low level of absorption rate.

At the end of February 2015³, there have been 526 projects contracted through key intervention area 1.1, for a total amount of 9.33 bn. lei, out of which 5.76 bn. lei from ERDF. 42.8% of the sum was contracted for 274 projects with beneficiaries from 76 urban centers, 39.9% was contracted for 145 projects with beneficiaries from the 7 growth poles and the rest of the sum was contracted for 107 projects with beneficiaries from the 13 urban development poles. The highest amount of funds was contracted in North-East region (1.5 bn. lei) and the smallest in West region (897 mn. lei). Beneficiaries from South-East region contracted the most projects (91) and those from Bucharest-Ilfov the smallest number of projects (46), but we have to take into consideration the fact that beneficiaries from this region could apply only for urban centers operation. The average value per contracted project varies between 26.4 mn. lei in South-Muntenia region and 12.3 mn. lei in South-East region, the national average being 17.7 mn. lei.

Figure 1 - Regional distribution of contracted projects on ROP, Axis 1, Key intervention area 1.1



Source: Own calculation based on the List of contracted projects, 28th of February 2015, MA for ROP

For the growth poles there have been contracted 145 projects amounting 3.72 bn. lei. 33 of the projects were finished, with Brasov on the first place with 12 finished projects (out of 25 contracted projects)⁴. Cluj-Napoca and Iasi contracted the highest sum (over 600 mn. lei) and Timisoara the

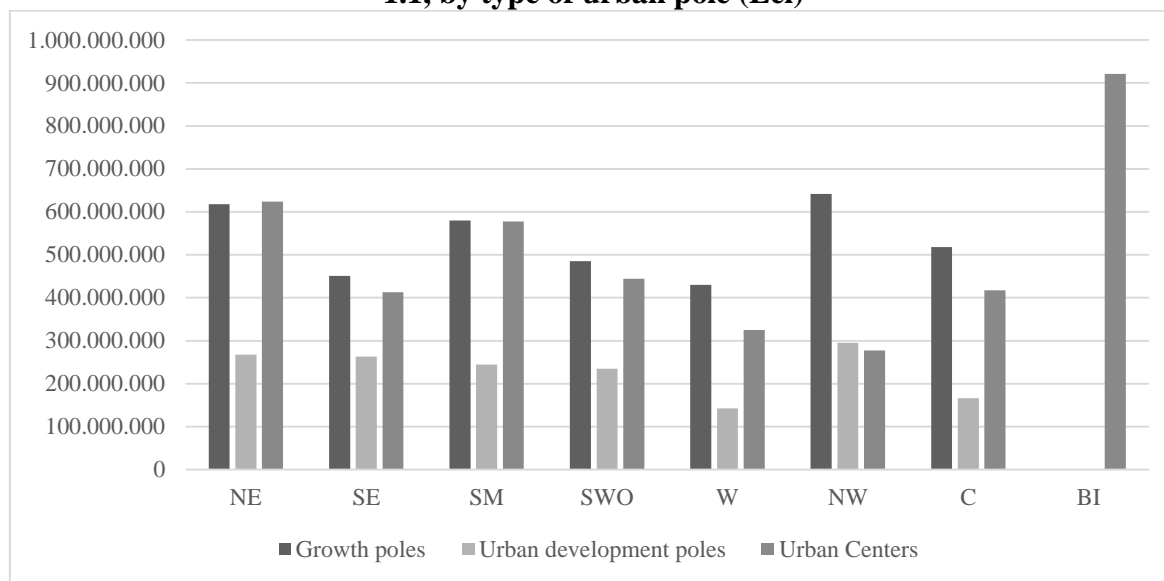
³List of contracted projects, 28th of February 2015, available on the MA for ROP website: <http://info regio.ro/ro/implementare/proiecte-finantate.html>

⁴ According to the SMIS database available on the site of the Ministry of European Funds

lowest. Constanta and Brasov growth poles contracted the highest number of projects (32, respectively 25) and Iasi contracted only 13 projects. There were four growth poles that registered a higher average sum reported to a project than at national level: Iasi, Ploiesti, Cluj-Napoca and Craiova. One more remark has to be made concerning the localities that form the metropolitan area of the growth poles. In the case of Constanta and Brasov growth poles, an important number of the projects have been contracted by the component localities of the urban area (22 out of 32 projects for Constanta growth pole – Agigea, Corbu, Cumpana, Eforie, Lumina, Mihail Kogalniceanu, Murfatlar, Navodari, Ovidiu, Poarta Alba, Techirghiol, Tuzla and Valu lui Traian - and 8 out of 25 projects for Brasov growth pole – Codlea, Ghimbav, Predeal, Rasnov, Sacele and Vulcan). In the case of Iasi growth pole all the projects were contracted by Iasi municipality and only one other municipality contracted projects in the case of Cluj-Napoca and Craiova growth poles. This shows that the interventions were focused mainly on the capital city and did not have an integrated approach at metropolitan level. This fact led to negative reactions from the component localities which didn't see the benefits of the metropolitan area and in some cases they left the association.

In what concerns the urban development poles one can notice that there have been contracted 107 projects with a total value of 1.6 bn. lei, with Sibiu on the first place with 6 finished projects (out of 8 contracted projects). The highest amounts have been contracted in Pitesti and Ramnicu Valcea (with over 200 mn. lei each) and the lowest in Deva (around 42 mn. lei). Deva also registered the lowest average sum contracted per one project. The highest number of projects were contracted in Braila (15 projects) but with a low average sum/project, Pitesti and Ramnicu Valcea (12, respectively 13 projects) which also registered a high average value/project. Higher average values/project than the national one were also registered in Suceava and Oradea. Targu Mures is the urban development pole that even though it only contracted 3 projects it registered the highest average value per contracted project (over 24 mn. lei/project). These three projects contracted by Targu Mures municipality were destined for the modernization of the streets network and creation of a monitoring system for people safety in the areas with high social risk.

Figure 2 - Regional distribution of contracted projects on ROP, Axis 1, Key intervention area 1.1, by type of urban pole (Lei)



Source: Own calculation based on the List of contracted projects, 28th of February 2015, MA for ROP

Urban centers contracted 274 projects with a total value of 4 bn. lei. Another city from Center region, Alba-Iulia, registered the highest number of finished projects (6 out of 7 contracted projects) among the urban centers. The highest amounts have been contracted by urban centers in Bucharest-Ilfov (over 900 mn. lei) and North-East (over 600 mn. lei) regions and the lowest in North-West region (around 300 mn. lei). Taking into consideration the number of contracted projects one can notice that 50 projects were from North-East region (with 15 beneficiaries) and only 19 projects from Center region (with 5 beneficiaries). The average value of the contracted projects varied between 22 mn. lei in South-Muntenia region and 9 mn. lei in North-West region.

For a deeper analysis⁵ concerning the types of interventions contracted, the authors took into consideration the growth poles, the urban development poles and the capital cities among the urban centers. On the whole one can notice that most of the contracted projects aimed urban infrastructure rehabilitation (251, out of which 67 were finished), and only 23 of the contracted projects aimed business environment improvement (only 2 were finished). For social infrastructure there were 84 projects contracted out of which 37 projects were finished. Growth poles registered the highest number of contracted projects for all three areas, but urban centers managed to finish the highest number of projects. From the presented data one can notice the low number of projects that aim at business environment infrastructure. All growth poles applied for this kind of support, but a higher interest was registered in the case of Cluj-Napoca and Timisoara with 5, respectively 4 contracted

⁵ Based on the SMIS database available on the site of the Ministry of European Funds

projects. Only 4 urban development poles and urban centers contracted economic projects: Ramnicu Valcea, Satu Mare, Suceava and Slobozia (one project each). Constanta (among the growth poles), Braila (among the urban development poles) and Bucharest (among the urban centers) contracted the highest number of social projects (10, 7, respectively 2). In what concerns urban infrastructure, the highest number of contracted projects was registered in Constanta (22), Brasov (16), Timisoara (14), Pitesti (11), Bucharest (14) and Slatina (12). Out of the total analyzed cities Craiova, Baia Mare, Drobeta Turnu Severin and Targoviste didn't manage to finish any of the contracted projects and 4 urban centers finished all of the contracted projects (Alexandria, Botosani, Miercurea Ciuc and Zalau).

4. Main problems regarding the financing of projects within Axis 1 of the ROP

The economic and financial crisis affected the urban development due to the fact that it led to decreases in the level of revenues and expenses of the public administration and it also had important negative effects on the urban enterprises. Urban infrastructure projects were cancelled, postponed or resized due to the decrease in capital expenses carried out by public administration.

Some problems been identified during the entire process of programme implementation:

- delays in the launching of the calls for projects (two years after the beginning of the period) due on the one hand to the prolonged time needed to discuss with the European Commission aspects concerning the practical method of financing the growth poles and the urban development poles, and on the other hand on the difficulties encountered in the process of elaborating the Applicant's Guide;
- the novelty of the approach promoted by this axis represented a real challenge for most of the cities; this factor had a negative impact on the implementation of the project leading to a slow process in elaborating urban plans and also applying for funds;
- the evaluation, contracting, payment and verification stages, the low capacity of the beneficiaries and of the evaluators created a high pressure on the institutional capacity, leading to lower quality results;
- during 2012 the programme was suspended due to the noncompliance of the management and control system, thus affecting the financial flows and leading to delays and cessation of internal payments;
- beneficiaries elaborated pre-financing applications with delays;

- fluctuation of the personnel employed by the beneficiary which led to project management difficulties;
- important delays were registered in the initial schedule of implementation for some individual projects from the integrated urban development plans of the growth poles which led to a low level of reimbursement; also the repayment schedules did not match the real technical and financial implementation of the projects
- an important problem was generated by the difficulties experienced by beneficiaries in applying the public procurement legislation and the high number of contestations, which represented a major impediment for project implementation in good conditions in terms of time, resources and indicators; this legislation is heavy to understand, can be interpreted and is time consuming;
- financial corrections applied due to incorrect procedures implemented during the public procurement process led to disruptions in cash-flows;
- long period of time elapsed between the moment in which the project was submitted and the moment it started (sometimes up to 2-3 years);
- low quality of the technical and economic documentation; technical projects needed to be reviewed after contracting which led to supplementary works and higher ineligible expenses;
- most of the procedural steps registered delays; higher delays appeared later, during the implementation of the projects, mainly in what concerns the verification and processing the reimbursement applications and the payment stage; these delays were generated by more factors such as: double verification of the documentation (intermediate bodies (IB) and managing authority (MA)), low quality of the documentation (review), excessive number of supporting documents;
- deficiencies regarding the institutional capacity of the MA and IB in terms of human resources' availability and qualification;
- beneficiaries encountered difficulties in assuring the necessary co-financing and cash-flows due to the lack in financial resources.

There are also some issues regarding the achievement of the targets established for the programme indicators. Problematic indicators are the ones that take into consideration the number of projects that promote sustainable development of the business environment, number of companies located in the regional and local poles and number of jobs created/maintained.

Even for the indicators which show progress, such as the number of inhabitants that benefit from the implementation of the integrated urban development plans, there are some issues regarding the way they are collected. Most of the time it was calculated as the total stable population of the city/town in which an individual project is implemented. That led to the fact that the population was counted for each individual project of a city.

Conclusions

EU experiences have shown that in order to achieve a sustainable urban development there is a need of an integrated approach to economic, social, environmental and cultural problems especially within the deprived areas. An integrated approach means to simultaneously support interdependent problems such as: the physical renovation of the urban environment, the rehabilitation of basic infrastructure, actions concerning economic development and the integration of minorities, all taking into account environmental protection.

Romania's urban policy has to be correlated with other sectoral policies in the way that every strategy should include a component on urban development and urban strategies should also address issues concerning social or environmental aspects, not only economic.

Approximately 50% of the total allocated funds for priority axis 1 of the ROP were destined for investments in growth poles and only 20% for investments in the 13 urban development poles. All urban centers competed for the remaining funds and localities with less than 10.000 inhabitants could not benefit from funding within ROP. The argument for fostering growth poles is that these cities are able to spread wellbeing to their smaller neighboring areas.

For the next programming period, it is considered that for a more balanced development in Romania, the capital cities should be better used as motors for the socio-economic development. In accordance with the draft of the Regional Operational Programme for 2014-2020 (April 2015) the priority axis 4 (replacing Axis 1 of the 2007-2013 programming period) will support sustainable urban development and the beneficiaries will be 39 capital cities out of 41⁶. Also, for the 2014-2020 programming period, the Romanian Government is considering a new approach proposed by the European Commission – Community-Led Local Development (CLLD) which will be financed through ROP 2014-2020 Axis 9. Supporting economic and social regeneration of urban marginalized communities. This concept is very similar to the approach already taken in the previous programming

⁶Tulcea municipality is excepted from financing as it has a dedicated allocation through the Danube Delta ITI Strategy and Bucharest because it's included in the high developed region category

period 2007-2013 through integrated plans within ROP and also to the Leader approach in rural areas within National Programme for Rural Development.

There was high interest for urban infrastructure investments and a low interest for business related investments. The reason given by public administration was that the co-financing of the business investments is higher than the rate used for urban or social infrastructure. The territorial distribution of the contracted projects that aim at promoting sustainable development of the business environment shows a high concentration in North-West and West regions. Most of the beneficiaries preferred investments in social infrastructure, but only at a minimum level and because it was compulsory to have one more type of intervention along the ones in urban infrastructure. Taking into consideration the degree of satisfying the programme indicators, one can notice that priority axis 1 will succeed in reaching the targets set for 2007-2013 with one exception, development of business environment. One can conclude that the integrated approach was not really achieved. In this context, the integrated approach should envisage a diversification of financed operations taking into consideration the specific socio-economic needs of different types of cities.

An important role in this process was attributed to the Inter-municipal Development Associations (IDA) and the Coordinator of the growth pole. These two structures should be maintained in the following programming period due to the fact that they stimulate communication with the Regional Development Agencies/MA and among actors and also the identification and development of common projects. IDA can also simulate the integrated approach at territorial level by applying for funding for projects that cover all of the localities in the functional urban area (metropolitan area) and in this way the smaller communities could also benefit. The Coordinator of the growth pole could receive more power (eg. regional coverage) as it can prove to be very efficient in offering technical assistance for integrated strategy development and project identification, analysis of the projects' documentation, technical assistance in selection, evaluation, contracting and implementation stages.

For the future, the MA must have in mind that the Applicant's Guide is crucial for eliminating delays at all stages of the process, the contracting and implementation procedures should be simplified (eg. reducing the number of supporting documents) and the risk of discretionary interpretation should be reduced. Also the public procurement legislation should be clearer, some guidelines should be elaborated and some contract models and specification models should be provided to the beneficiaries.

Even though this new integrated approach generated delays one can notice that some benefits came out of it. For example the public administration of the beneficiary cities improved their

programming capacity, developed competences in elaboration and implementation of complex projects and partnership management. One of the main benefits of this axis is connected to the fact that local authorities have been given the chance to plan and implement complex projects that couldn't have been done without external funding.

The Impact evaluation of ROP priority axis 1 underlines the fact that the net effect of the financed investments is positive for all the indicators used in the analysis. This means that the cities that benefited from funding within this axis have registered increases in the quality of life and job creation.

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