

# BusDEV - Business Development Opportunities at External EU Borders

Targeted Analysis

**Annex III**  
**Stakeholder territory report of  
the Romanian CBC area with  
the Republic of Moldova**

15/02/2021

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## Abbreviations

AA	Association Agreement
ATUG	Autonomous Territorial Unit of Gagauzia
CAP	Common Agriculture Policy
CBC	Cross-border Cooperation
CCI	Chamber of Commerce and Industry
EC	European Commission
CF	Cohesion Fund
CLLD	Community Lead Local Development
CLUSTERO	National Association of Clusters of Romania
COP	Competitiveness Operational Programme
CSB	Central Statistical Bureau of Latvia
DEGURBA	Degree of urbanisation
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECEI	European Clusters Excellence Initiative
EDP	Entrepreneurial Discovery Process
EGTC	European Grouping of territorial Cooperation
EIF	European Investment Fund
EMFF	European Maritime and Fisheries Fund
ENI	European Neighbourhood Instrument
ERBSN	Eastern Romanian Business Support Network
ERDF	European Regional Development Fund
ESCA	European Secretariat for Cluster Analysis
ESF	European Social Fund
ESIF	European Structural and Investment Funds (ERDF, ESF, EAFRD, EMFF, CF)
ESPON EGTC	European Territorial Observatory Network ESPON European Grouping of Territorial Cooperation
ETC	European Territorial Cooperation
EU	European Union
FEZ	Free Economic Zone
FDI	Foreign Direct Investments
FDSC	Foundation for the Development of the Civil Society
FUA	Functional Urban Area
GDP	Gross Domestic Product
GC	Green Certificates
GVA	Gross Value Added
HCOP	Human Capital Operational Programme
IP	Investment Priority
ISCED	International Standard Classification of Education
ITI	Integrated territorial investments
LAG	Local Action Group
LAU	Local Administrative Unit
NACE	Nomenclature of Economic Activities
NB	National Budget
NBR	National Bank of Romania
NCRE	National Commercial Registry of Enterprises
NCRPSME	National Council of the Romanian Private Enterprises
NCS	National Competitiveness Strategy
NGFRC	National Guarantee Fund for Rural Credit
NGFSME	National Guarantee Fund for SMEs
NGO	Non-Governmental Organisation
NIS	National Institute of Statistics
NRDP	National Rural Development Programme
NRP	National Reform Programme
NSC	National Strategy for Competitiveness
NSRDI	National Strategy for Research, Development and Innovation
NUTS	Nomenclature of Territorial Units for Statistics



ODIMM	Organisation for the SMEs Development
OECD	Organisation for Economic Cooperation and Development
OP	Operational Programme
PA	Priority Axis
PPP	Public Private Partnership
RIS	Regional Innovation Strategy
RDA	Regional Development Agency
RDC	Regional Development Council
RDP	Regional Development Plans
RIS3	Regional Strategies for Smart Specialisation
ROL	Romanian Leu
ROP	Regional Operational Programme
RPAE	Regional Plans for Action in Education
SEZ	Special Economic Zone
SGEI	Services of General Interest
SME	Small and medium-sized enterprises
TT	Technological Transfer
TEN-T	Trans-European Transport Network
TATU	Transnistria Administrative Territorial Units
VET	Vocational Education and Training

## Introduction

This report presents findings of the ESPON Targeted Analysis ‘Business Development Opportunities at External EU Borders’ in one of the three stakeholder territories consisting of Botoșani, Iași, Vaslui and Galați, four counties in Romania. The other two stakeholders’ territories are Latgale (Latvia) and Utena+2 (Utena county plus two other adjacent local authorities from Lithuania). It captures the existing business environment and assesses effectiveness and territorial effects of business support mechanisms in the area during the European Structural and Investment Funds (ESIF) programming period 2014-2020. The conclusions of this report are further used to define the territorial capital on which future investments would best rely on to address the development needs.

The methodological approach adopted for the assessment of the Romanian counties is coherent with the other two pilot regions, but it is adapted to the specific feature of the Romanian case, namely the extension of the territory over four counties located in two different development regions. The area also represents the eligible territory in the cross-border cooperation programmes<sup>1</sup> at the eastern border of Romania.

The structure of the report follows the methodological approach in three steps.

Chapter 1 discloses the regional potential and the ‘entrepreneurship ecosystem’ through analysis of both the ‘location’ (sub-chapter 1.1) and the ‘beyond location’ aspects (sub-chapter 1.2). Sub-chapter 1.3 assesses the territorial effects as the developments that have taken place within the region in the last five years. In sub-chapter 1.1.4 the border reality has been analysed under four predefined dimensions: political, infrastructure, economic and social.

Chapter 2 elaborates on business support policies and mechanisms in place available in the region during the 2014-2020 programming period and the produced change, where the case.

Findings relevant to disclosing territorial capital and business determinants in the territory have been summarised in the Territorial Capital Matrix in Chapter 3. Developing the matrix involved identifying interactions between strengths and weaknesses, as well as opportunities and threats in the territory and specific territorial keys. This enables general socio-economic findings to be attributed to regional, national, cross-border and EU territorial levels.

The report reveals a dominantly rural stakeholder territory, which has significant external and internal disparities, and an entrepreneurship ecosystem which is less favourable to business development than in other parts of Romania. The **dominant feature of the cross-border reality is the cultural and social dimension** while the main closing effects are due to fluctuant political relations and the limited connectivity.

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<sup>1</sup> The Romania-Ukraine-Republic of Moldova Joint Operational Programme 2007-2013; The Joint Operational Programme Romania – Republic of Moldova 2014-2020.

The business mechanisms implemented consisted mainly in national grant schemes. Those implemented at regional and local level proved to have a better uptake and positive effects on the supported businesses. The business support infrastructure and services are not sufficient, however, there is capacity on which to build further on.

The recommendations are structured on five directions. The first set of actions aims at increasing the relevance of the business support mechanisms in addressing the stakeholder territory needs with better targeted support interventions on specific needs. The second set of actions aims at shaping the environment and the entrepreneurial ecosystem to ensure a better impact of the interventions. A third direction is focused on the crossborder cooperation to facilitate business development through making the best use of the opportunities at the border. The fourth direction includes actions aimed at increasing the capacity of the local actors for economic development and the last one addresses the national and the EU level support with the potential to catalyse development at the external border.

# 1 Regional potential and the “entrepreneurship ecosystem”

## 1.1 Analysis of the “location” aspect

The Romanian stakeholder territory is located in the North East of Romania, along 681.3 km of external border with the Republic of Moldova. It consists of four out of the 42 NUTS3 administrative units of Romania, i.e., the counties Botoșani, Iași, Vaslui, and Galați. The first three are part of the North-East development region (NE), and Galați is part of the South-East region (SE).

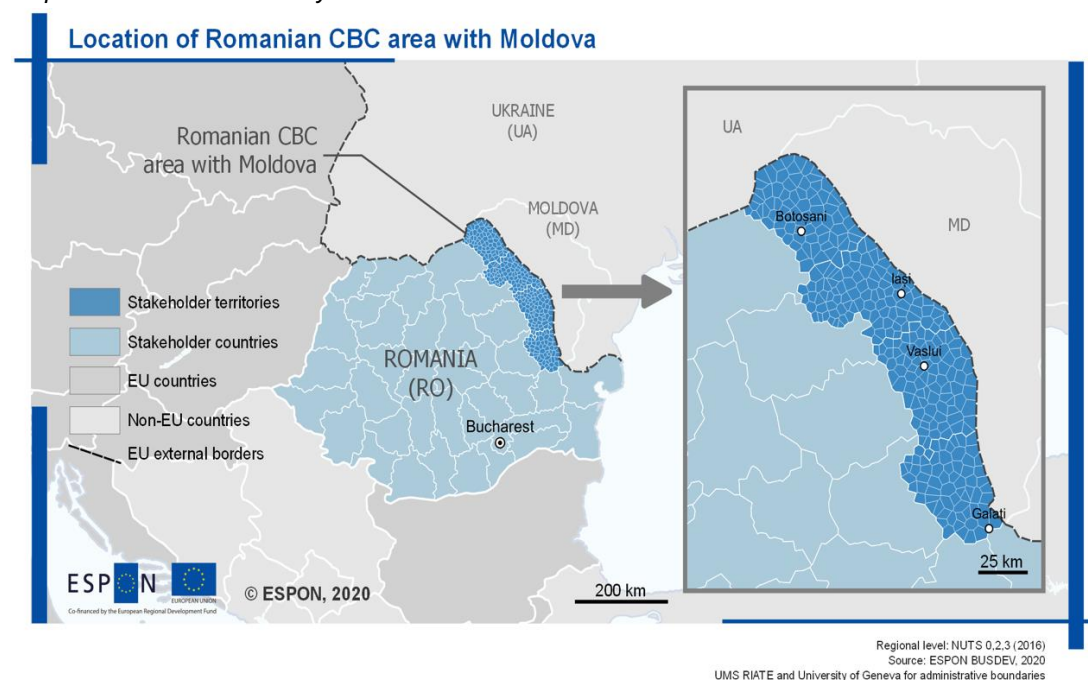
The stakeholder territory covers 20 246 km<sup>2</sup>, representing 8.5% of the Romanian territory. It is part of the historical region of Moldova, which extended in the Middle Ages over the border until river Dniester, on the present territory of the Republic of Moldova. Iași is the largest city of the territory, recognised as the capital of the historical region of Moldova. It lies 383 km North-East from Bucharest, the capital of Romania.

The stakeholder territory covers a total of 327 administrative territorial units (LAU), out of which 306 are classified as communes, 12 as towns and 9 as municipalities (see Annex 3, Table 1.1). Romania has a two-tier local administrative system of which the LAU level is highly fragmented. The territory is further characterized by a lower than the average size of LAU units (61.91 km<sup>2</sup>, as opposed to the national average of 74.94 km<sup>2</sup>).

The surface of the four counties has an average of 5 017 km<sup>2</sup>, with Galați being the smallest county (4 465 km<sup>2</sup>) and Iași the largest with 5 477 km<sup>2</sup> (see Annex 3, Table 1.2).

The stakeholder territory is characterised by an extensive border with the Republic of Moldova, a high administrative territorial fragmentation, it is dominantly rural and accounts for less than 10% of the Romanian territory.

Map 1.1: Stakeholder territory in Romania



Source: Consortium, 2020

### 1.1.1 Human capital

#### Population

The permanent resident population of the stakeholder territory in January 2019 was 2 051 102, ca. 9% of the total population of Romania. The share of the population between counties differs significantly, with **almost 40% living in Iași county and 25% in Galați, while Botoșani and Vaslui have only 18% each** (see Annex 3, Figures 1.1 and 1.2). This disparity is further reflected in the differences in population density, with Iași county having **over double the density** of Vaslui county in 2019 (144.8 inh. / km<sup>2</sup> vs. 70.31 inh. / km<sup>2</sup>). Overall, the stakeholder territory has a higher population density (101,31 inhabitants/km<sup>2</sup>) **than the national average**, which was at 2019, 81.44 inhabitants/km<sup>2</sup>, mainly due to **Iași and Galați counties (178% and 139% the national average)** (see Annex 3, Figure 1.3).

The **population** is predominantly rural in the stakeholder territory with 59.02% of the total in 2019, a percentage significantly higher than the national average (46.15%) but close to the north-eastern regional average of 58.7%. The outlier is **Galați**, with a predominantly urban population of 54.3% (see Annex 3, Figures 1.4 and Figure 1.5).

The whole stakeholder territory has a **higher dependency ratio than the national average**. While Iași and Galați counties have dependency rates (51% and 52%, respectively) close to the national average (51%), Vaslui (60%) and Botoșani (56%) exceed the national and the NE region averages significantly (see Annex 3, Figure 1.6). Similar to the national trend, after a slight decrease between 2011 to 2014, the dependency ratio in the stakeholder territory increased sharply, except in Botoșani which had only a slight decrease (see Annex 3, Figure 1.7).

The stakeholder territory witnessed a positive permanent migration in the last five years due to citizens from the Republic of Moldova who have been establishing their residence in one of the counties at the border to obtain Romanian citizenship. However, the temporary migration is negative and has the highest levels among the Romanian counties in Vaslui, Botoșani, and Galați.

Romania remains **an emigration country**, the negative **net migration being the second reason for the decrease of the population after the natural decrease**. Temporary migration prevails, while permanent migration<sup>2</sup> (persons that no longer have the permanent residence in Romania) is less intense. Permanent migration was almost nine times lower in 2018 at the national level and only five times lower in the stakeholder territory than the temporary migration. The temporary migration data indicate new features of the external migration flows, in 2018 and 2019. The net temporary migration in the stakeholder area is positive for urban, working-age groups aged 30 - 49.

The magnitude of temporary emigration makes Romania a country of net emigration. However, when looking at the **permanent migration**, the number of immigrants is higher than the one

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<sup>2</sup> Based on data from NIS Romania. Available at: <http://statistici.insse.ro:8077/tempo-online/#!/pages/tables/insse-table> (accessed 15 September 2020).

of emigrants (see Annex 3, Tables 1.4 and 1.5). Substantial inflows of migrants originate from the Republic of Moldova. 30 543 persons from the Eastern neighbourhood, the Republic of Moldova and Ukraine were registered as immigrants in 2017, constituting 60% of the total number of immigrants in Romania, eight times more than in 2008 (Andrén and Roman, 2016).

Combined with the internal migration, it results in positive net migration in Iași, which is among the few counties of Romania with a positive rate. Data for 2019 confirm the negative net migration for entire Romania. Vaslui, Botoșani and Galați's negative migration rates have the highest levels among the Romanian stakeholder territory's counties (see Annex 3, Figures 1.8 and 1.9).

## Education

The **participation in education is low in the stakeholder area as in the whole country**, being affected by school dropout and early leaving from education.

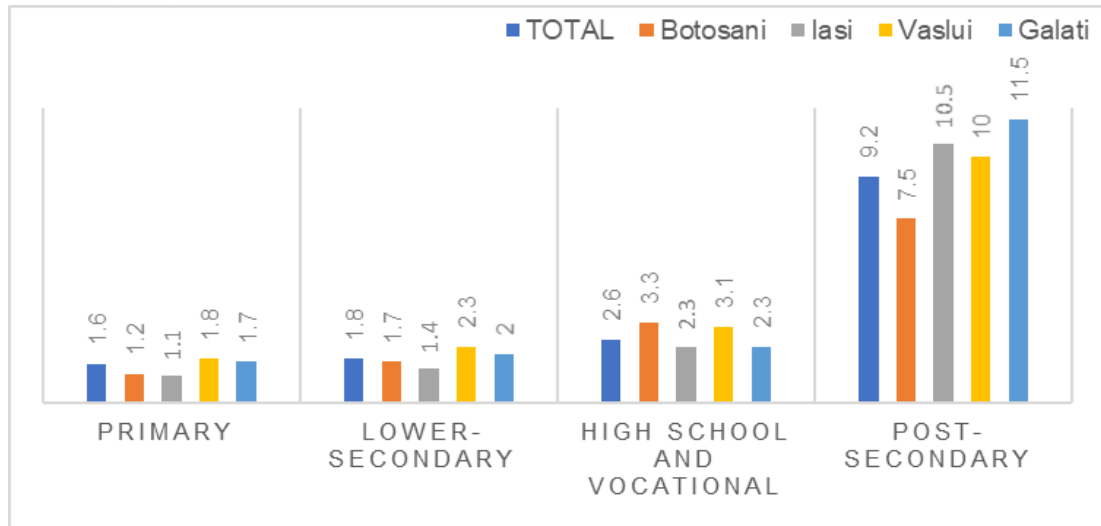
Although data on the participation rate and early school leaving rate are not available at NUTS3 level and for the stakeholder territory, a snapshot is provided by data at the national level against the EU. The **low participation rates in education are** highlighted as a key problem for Romania by the European Commission in the 2020 Romania Country Report. Participation is below the EU average at most of the ISCED levels according to data in 2018. **Participation in early education** is 13.2% against the 35% of EU average, **pre-school participation** is 90% compared to 97% in the EU, **the tertiary education graduates** (aged 30-34) is 24.6% compared to 40.7% at EU level<sup>3</sup>. The **high early school leaving rate is a key challenge** (16.4% in Romania and 10.6% in EU28) amplified by the overall increasing **school abandonment rates**, affecting mainly the rural areas, and the Roma population. At the national level, the attainment rate at upper secondary and post-secondary is slightly higher than the EU average, and the population aged 15-64 without education is higher than the EU average.

The school abandonment rate in the stakeholder territory is close to the national average except for Vaslui, which has higher abandonment rates for all education cycles. The abandonment increases with each education cycle, reaching rates around 10% at the post-secondary level.

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<sup>3</sup> Eurostat (2019) Statistics explained. Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Educational\\_attainment\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php/Educational_attainment_statistics) (accessed 15 September 2020).

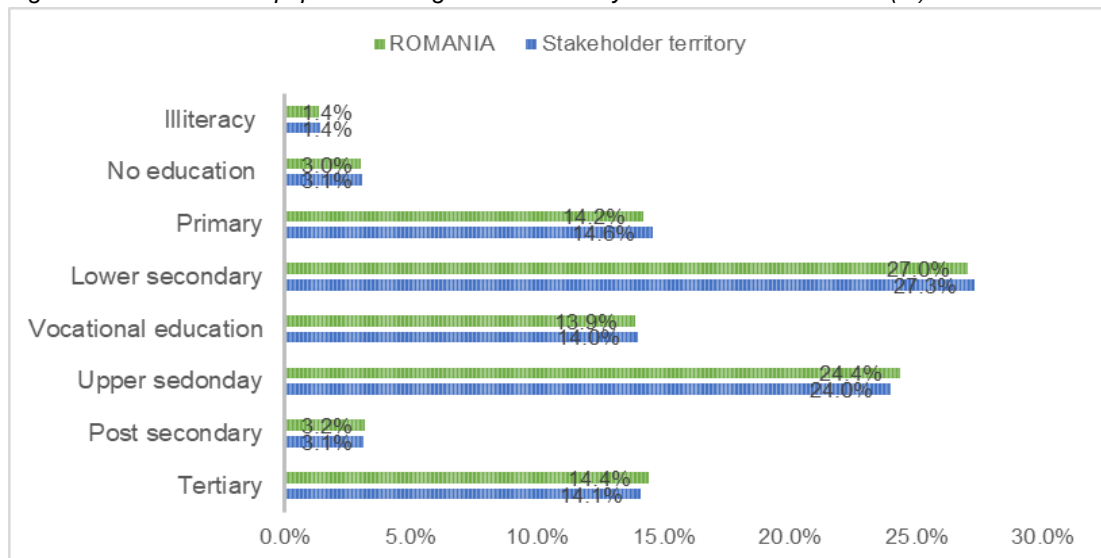
Figure 1.1.: Abandonment rate by education cycle at counties level in the stakeholder territory and Romania (2017)



Source: NIS Romania, SCL113A - Abandon rate in pre-university education, by development regions and counties

The most recent data on educational attainment at the county level, from the 2011 census, shows for the **stakeholder territory a situation that is similar to the national one**. Most of the population aged 10+, namely **65%**, have a **secondary level of education**, but **only around 24% graduated an upper secondary education level and around 14% a vocational school**. The tertiary education level is attained by only 14% of the population, and the other 3% have a post-secondary level. Around 3% have no education, and 1.4% are illiterate.

Figure 1.2.: Share of the population of age 10 and over by education level attained (%)



Source: The 2011 Census

Inside the stakeholder territory, there are significant differences in the educational attainment rates of the four counties. Vaslui and Botoșani have higher shares of the population (up to 7%) with either secondary, primary or no education attainment than have Galați or Iași. Out of the four counties, only Iași exceeds the national average for tertiary and post-secondary education (see Annex 3, Figure 1.25).

The vocational education in Romania was almost abolished in 2009 when the vocational system was reorganised; therefore, the initial vocational schools' graduates had a sharp dropdown in 2011, followed by a slow recovery (see Annex 3, Figure 1.10). The dropdown of vocational graduates in 2011 was less severe in the stakeholder territory than at the national level, but it failed to follow the increasing national trend in 2016 and 2017 (see Annex 3, Figure 1.11).

**Although Iași is one of the foremost university centres in Romania, the stakeholder territory has a modest contribution to the tertiary education attainment in Romania.**

13.15% of the total graduates in Romania studied in the stakeholder territory and 10.36% of them in Iași county. Galați is the second university centre of the stakeholder territory, while Botoșani and Vaslui do not have accredited tertiary education units (see Annex 3, Figure 1.12).

Iași has five state-owned high education establishments and two private ones including the following faculties: engineering, economics and social sciences, medicine and pharmacy, agriculture and veterinary medicine, as well as arts faculties. Galați has one state university (Dunărea de Jos) and a private one (Danubius). The total number of students in the stakeholder territory is 68 249 in 2018 representing 12.78% of the total number of students in Romania. 77.16% of the students in the stakeholder territory are in Iași county, an academic centre with a long tradition, being the first university set up in Romania in 1860.

### **Labour market**

The **unemployment rate**<sup>4</sup> in the stakeholder territory is significantly higher than at the national level. In 2018 it was 4.85% while the national average was 3.3% (see Annex 3, Figure 1.13).

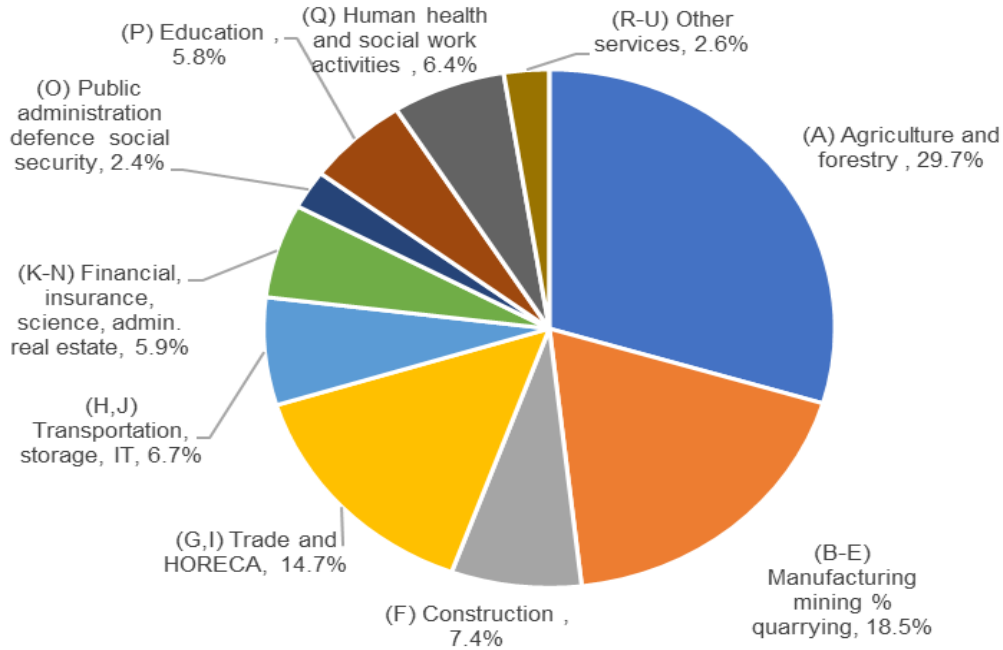
Employment in the stakeholder territory is **predominant in agriculture (NACE A) (29.7%)**, exceeding the national average (20.9%) significantly. Manufacturing (NACE B-E), Trade and HORECA (NACE G, I) have significant shares in total employment with (18.5% and 14.7%), but below the national averages (23.2% and 17.0%). Except for Health (NACE P) and Education (NACE-Q), which have around 1.5 percentage point above the national averages, all other sectors have lower shares of employment.

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<sup>4</sup> Registered unemployment rate represents the ratio between the number of unemployed (registered at the agencies for employment) and economically active civil population and is defined according to the methodology of labour force balance.



Figure 1.3: Employment in the stakeholder territory by NACE sectors, 2018



Source: Consortium based on data from NIS Romania

Botoşani and Vaslui have over 40% of the employment in agriculture (NACE A) compared to Iaşi and Galaţi with shares between 20 and 25%. Manufacturing (NACE B-E) has similar shares in all four counties around 18-19%, but trade and HORECA (NACE G, I) vary from 11% in Vaslui to 15 and 17% in Iaşi and Galaţi. Services, professional and scientific activities, financial services and insurance, real estate have small contributions in the stakeholder territory employment with similar disparities to trade and HORECA (see Annex 3, Figure 1.14).

**The stakeholder territory makes limited use of labour resources<sup>5</sup>.** Thus, the employment rate of the labour resources in all four counties of the stakeholder territory is below the national average (Table 1.1). All four counties constantly had a lower employment rate of the labour resources in the last ten years, as shown in Annex 3, Table 1.3.

Table 1.1: The rate of employment of the labour resources by county (2018)

	Employment rate by county (%)	County rate compared to national rate (%)
Romania	68.7	100%
Botoşani	57.4	84%
Iaşi	55.7	81%
Vaslui	55.9	81%
Galaţi	56.1	82%

<sup>5</sup> The employment rate of labour resources represents the ratio, expressed as percentage, between the civil employment population and the labour resources (working age population able to work as well as persons under and over the working age who are still working), according to the definition provided by the NIS Romania.

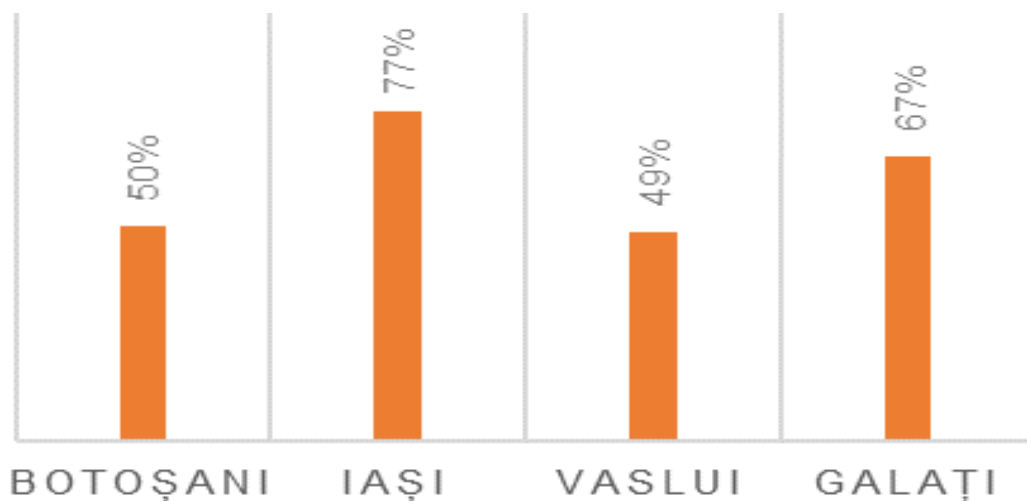
Source: NIS Romania, FOM116A - Employment rate of labour resources by gender, macroregions, development regions and counties

## Economy

The economic disadvantage of the stakeholder territory is reflected in the **GDP per capita** EUR 6 277.23, reaching only 67% of the national value in 2017, which was EUR 9 552.

In all four counties of the stakeholder territory the GDP is below the national level, namely: Iași – 76.95%, Galați – 66.55%, Botoșani – 50.02%, Vaslui – 48.91%.

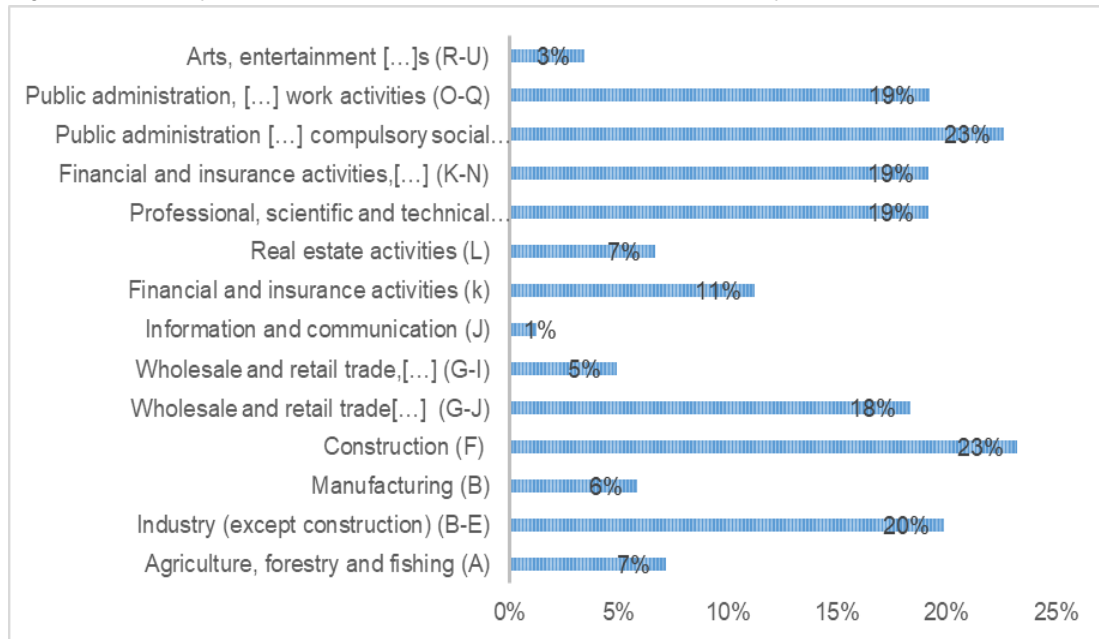
Figure 1.4: GDP per capita in the stakeholder territory, by county, % of GDP per capita for Romania (2017)



Source: Consortium based on data from NIS Romania

The economic structure of the stakeholder territory according to **Gross Value Added (GVA)** 2017, relies on Manufacturing (NACE B-E) and Construction (NACE-F) together amounting to 43% of the total GVA. Wholesale, public administration, and professional services are among the main contributors to GVA. Agriculture and Forestry rank low with 7% and ICT (NACE J) with 1%. The counties of the stakeholder territory have mostly similar structures except: Botoșani and Vaslui have higher contributions from Agriculture and forestry (NACE A) than Galați and Iași, while Galați shows higher GVA from constructions (NACE F), Professional and other services (NACE M-N) than the other 3 counties. For Iași county, wholesale, NACE (G-J) including Wholesale retail, HORECA, ICT has the highest share among the stakeholder territory counties.

Figure 1.5: GVA by NACE 2 Activities for 2017 in the stakeholder territory

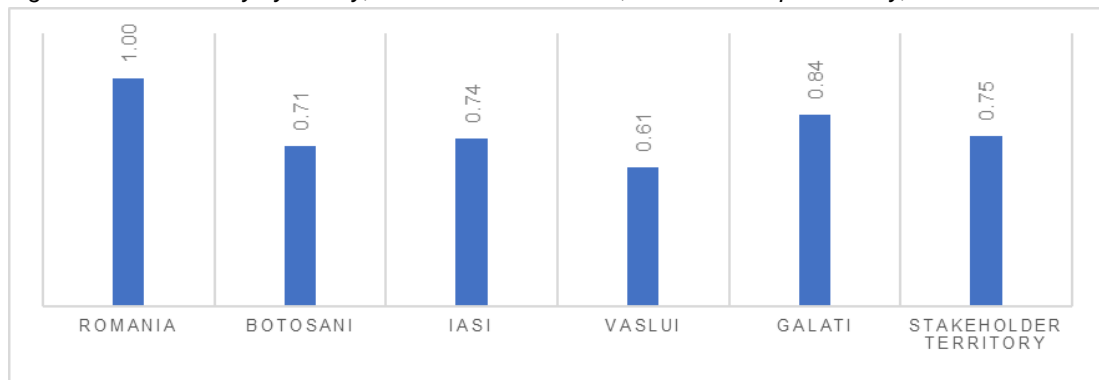


Source: Consortium based on data from Eurostat

Value-added at factor cost per employed in the stakeholder area is EUR 16 538 and represents 95% of the national average (EUR 17 400). Iași is over the national average by 14 %, Galați close to the national average and Botoșani and Vaslui around 75%.

Labour productivity in the stakeholder territory is significantly below the national average, with the highest level registered for Galați and the lowest for Vaslui, as shown below.

Figure 1.6: Productivity by county, in the stakeholder area, % of national productivity, 2017



Source: Consortium calculations<sup>6</sup> based on data from NIS Romania

There are only few activities with higher labour productivity in the stakeholder territory than the national level. In 2017 this was the case in Manufacturing (NACE B ) in Galați, Energy production and supply (NACE D) in Vaslui and Retail (NACE G) in all counties of the

<sup>6</sup> Labour productivity was calculated by dividing INT104D - Turnover from the active local units, by activity of national economy at level of NACE Rev.2 sections, to INT102D - Staff of the active local units, by activity of national economy at level of NACE Rev.2 section. The RON EUR conversion rate used is based on the average annual exchange rate of the National Bank of Romania.

stakeholder territory, while in 2018 in (NACE D) in Galați and Quarry and mining (NACE B) in Vaslui and Iași (Annex 3, Tables 1.7, 1.8).

### Business activity

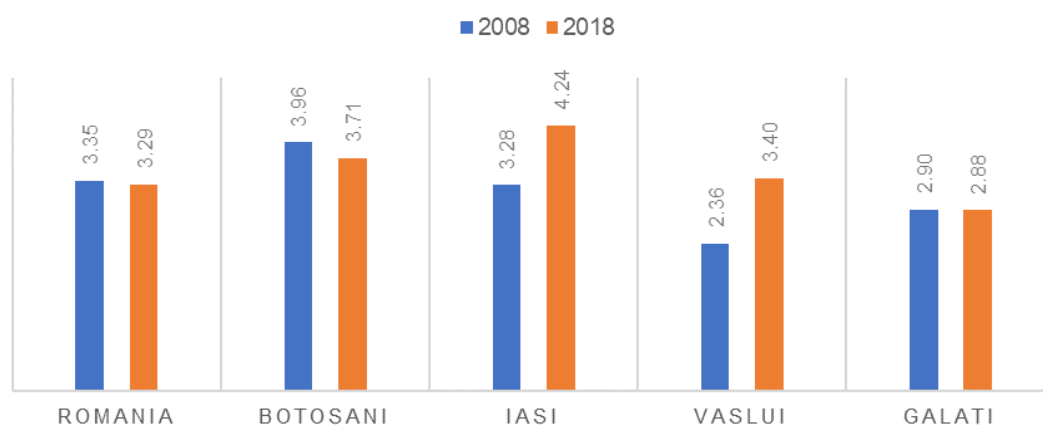
The total **number of businesses** in the stakeholder territory as of 2018 is 36 423, representing 5.27% of the total businesses in Romania. The share of the businesses in the stakeholder territory in descending order is 43.3% Iași county (15 775 businesses), 32% Galați (11 778 businesses), 13% Vaslui (4 839 businesses) and 11% Botoșani (4 031 businesses).

**The density of the businesses** in the stakeholder territory, 20.35 SMEs/ 1000 inhabitants in 2018, is **low** compared to 29, of the national average, and 57, of the European average. At counties level, the density varies greatly from 10.2 SMEs/ 1000 inhabitants for Botoșani county and 12.6 for Vaslui county to 20.0 for Iași county and 22.6 for Galați county.

The local business units are predominantly **wholesale trade and car repair** (NACE G) at both stakeholder territory and country levels. This sector is followed by the professional and scientific activities, constructions, manufacturing, transportation and storage (NACE S, F, C, H, respectively). Although agriculture and forestry (NACE A) is the dominant employment sector, it ranks only seventh regarding the number of businesses (see Annex 3, Figure 1.15).

**Iași is the most entrepreneurial county** in the stakeholder territory, with a significantly higher rate of self-employed persons (family enterprises and authorized natural persons) in the population aged 20-64 (4.24% in 2018) than the national average (3.29%) and the other three counties (2.88% in Galați, 3.4% in Vaslui and 3.71% in Botoșani). Only Galați falls below the national average. The evolution in the last 10 years is modest, as shown below.

Figure 1.7: Self-employed rate in the stakeholder territory (2018 against 2008)



Source: Consortium calculations based on data from NIS Romania

The microenterprises (0-9 employees) are the main employer in the stakeholder area at similar rates to the national ones. Vaslui and Galați had slightly less employment in small businesses (10-49 employees) in favour of microenterprises.

Table 1.2: Employment by the size of the businesses in 2018

Businesses	0-9 employees	10-49 employees	50-249 employees	250+ employees
Romania	89.69%	8.51%	1.49%	0.30%
Botoșani	88.60%	9.20%	1.84%	0.36%
Iași	89.42%	8.90%	1.40%	0.27%
Vaslui	90.20%	8.55%	1.02%	0.23%
Galați	91.02%	7.40%	1.33%	0.24%

Source: NIS Romania

Large companies are active in Iași in the sectors like pharmaceuticals, electrical equipment, electricity distribution, and in Galați in metallurgy and shipyards, some of them subject to foreign investments.

In 2018 in all four counties the number of employees in medium-sized enterprises decreased compared to 2008 (see Annex 3, Table 1.9), mirroring the national trend, while in the case of microenterprises had only a slight increase of around 1 percentage point. However, in the case of large enterprises the share in employment increased in Iași and Galați.

### 1.1.2 Locational endowments

#### Market access and size

The stakeholder territory accessibility to the internal and external markets relies on terrestrial, air and water access points: an international airport in Iași, a port at the Danube river and extensive roads and railway networks. The accessibility is enhanced with the cross-border points allowing access to the markets in the Republic of Moldova and Ukraine.

Other three airports outside the stakeholder territory are available for the population and businesses in Suceava, Bacău and Bucharest. An airport can be reached by road in up to 3 hours from almost any location within the stakeholder territory. Access to the port of Galați is more difficult from the north of the stakeholder territory, with an estimate for travel by road of 7 hours.

The stakeholder territory appears peripheral to the core and in relation to comprehensive TEN-T networks and the Romanian 2020 plans for extending the highway network. Iași is the only county capital with a primary connection to TEN-T core corridors; the others are connected either to the comprehensive network, such as Galați, or are connected to the core TEN-T corridors through national or county roads.

Although the secondary connectivity to TEN-T roads and rail is high, the low capacity and quality of the roads and rail infrastructure have a negative impact on accessibility, safety and on the economy. Since Romania joined the EU, significant investments in road infrastructure have been made. However, there is still a significant share of neglected and decrepit roads, mainly at county and commune levels. Moreover, the current road network has a strong deficit and does not meet current and future mobility needs. There is no single highway in the stakeholder territory and in the overall Moldova region. The rail network, despite relatively good

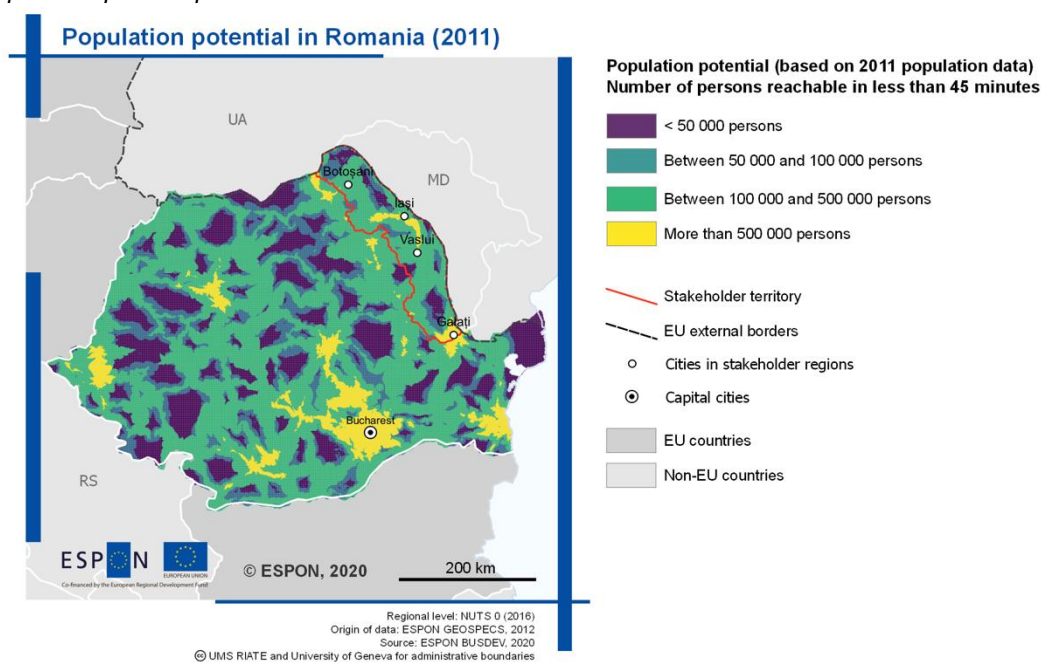
coverage, lacks a modern and optimal infrastructure. Iași and Galați are connected to electrified double rails, but in Botoșani and Vaslui there is no electrified railway.

The access to the European markets is ensured by corridors crossing the Eastern Carpathians to Transylvania. The capacity and the traffic conditions across the mountains do not allow high speeds in safety conditions. They are insufficient for the traffic flows that have been generated by the social and economic development.

Access to Ukraine (North) and Bucharest (South) is facilitated by the rail and road TEN-T corridor, while access to East, e.g. for the connections with the Republic of Moldova, is made through three corridors: Pașcani – Iași – Ungheni (railways only, no direct road connection over the Prut river); Bucharest – Bîrlad (near Vaslui) – Huși – Albița (road); and Bucharest – Galați (both corridors of the comprehensive network).

Accessibility is limited in the stakeholder area regarding the population potential that is reachable in less than 45 minutes, as visualised on the map below.

Map 1.2: Population potential reachable in less than 45 minutes



Source: Consortium

### Services of General Interest (SGEI)

The general interest services cover a wide range of needs related to energy, postal services, transport and telecommunications, health, education and social services. SGEI are either under the administration of the central government – through decentralized bodies, or under the local public administration.

**Access to drinking water supply and sewerage systems** in the urban areas of the stakeholder territory is high. In contrast, in the rural areas the accessibility is lower than at the national level, with only 74% of the localities having access to drinking water systems (compared to 79%, the national rate), and 30% have access to sewerage systems (compared

to 35%, the national rate). The connection to the gas supply system is lower both in urban and rural areas, with 67% and 13%, respectively, compared to the national rates of 78% and 24%, respectively. The drinking and wastewater systems are less present Botoșani and in Vaslui, the latter ranking among the Romanian counties that have the poorest connection to these facilities.

The share of the population with access to the public water supply in Romania was 67.93% in 2018. Two counties in the stakeholder area are below the national level, namely Botoșani (36%) and Vaslui (38%), according to data from of the study “Social and Economic Development of the Region North East” (NE Regional Development Agency, 2020). Public transport services are assessed in section 1.3 as part of the accessibility assessment.

## Health

The public health services are delivered through a network of medical units owned by the local public administration, either at county, municipal or commune level. In contrast, the responsibility for the services remains under the management, organization, coordination, delivery and control of the line ministry (the Ministry of Health). The health strategies and programmes highlight the need to modernize the medical infrastructure. The Regional Operational Programme 2014-2020 is funding a large regional hospital in Iași to ensure access to services for the entire historical region of Moldova. Access to health services continues to be a challenge mainly for isolated rural communities, where the supply for primary care physicians is sub-optimal, as well as the capacity of the medical units in small towns. The shortage of the public healthcare workforce is a pervasive issue across all counties of the stakeholder territory and is deepened by the high migration rate in this category.

## Education

The approach for public education services is similar to the one for health services. The infrastructure is owned by the local authorities, which are responsible for the endowment. At the same time, the line Ministry responsible for education manages the entire educational process, human resources, methodologies and strategies through deconcentrated bodies called County School Inspectorates.

Romania has **an extensive education network**<sup>7</sup> with 18 283 **establishments** in 2019 organised in 7 047 legal entities and 11 369 subsidiaries, out of which 4.8% are private. The number of school units was reduced following a restructuring of the system in 2011 due to a steady decrease in school population. Similar trends are observed for urban and rural areas.

However, a high level of fragmentation is characteristic of the stakeholder territory. 2 276 school units at all education levels from preschool to upper secondary were accredited **in the stakeholder territory in 2019**, representing 12% of the total number of schools in Romania.

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<sup>7</sup> Ministry of European Funds (April 2020) Retrospective evaluation of the OP Human Resources Development 2007-2013. Analysis of the progress of the education sector. Available at: <https://tinyurl.com/y6qx7met> (accessed 15 September 2020).

30% of them are in Vaslui despite the county's lowest share in the total population, followed by Iași with 29%, Botoșani and Galați with 22% and 19%, respectively.

The most recent evaluations of the education interventions funded by European Structural and Investment Funds (ESIF) reveal large disparities between the rural and urban education processes, in terms of participation and performance, but also terms regarding education infrastructure. Against the background of a constant decrease in school-age population, the Ministry of Education is currently planning a rationalisation of the school aiming for more efficient interventions. The investments in the education infrastructure are currently geared towards fostering creative learning environments.

The 2 280 schools of the stakeholder territory represent 12.26% of the total schools in Romania. A quantitative analysis of the state school units reveals that Iași and Vaslui counties stand out with 672 school units each, Galați has 442 school units and Botoșani has 494 school units.<sup>8</sup> 5 of the 6 state tertiary education units of the stakeholder area are located in Iași and one is located in Galați<sup>9</sup>. Educational infrastructure investment needs are very high in the stakeholder territory, mainly in the rural areas, which are strongly affected by a shortage of crèches and preschool units, the depreciation of the school network infrastructure, insufficient and inadequate initial vocational education infrastructure, and scarce means of public transport to ensure the mobility of pupils and students from isolated localities.

### **Social services**

The range of social services provided to children, the disadvantaged, disabled, poor, and unemployed people is ensured at the county or local levels, under the methodological coordination of the Ministry of Labour and Social Protection. The infrastructure is owned by the local councils, while the costs of the services are covered wither the county council (as is the case for children) or by the line ministries.

Provision of social services is challenged in the stakeholder territory, as it is in the whole country, by low accessibility, mainly in the rural areas and in Roma communities. Inadequate social infrastructure, limited resources for infrastructure development, the shortage of social workers who are difficult to attract in the sector and in the territory, are all serious constraints faced by the local public administration units in their endeavour to create and operationalise the Integrated Community Centres which are afforded by the social services legislation. A network of around 100 Integrated Community Centres is financed in the whole country with ESI funding and will continue to be supported by ESF in the 2021 – 2027 programming period.

### **Tourism and culture**

The stakeholder territory has a rich natural and cultural heritage: 60 reservations and natural sites protected summing more than 14 700 hectares exist in the four counties.

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<sup>8</sup> <https://www.siiir.edu.ro/carto/#/statistici>

<sup>9</sup> [https://www.edu.ro/institutiile%20inv\\_superior%20de%20stat%20civile](https://www.edu.ro/institutiile%20inv_superior%20de%20stat%20civile)



Table 1.3: Natural and cultural heritage resources in the stakeholder territory

County	No. of natural monuments and reservations	Area (hectares)	Museums and public collections
Botoșani	8	273	9
Iași	26	5036	24
Vaslui	9	276	10
Galați	17	9197	4
Stakeholder territory	60	14782	47

Source: Law 5/2000, Natural protected areas of national interest and natural monuments<sup>10</sup>

Iași is the second county in Romania after Bucharest in terms of number of historical monuments (2 651).

In 2018 the accommodation capacity in the stakeholder territory was 8 382 places (Iași county 4 210, Galați 2 067, Botoșani 1 198, and Vaslui 907). Since 2008 the capacity increased by 34%.

The number of visitors in the stakeholder territory is below the national level in all four counties with 19 % in the case of Botoșani and Vaslui, 28% in Galați and 63% in Iași. The increase in the ten years following the economic crisis that triggered a dropdown in 2009 and 2010 is not balanced. Botoșani lags behind other counties. Only Galați had a higher increase above the national average. Figure 1.16 in Annex 3 shows the variation of the number of visitors between 2008 and 2018.

Table 1.4: Number of visitors per 1000 inhabitants

No. of visitors/1000 inhabitants	2018	2018 Value against the national average	Increase in 2018 against 2008	Increase 2018 against 2009
Romania	665	1.00	1.91	2.20
Botoșani	124	0.19	1.69	1.86
Iași	420	0.63	1.99	2.05
Vaslui	125	0.19	1.58	2.00
Galați	185	0.28	1.88	2.40

Source: Consortium based on data from NIS Romania

According to the regional analysis and the interviews conducted with the main stakeholders, the touristic potential is not fully realised, due to accessibility limitations and lack of visibility and promotion.

<sup>10</sup> <https://lege5.ro/Gratuit/gi3donbu/zone-naturale-protejate-de-interes-national-si-monumente-ale-naturii-lege-5-2000?dp=gqzdambuhezttq>

### 1.1.3 Physical and sectoral endowments

#### Natural resources

The stakeholder territory benefits of large areas with **chernozemic soil with high fertility**, around 1 400 thousand hectares which offers a high potential for agriculture. Botoșani, Vaslui and Iași have the largest agricultural surfaces in the stakeholder area (around 370 thousand hectares each) and Galați around 290 thousand. Botoșani and Vaslui have a high agriculture potential and also rely on the large share of arable land, around 78-79% of their total agriculture land. Forests are not extensive and represent only 4% of the total forests of Romania, equally shared by the four counties.

The vineyards in Vaslui and Iași are an important asset of the stakeholder territory; moreover, they are a common asset of the cross-border area. The Republic of Moldova is better well-known for the wines it produces than is the historical region of Moldova in Romania.

However, the agricultural potential is diminished in the stakeholder territory due to the fragmentation of the land ownership, the prevalence of subsistence farms, which limit investments and infrastructural upgrading for increasing productivity, the high risk for droughts, more pronounced for the chernozemic soils and amplified by the sub-optimal irrigation network.

The subsoil resources are limited and consist mainly of mineral waters, sands and gravels, limestone, and in Galați county crude oil and natural gas. The rivers Danube and Prut are important natural assets for water supply, fishery, tourism and economic opportunities and for water connectivity.

#### Renewable energy

The Strategy for Energy in Romania 2011-2035 proposed by the Ministry of Economy indicated for the Moldova region (including the stakeholder territory) a high potential for renewable energy (RE) (micro-hydro, wind, biomass, etc.).

To attract more investments in RE production, the Romanian government adopted in 2011 the Green Certificates (GC) scheme. The scheme was approved by the European Commission to support Romania's effort to reach until 2020 the target regarding RE without distorting the competition in a disproportional way. In 2012 Romania was already close to the 2020 national target of 24% of gross final energy consumption from renewables (having reached 22.9%), with wind and solar energy scoring ahead of the national targets, and biomass and biogas energy lagging behind. Moreover, 78.4% of the energy production benefiting by the GC promotion system came from wind sources. Still, only 19% of the estimated 8.000 ktoe<sup>11</sup> from the potential of unused renewable energy accounted for wind energy in 2012.

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<sup>11</sup> A ktoe is a unit of energy and stands for "kilotonne of oil equivalent".

The Romanian government changed the regulatory framework postponing 1 of the 2 GC scheme for wind energy production for the 2014 to run up to 2017. This had a strong negative impact on the investments in wind energy, which were not considered attractive anymore.

However, as a report mapping the development of the NE region shows (NE Regional Development Agency, 2020), several investment projects in wind and solar energy are currently undergoing implementation and a few concern cogeneration and biogas.

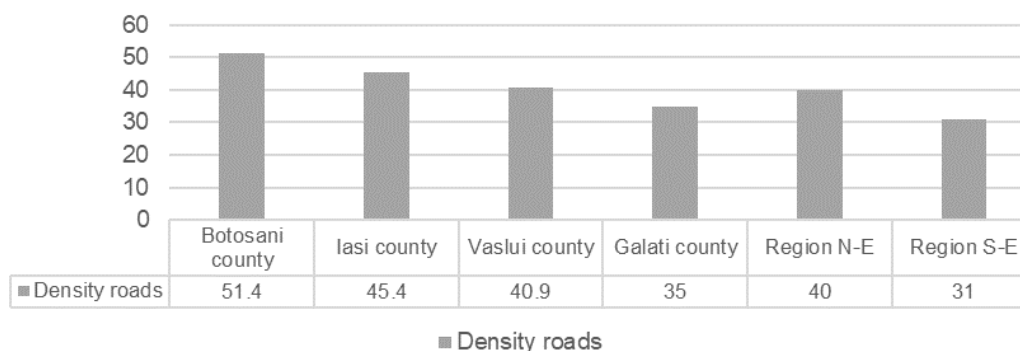
### Electricity and gas networks

The Development Plan of the National Transportation System of Natural Gas 2014-2023 references three existing international connections of Romania with Hungary (Szeged- Arad) and Ukraine (Orlovka Isaccea – East, and Tekovo - Mediesu Aurit - North). The development plan foresees an interconnection with the Republic of Moldova, which is dependent on natural gas imports. A gas pipeline is in construction with a connection in Ungheni (Republic of Moldova) together with other investments on the Romanian side to ensure the technical parameters needed for interconnection. Completion is expected by the end of 2020.

### Infrastructure and logistics

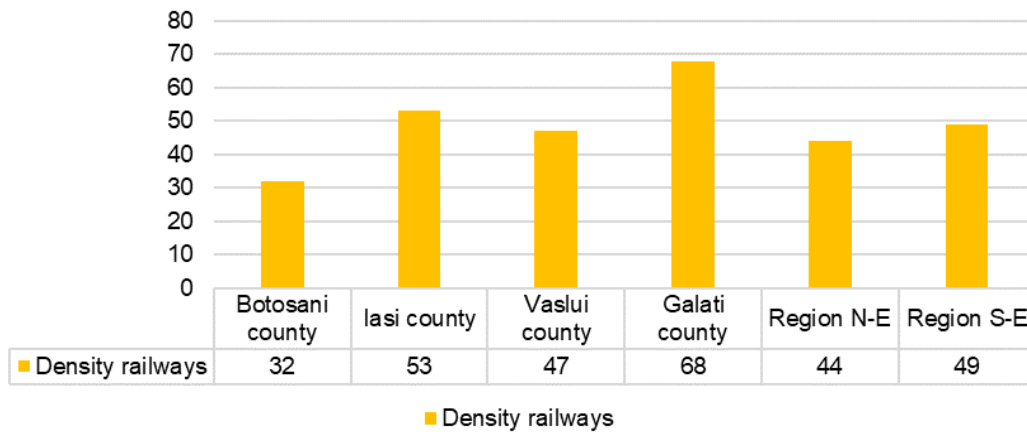
The transport infrastructure is underdeveloped when it comes to the volume of goods and passengers. Lack of accessibility remains a major barrier for regional economic development. The physical depreciation of the railway infrastructure imposes speed limitations at around 70 km/h.

Figure 1.8: Public roads density, road lengths in km for 100 km<sup>2</sup> of territory



Source: Consortium calculations based on data from NIS Romania

Figure 1.9: Public railways density, rail length in km for 1,000 km<sup>2</sup> of territory



Source: Consortium calculations based on data from NIS Romania

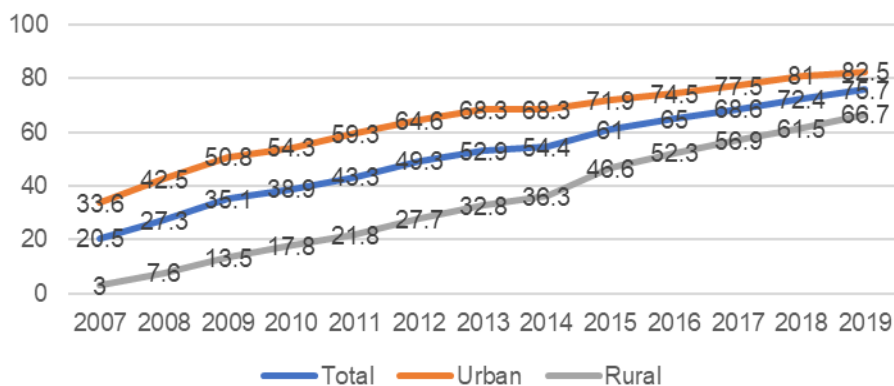
Less than half of the national roads are modernised (37% in the NE development region and 40% in the SE region). Only one airport operates civil flights in the stakeholder area, namely Iași airport with an average traffic of 1 314 211 passengers / year as of 2019.

### Broadband access

There is a good coverage of internet access provided through fixed services and mobile networks, according to data from the National Authority for Communication<sup>12</sup>.

Internet access of the households reached 75.7% from the total of households in Romania in 2019. Until 2015, the rural-urban disparity was high, around 30%. Subsequently, the households' access in the rural area increased faster than in the urban area and reached 66.7%. The data is not disaggregated at county level but can provide an overview on internet accessibility.

Figure 1.10: Share of households with internet access at home from the total of households in Romania



Source: Consortium based on data from NIS Romania

The access to internet by mobile broadband increased sharply since 2015 while access by phone lines and fixed broadband decreased slowly. The household access by mobile broadband exceeded the level in the urban areas (see Annex 3, Figure 1.17) There are three

<sup>12</sup> <https://statistica.ancom.ro/sscpds/public/serviceCoverage#gmap>.

main internet providers which ensure a coverage of 86% of the total national market. For mobile internet services, the penetration rate is 89% of the total market, out of which 44% are ensured by 4G services. The internet traffic increased substantially reaching an average of 26 GB/dwelling.

### Functional areas

The stakeholder territory is marked by a **high fragmentation, with a very large number of communes and villages** and few towns and cities. It includes 2 tier I localities, municipalities of national importance, (Iași and Galați), 5 tier II localities, cities of county importance (Botoșani, Vaslui, Huși, Dorohoi, Pașcani) and 13 tier III towns.

The high-density urban centres have developed around the development poles. In 2008 the government assigned (Government Decision no. 998) to Iași the status of **growth pole** (there are six other growth poles in Romania) and to Galați the status of **development pole** (one of the two in the SE region). Botoșani and Vaslui are urban centres with local development pole roles in the regional development strategy.

A report published by the World Bank in 2019 following an OECD – EC methodology defines “urban functional areas” as the city and the neighbourhood areas where at least 15% of the workforce is working. Applying this to the stakeholder territory reveals that Iași and Galați are the most important functional areas, followed by Botoșani and Vaslui. The total population of the four counties capital cities is over 700 000 inhabitants and is extended in the urban functional areas with around 37%. Table 1.5 shows that the extension of other cities in terms of functional urban area population is even higher, reaching 50% in Constanța and Timișoara or even higher in the case of Deva and Râmnicu Vâlcea which doubled their population.

Table 1.5: Population of Urban Functional Areas against the population of the cities

	Population of the city	Population of the Functional urban area	
Deva	61123	158650	2.595586
Râmnicu Vâlcea	98776	233497	2.363904
Constanța	283872	546900	1.926573
Timișoara	319279	508037	1.591201
Vaslui	55047	80861	1.468945
Cluj Napoca	324576	470939	1.450936
Bucharest	1883425	2703015	1.435159
Iași	290422	414869	1.428504
Galați	249432	339408	1.360724
Botoșani	106847	129276	1.209917
Vaslui	55047	80861	1.468945
Stakeholder territory	701748	964414	1.374302

Source: Consortium based on data from the World Bank, 2019

### 1.1.4 Border reality - border effects with relevance for the regional potential

Political dimension	Physical dimension	Economic dimension	Socio-cultural dimension
<ul style="list-style-type: none"> <li>▪ Type of border</li> <li>▪ National &amp; regional conventions &amp; agreements</li> <li>▪ Border crossings</li> <li>▪ Administrative systems</li> <li>▪ Public authorities' work relations</li> <li>▪ Use of EU instruments (e.g. EGTC)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Key topography characteristics (mountain ranges, rivers, protected areas) with implications e.g. for infrastructure</li> <li>▪ Accessibility</li> <li>▪ Population distribution</li> </ul>	<ul style="list-style-type: none"> <li>▪ GDP, income &amp; price disparities</li> <li>▪ Work force &amp; unemployment rates</li> <li>▪ Role of centres (dominance)</li> <li>▪ Dominance of sectors</li> <li>▪ Currencies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Languages &amp; their roots</li> <li>▪ Knowledge of languages</li> <li>▪ Minorities (rights)</li> <li>▪ Perception of the state, technologies, participation etc.</li> <li>▪ How to approach change</li> <li>▪ Historical legacy</li> </ul>

#### Political dimension

**The political relations with the EU and Romania were fluctuant** in the last ten years since the Coalition Alliance for European Integration began the implementation of a wide-ranging programme of reforms with the aim to bring the Republic of Moldova closer to the European Union (EU), and ultimately to ensure the country's full membership of the EU. In the Republic of Moldova strong European orientation and progress of the reforms alternated with actions that raised EU concern over the rule of law and the withholding of the budgetary support payments. Throughout the generally **cold political relations between the Republic of Moldova and Romania, the latter maintained an open and supportive attitude** in addition to the financial support and the granting of the Romanian citizenship to Moldovan citizens.

**Prut River is the natural border** between Romania and the Republic of Moldova. Six road and three rail border crossing points, one river point and six non-permanent crossing points allow a certain degree of mobility between the two, but not sufficient to satisfy the population' and businesses' needs.

**Administrative systems in Romania and The Republic of Moldova are similar**, with NUTS 3 sub-divisions (counties and rayons, respectively) and a local LAU level consisting of municipalities, towns, communes and villages. **Excellent working relations have been developed in time**, including a large number of twinning projects between local administrative units and other institutions at the local and national levels.

**Moldova is a beneficiary of EU assistance** through the European Neighbourhood Instrument (ENI), the Mobility Partnership<sup>13</sup> as one of the two pilot countries in the world. The Republic of Moldova is also a partner country within the Black Sea Synergy and is a member of the Energy Community. There is no EGTC setup between the two countries. However, there are several cross-border (Romania-Moldova CBC) and macroregional (Danube Transnational Programme) cooperation instruments which can be accessed by both countries for joint project development under the respective programme priorities.

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<sup>13</sup> The Mobility Partnership organises cooperation in the field of migration, including areas such as legal migration, development and fighting against illegal migration. Around 40 initiatives are currently being implemented under the Mobility Partnership between the EU and Moldova.

With the **accession of Romania** to the EU in 2007, the Republic of Moldova has increased its importance as a border state between the EU and the former Soviet Union countries further to the East. To accelerate the Republic of Moldova's political association and economic integration with the EU, **Moldova and the EU signed the Association Agreement (AA)** in June 2014, focusing on support to core reforms, on economic recovery, governance, sector co-operation and far-reaching liberalisation of The Republic of Moldova's trade with the EU.

The relations with the European Union and with Romania **had a positive trend** when pro-European parties had political power and they **stagnated or deteriorated** under Russia-oriented political authorities.

The latest assessment of the implementation of the AA made by the European Parliament<sup>14</sup> highlights **several factors hindering the progress of the reforms** assumed by the Moldovan government such as lack of political will, combined with a lack of proper internal drivers of reform, permanent political instability, low civic activity at the level of the population (and therefore a lack of bottom-up pressure) and underfunded (and sometimes underqualified) administrative apparatus which lacks the technical capacity to implement the reforms.

The Republic of Moldova **is the main beneficiary of financial assistance offered by Romania** to other countries. **82 bilateral agreements** have been concluded since 2006. Among the main areas for which these agreements have been concluded are economic cooperation and navigation. The Agreement between the government of Romania and the government of the Republic of Moldova for 2015 on the implementation of the technical and financial assistance programme was based on a **non-reimbursable financial aid amounting to EUR 100 M** which is currently being implemented. In 2018, the Romania-Moldova Bilateral Memorandum addressed the promotion of entrepreneurship and the promotion of cooperation in the field of third-party business.

The **political instability in the Republic of Moldova** complicated the bilateral relationship between the two countries, and this ensued in a shift of focus from certain policy areas in the Republic of Moldova.

At present The Republic of Moldova (a NUTS 3 territory) is divided into two regions: one includes the Republic of Moldova "mainland" (Bessarabia) and Gagauzia, and the second one is Transnistria or the Pridnestrovian Moldavian Republic. The state is divided de jure into 32 rays, 13 municipalities and two recognized autonomous territorial units: Autonomous Territorial Unit of Gagauzia (ATUG) and the Transnistria Administrative Territorial Units (TATU), (officially, The Administrative Territorial Units of the Left Bank of the Dniester, referred to as Transnistria. **Setting a special status of Transnistria** within Moldova's internationally recognized borders, remains an **unresolved problem** and an obstacle to the implementation of reforms.

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<sup>14</sup>

[https://www.europarl.europa.eu/RegData/etudes/STUD/2020/642834/EPRS\\_STU\(2020\)642834\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/642834/EPRS_STU(2020)642834_EN.pdf)

**The accessibility on the two sides** of the border is ensured by (i) six road border points (Lipcani-Rădăuți Prut Costești-Stânca, Sculeni-Sculeni, Leușeni-Albița, Cahul-Oancea, Giurgiulești-Galați), (ii) three rail border points (Ungheni-Ungheni, Prut- Falcu, Giurgiulești-Galați), (iii) Galați river point border and (iv) six river border points (only for permanent resident people living in the border counties or region)<sup>15</sup>.

All these border points are requiring significant investments for rehabilitation and modernization, complying with the EU external border requirements. The interviews indicated the need for a border point for connection with Ungheni, higher capacity and faster road connections.

**The political dimension characterised by the political instability in the Republic of Moldova, the slow progress of the reforms generating dissatisfaction to the EU, the complicated and fluctuant relations with Romania, despite the constant financial support of the Romanian government, leads to a closing effect.**

### **Physical dimension**

The stakeholder territory has **similar natural features**, plateaus, plains and hills, soil and climate. The stakeholder territory and The Republic of Moldova share the Moldova Plateau which extends from Siret river (West of the stakeholder territory) to Dniester river, the delimitation of Transnistria within the Republic of Moldova.

River **Prut is not only the natural border, requiring the construction of bridges for crossing** but also a common asset.

Cross-border mobility improved in time with the **border crossings set up along the entire border**: six roads, three rail land crossing points and one river crossing point. Still, the mobility needs require **an improved capacity of the land crossing points for the urban zones** e.g., Ungheni. The crossing points represent the first accessibility barrier for the Republic of Moldova towards the EU markets and for Romania towards the Eastern markets.

Both **road and rail infrastructure require improved capacity and modernisation on the both sides** of the border. Three road TEN-T corridors (one core and two comprehensive corridors) and two rail corridors link Europe and the stakeholder territory with the Republic of Moldova. The different gauge of the railway, as well as the depreciation due to less optimal investments on road and rail transport infrastructure on the Moldovan sides, affect connectivity and decrease efficient mobility in the cross-border area.

**The population indicators reflect similar trends as in the Romanian case: ageing and migration.** The population of the Republic of Moldova was 2.9 million at the 2014 census. The population usually resident decreased from 2.8 million in 2014 to 2.6 million in 2019. The

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<sup>15</sup> <https://www.politiadefrontiera.ro/ro/main/pg-puncte-de-trecere-a-frontierei-situat-in-judetele-Botosani-Iasi-vaslui-Galați-si-braila-300.html>



density of the population was 98.3 on km<sup>2</sup> against the 84,1 in the stakeholder area in 2014, while the rural share of the population (61%)<sup>16</sup> is close to the stakeholder territory (59%).

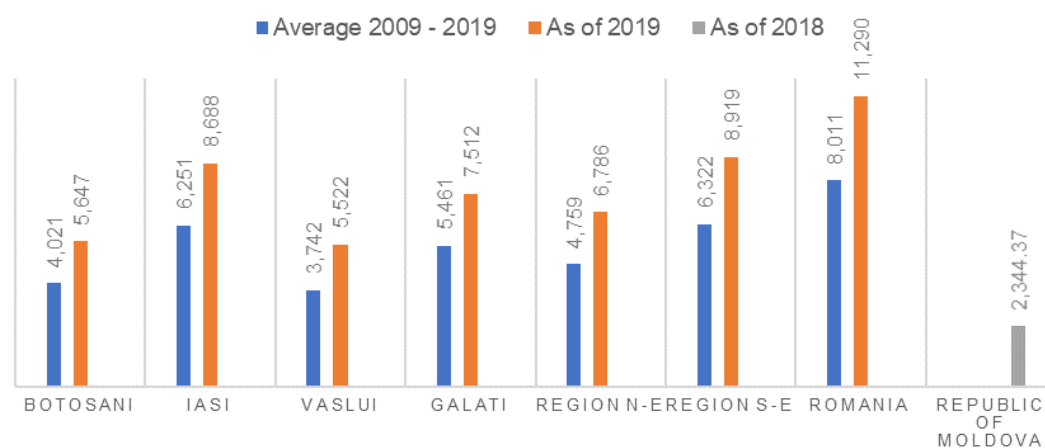
A negative trend concerns also the younger generation, e.g., the population between 20-24 years old diminished by 4.4%<sup>17</sup> between 2014 and 2019. Migration is intense. The Romanian citizenship, which can be acquired by the Moldovan citizens, facilitates external migration. However, the emigration destination is not Romania, but western European countries.

**The natural border (Prut river) and the administrative barriers at the border, the underdeveloped transport infrastructure all contribute to creating a closing effect.**

### Economic dimension

The high gap between the GDP on the Romanian side and the Moldovan side of the border is a key feature of the economic reality. The Republic of Moldova GDP is around 20% of the Romanian GDP and half that of Botoșani or Vaslui, the poorest counties in the stakeholder area.

Figure 1.1.11: GDP in euro per capita (stakeholder territory, Romania and The Republic of Moldova)



Source: NIS Romania and <https://tradingeconomics.com/moldova/gdp-per-capita>

The structure of the economy shows higher rates for services and industry and lower for agriculture on the Romanian side. Thus, the contribution of agriculture, forestry and fishery varies between 4.25% in Iași and 11% in Botoșani while in The Republic of Moldova the contribution of agriculture is around 15%<sup>18</sup>.

There is a significant gap across the border between the average monthly nominal gross earnings. In 2018 the average in The Republic of Moldova was 6 268<sup>19</sup> MD Lei, the equivalent of EUR 315, while in Romania it was EUR 936 and, in the stakeholder territory, it varied between EUR 952 in Iași and EUR 771 in Botoșani.

<sup>16</sup> The 2014 Census.

<sup>17</sup> <https://statistica.gov.md/newsview.php?l=ro&idc=168&id=6431>

<sup>18</sup> National Strategy for Regional Development in Moldova 2016-2020.

<sup>19</sup> 1Euro = 18.842 MDL – The National Bank of Moldova, average exchange rate for 2018.

The unemployment had similar decreasing trends on both sides of the border, reaching 4.8% in 2018. In The Republic of Moldova, similarly to the situation in the stakeholder territory, agriculture, forestry, and fishing have the highest share in employment, followed by industry, constructions and commerce.

Significant differences in prices and work opportunities generated commercial flows and workforce mobility. The most significant ones are cheaper prices for petrol and cigarettes in The Republic of Moldova, a more diverse range of construction materials of higher quality on the Romanian side, and a higher demand for construction services or workforce in Romania.

The local currency is the Moldovan leu (1 EUR = 19.51 Moldovan Lei in May 2020).

***The economic relations, the opportunities generated on both sides of the border, enhanced by social and cultural factors are substantial opening effects with a high potential for further development.***

### **Socio-cultural dimension**

The stakeholder territory and The Republic of Moldova across the border have strong social and cultural links, originating in the common history, tradition and language. The territory between the Prut and the Dniester rivers was the eastern part of the Middle Age principality of Moldova, which was integrated into the Russian Empire in the 19<sup>th</sup> century and returned to Romania in 1918. It became part of the Soviet Union in 1940 with 3.5 million people living in the territories between Prut and Dniester rivers. Around 300 000 succeeded to move to Romania between 1940 and 1944. During the Soviet regime and until 1990, a significant process of Russification was generated by the mobility of the workforce between the different Soviets and the education system.

After the 1990 independence of Moldova, the symbolic event “The Bridge of Flowers” marked the social relations (to some extent with a political dimension). In 1990 Romanians were allowed to cross the Prut river and the border for one day without a visa to enter the Moldovan territory. It is estimated that around 250 000 persons crossed the border to Moldova. A similar event followed in 1991, allowing Moldovans to cross to Romania.

The links were further strengthened by granting the Romanian citizenship to successors of Romanians who remained in the territories in 1940. Around 600 000 Moldovans obtained the Romanian citizenship between 2002 and 2018, and the number of applications is increasing. Only in 2018 100,000 applications for the Romanian citizenship were registered with the Romanian Authority for Citizenship.

A mix of ethnics is now present in Moldova with 75.1% of the population Moldovans, Romanians - 7.0%, Ukrainians - 6.6%, Gagauz - 4.6%, Russians - 4.1%, Bulgarians - 1.9%, Roma - 0.3%, and other ethnic groups constituting 0.5% of the population<sup>20</sup>.

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<sup>20</sup> <https://statistica.gov.md/newsview.php?l=ro&id=5582&idc=30>

**The Romanians and the Moldovans share an important part of their history, a common language despite being named Moldovan and Romanian, a common cultural heritage, and evolving personal, organisational or institutional relations. The social and cultural dimension has a strong opening effect, spilling over other areas of cooperation, including business.**

## **1.2 Analysis of the “beyond location” aspect - existing entrepreneurial eco-system**

### **1.2.1 Partnerships and networks in place**

A large range of employers’ associations, business and professional associations are present in the stakeholder territory. They are usually organised at the national level and operate with subsidiaries at a regional level or work in partnership with local associations. In Romania, there are six employers’ associations officially validated as “representative”<sup>21</sup>, participating in public policies consultation and social dialogue processes. They represent at the national level the employers and other local employers’ associations in the public policy processes.

**The most prominent employers’ association of SMEs** is the National Council of the Romanian Private SMEs (Nicolescu, 2019)<sup>22</sup>. Other associations active in the stakeholder territory are focused on specific types of enterprises or entrepreneurs such as PTIR (Young Entrepreneurs’ Association) and Business Women Associations.

Four Chambers of Commerce, one in each county are present in the stakeholder territory, integrated into the wide national network of Chambers. Their strong role was given by the special legal form and the management of the National Commercial Registry of Enterprises (NCRE). Once NCRE has been transferred to the Ministry of Justice in 2002 its role began diminishing, enhanced also due to the increasing competition from consultancy services providers. They are perceived as business service providers, but their presence appears uneven in the stakeholder territory: they are most active in Iași, followed by Galați, Botoșani and Vaslui.

The interviews revealed substantial difficulties of the business associations in fulfilling their role mainly at the local level. This is a general feature at country level, but which is more pronounced in the areas with a smaller number of businesses such as large parts of the stakeholder territory. The interest of the businesses to associate and resolve their problems jointly is still low. Therefore, funding of the associations from the members’ contributions cannot ensure the sustainability of the associations. For this reason, most of the active associations apply for funding from the relevant EU programmes. The involvement of the business representatives in the consultation processes, their interest in contributing with ideas and participating in events is limited because these actions are not a priority and there is not sufficient trust that their ideas will be considered further.

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<sup>21</sup> <http://dialogsocial.gov.ro/wp-content/uploads/2019/06/Tabel-reprezentativitati-05.06.2019.pdf>

<sup>22</sup> In Romanian: Consiliul National al Intreprinderilor Private Mici si Mijlocii din Romania, UPIPMMR.

The interviews revealed the opinion that the success of the associations depends to a large extent on the capacity of each association (i.e., management) to create cohesion and identify the goal linked to a problem of the businesses in a specific segment. The cooperation of the business associations with the local public administration is also limited and, for the most part, ineffective, mainly because of the limited openness and competence of the local public administrations regarding business support policies.

The rural Local Action Groups (LAGs) created as public-private partnerships, are playing an essential role in rural environment development. Their role is to contribute to the development of a delimited territory covered by their members. The concept was extended to urban LAGs for the implementation of the CLLD concept in combating poverty. They were and continue to be funded by the National Rural Development Programme (NRDP). 42 LAGs are officially functional in the stakeholder territory (12 in Iași, 11 in Galați, 10 in Botoșani and 9 in Vaslui)<sup>23</sup>, LAGs are perceived as effective instruments, addressing mainly the need for cooperation in business, particularly relevant for farms and rural development. At present there are 37 LAGs operational (12 in Iași county, 9 in Galați and 8 in Vaslui and Botoșani).

### 1.2.2 Existing clusters

As a result of the implemented policy of promoting and supporting the formation of clusters, in 2019, **74 clusters and competitiveness poles have been registered into the Ministry of Economy's database**. Romania ranks second in Europe after Germany regarding the number of clusters, with three gold label clusters, ten silver and 28 bronze, according to the benchmarking studies conducted by European Secretariat for Clusters Analysis (ESCA)<sup>24</sup> experts.

Founded in 2011, **CLUSTERO**<sup>25</sup> is the representative body of Romanian clusters and the main platform for cooperation, exchange of information and support towards the development of the national clusters landscape based on innovation and internationalization. Currently, the association gathers 42 of the most active Romanian clusters in the fields of textile, renewable energy, electronics and software, machine building, wood and furniture, agri-food, etc. The association has an ESCA Accreditation and is a member of the ECEI II initiative. Besides the 42 clusters, the association also has five regional consortia and two thematic ones. The turnover amounted to EUR 8 700 million in 2019, with exports of EUR 2 700 million as a sum of all 2 163 companies in the association. The total number of employees is around 200 000.

**16 clusters are operational in the stakeholder territory**. In the NE Region **11 clusters cover several fields**, such as Imago-Mol Iași imaging medicine cluster, ASTRICO North-East textile-knitwear cluster, APT Bucovina tourism cluster, IT cluster New Media - ICONIC Iași, Ind-Agro-Pol, IT&C cluster - EURONEST IT&C HUB in Iași, bioROne biotechnology cluster.

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<sup>23</sup> [https:// www.mfe.gov.ro](https://www.mfe.gov.ro)

<sup>24</sup> <https://www.cluster-analysis.org/>

<sup>25</sup> <https://clustero.eu/>

Most of these are affiliated with the National Association of Clusters of Romania (CLUSTERO), some of them being founding members of this association (such as ASTRICO North-East).

SE Region **has 5 clusters** out of which the most active are: Open Hub Creative Cluster acting in the field of emerging creative industries and IT&C; Health Lower Danube is acting in the field of health and medical science; Green Solutions Low Danube; T&C Cluster Low Danube; Romanian River Transport. The clusters bring together companies, universities, local authorities, and facilitate business development.

The interviews suggested that substantial support is needed for the clusters to increase their capacity, to access and integrate into the international networks and to ensure continuous active participation. Clusters are seen as a key instrument for regional development.

### 1.2.3 Innovation

The innovation aspect of the entrepreneurial ecosystem is shaped in the stakeholder territory by the actions of the two Regional Development Agencies (RDAs) (NE and SE) integrated within the framework of the Regional Strategies for Smart Specialisation (RIS3).

In both regions, **Regional Innovation Councils** bring together entities from different sectors (36 in the NE Region and 41 in SE). The approach for the implementation of the actions is based on international partnerships. The 'Lagging Behind Regions' project, implemented as a pilot in the NE Region, later continued and was extended to other regions including in the SE. It generated an extensive process for innovation support, with high sustainability and potential for spillover. The process involved iterative actions for 'entrepreneurial discovery' which led to 129 innovative business ideas collected from the six counties of the NE Region. 39 projects were selected with a cumulative value of EUR 87 million, and are proposed for funding by ROP, awaiting contracting. The process confirms the difference in the innovation potential between Iași and the least developed counties of the stakeholder territory, namely Botoșani and Vaslui. Thus, to the 139 innovative businesses discovered in the process, Iași contributes with 77 and Vaslui and Botoșani with 4 each.

However, the smart specialisation objectives are challenging in a context marked by a low level of innovation in the regions (including the stakeholder territory) as well as in the entire country, with slightly positive trends in some of the regions, as further detailed.

The Regional Innovation Scoreboard<sup>26</sup> places the two regions, the NE and the SE in the "modest" regional innovators category, similar to all the other regions of Romania, except for Bucharest-Ilfov, which is considered a "moderate" regional innovator. Both regions are far below the European level on all dimensions of the regional innovation scoreboard compared to the European level. The largest gaps concern tertiary education attainment, the private sector R&D expenditure and the public-private co-authored publications.

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<sup>26</sup> [https://ec.europa.eu/growth/industry/policy/innovation/regional\\_en](https://ec.europa.eu/growth/industry/policy/innovation/regional_en)

Data regarding the innovative enterprises is available only at the regional level and shows a decrease between 2010 and 2016 for all regions of Romania except the NW and the West.

In 2016, 932 innovative enterprises in the two regions, NE and SE, represent 32% of the total innovative enterprises in Romania, out of which around 300 enterprises are based in the stakeholder territory (if we consider the same share as the one for the active enterprises).

The interviews with the stakeholders involved in start-ups support confirm the low potential for innovation. Most of the project ideas are based on existing practices on the local market. There is little awareness among the entrepreneurs applying for start-up funding regarding the impact of new technologies on lives and businesses. There are few young businesses with the potential to develop but often they migrate to more dynamic markets, in Bucharest or abroad.

Another opinion voiced refers to the fact that, apart from the professionalism of the innovation support provided by the RDA, the business infrastructures have limited capacity to support business for innovation.

The main motivation to start a business or to develop it in the stakeholder area is linked with rather personal reasons rather than business opportunities and advantages.

#### 1.2.4 Governance

##### **An overview of the governance model in Romania**

The governance model applied in Romania is based on the European model with bottom-up goals and top-down implementation and coordination. In Romania, the idea of multilevel governance is instantiated by administrative structures at **national, county and local** (municipality and commune) levels. Romania has defined regions for development, but there are no administrative structures at the regional level.

The Romanian administration continues to have a **high degree of centralisation regarding the financing of investments and the coordination of public services.**

The process of “**regionalisation**” in Romania is governed by the law no. 315/2004 regarding regional development, which establishes the institutional architecture based on partnership principles, both at territorial and national levels. The territorial (i.e., regional) structures for regional development consist of the **Regional Development Council (RDC, decision-making body) and the Regional Development Agencies (RDAs, executive bodies)**. The Regional Development Council (RDC) has no legal personality and functions at the level of each region. The RDAs have the main responsibility to promote the development of the region, including managing the multiannual planning.

Since their inception, the RDAs have played the role of Implementing Agencies for pre-accession instruments and later as Intermediate bodies for the Regional Operational Programme. The RDAs benefitted of constant capacity building support funded by the EU. They are perceived as the most successful development actors, responsible for the increasingly larger funds for regional development and competitiveness. The institutional architecture for ESIF 2021-2027 implementation provides an enhanced role of the MAs for the

eight ROPs, designed for the first time at the regional level. They are also engaged in European initiatives, cooperation and networking activities. The eight RDAs are associated in a ROREG association, which promotes in a more visible way the interest of the regions.

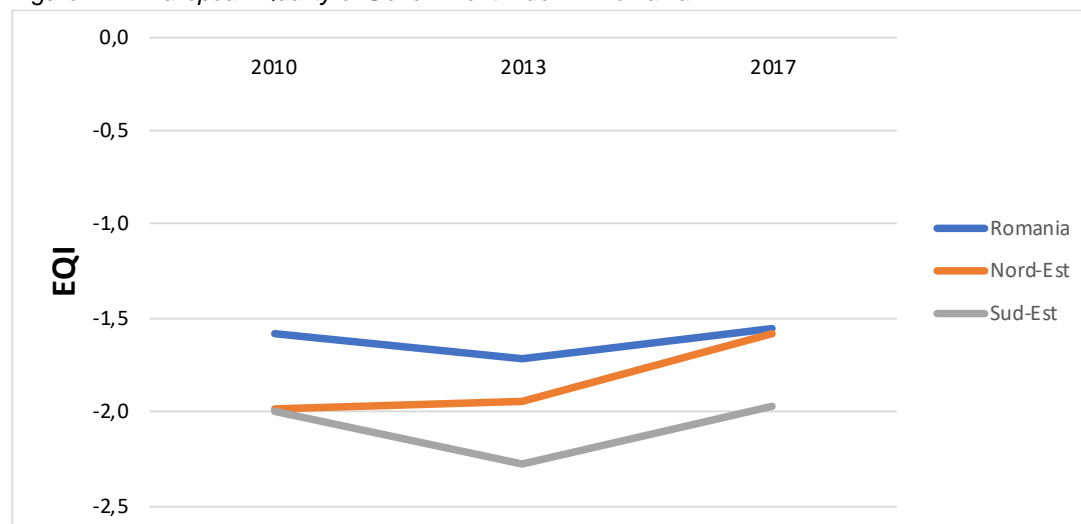
### The quality of the governance

The European Quality of Government Index, which measures institutional quality available at regional level in the EU is built on three pillars: Quality, Impartiality and Corruption. As the third round of data presented shows (Charron et al., 2019), in 2017 Romania ranks last, after Bulgaria, with a value of – 1.555.

The progress of the regions has been uneven, but both the NE and the SE regions increased their quality of governance after 2013. The NE Region raised close to the national level while the SE Region remains significantly below.

**Good governance at the local level** has been a challenge, which is constantly transposed in the ESIF support for the Administrative Capacity Interventions. The progress is hindered mainly by the high fragmentation of the administrative units, which is more pronounced in the stakeholder area than in other parts of Romania. The economic development appears to be the most problematic part for the public administrations. ESIF operational programmes encountered difficulties with investments for business support structures, either in using the funds or in ensuring sustainability in the operational phase<sup>27</sup>. The main causes are low capacity in planning and implementing economic development, lack of clarity regarding the role for economic development and relation with the businesses and the potential incidence with State Aid regulations.

Figure 1.12: European Quality of Government Index in Romania



Source: European Commission, 2018<sup>28</sup>

<sup>27</sup> Impact evaluation of ROP 2007-2013, Key Area of Intervention 1.1 Urban Development. Available at: [www.inforegio.ro](http://www.inforegio.ro) (accessed 15 September 2020).

<sup>28</sup> [https://ec.europa.eu/regional\\_policy/en/newsroom/news/2018/02/27-02-2018-european-quality-of-government-index-2017](https://ec.europa.eu/regional_policy/en/newsroom/news/2018/02/27-02-2018-european-quality-of-government-index-2017)

**The partnership principle** is functional at the regional and local governance levels, mostly in the regional development policy cycle, bringing together a large number of actors from all sectors of the regions.

The Regional Plans for Action in Education (RPAE), and in Employment, respectively, are similar tools which are operationalised at regional and county levels, less successfully in the case of the latter. The interviews revealed a limited interest and low capacity of the local authorities for effective cooperation with the social and economic partners.

### 1.2.5 Access to finance

The general difficulties of the SMEs in accessing funding, which are identified in an 2015 SMEs Ex-ante assessment are: the cost of the loan or too high-interest rates, lack of guarantees, lack of certainty regarding the financial situation of the company, difficult access to credits, relative instability of the national currency, financing solutions not being accessible or being inappropriate for the needs of the companies. The estimated amount of the financing gap until 2020 was between EUR 179 million (lower bound) and EUR 1 402 million (upper bound), only referring to NACE sectors B to N (and thus excluding the impact of the Agriculture Sector) according to European Investment Fund (Ministry of European Funds, 2015).

The limitations that inhibit access to finance of the Romanian companies is evoked in many studies and evaluations. According to a recent research report (CNIPMMR, 2019), 69.54% of the companies are self-financing, a trend decreasing compared to 2018 when 73.88% of the SMEs were self-financing. At the same time, 25.88% of SMEs use bank loans, 24.93% of these companies request supplier credit and only 16.85% are financed from non-refundable funds.

Accessing grants is perceived as difficult by SMEs, mainly due to excessive bureaucracy and hard to comply with requirements.

According to a recent survey (European Commission, 2019b), the access to finance is the most important concern for 8% of SMEs in Romania, while at EU level only 7% of the SMEs face similar challenge. The main financial instruments used by SMEs are bank loans and credit lines<sup>29</sup> for working capital, fixed investments, developing new products or services and hiring and training employees<sup>30</sup>.

The interest rate is above the level the enterprises would be willing to pay. A survey conducted by the National Bank of Romania in 2019 revealed that the largest share of the enterprises would be willing to pay 2.5% interest rate for loans in Romanian lei, a smaller share (11%) would pay up to 4.5% interest rate, 4% would pay up to 6.5% interest rate, and only 1% would

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<sup>29</sup> According to the same report, 31% of SMEs considered important the bank loan (45% at EU level) and used by 11% of them, while credit lines were relevant for 56% but used by 36%. Only 11% of Romania SMEs used equity capital.

<sup>30</sup> The largest financing SMEs used it for working capital (43%) and fixed investments (40%). Also, 27% of the SMEs used financing for developing new products or services and 25% for hiring and training employees, while 14% refinanced their obligations. The largest financing SMEs used it for working capital (43%) and fixed investments (40%), according to the same source.



pay more. In 2019, the average interest rate for ROL loans was 7.9%, significantly over the threshold of what most businesses would be willing to pay (NBR, 2019a)<sup>31</sup>. The statistics of the NBR also confirm the low access to finance, showing that Romania has the lowest access to loans in Europe, reflected in the indicator level of financial intermediary<sup>32</sup>.

Romania performs below the EU average in access to finance, and its performance has further deteriorated since the last reference period. Availability of business angel funding in 2015 and equity financing in 2015 - 2017 was the lowest among the EU Member States. Traditional bank finance accessibility has decreased in the last years due to macro-prudential measures taken by the NBR. Access to public finance is perceived by businesses to be more difficult.

The interviews in the stakeholder territory confirmed the risk aversion of the banks and limited possibilities to finance the businesses and even to co-finance the grants.

### 1.2.6 Cross-border cooperation

The cross-border cooperation in the business area is part of the wider multifaceted cooperation between Romania and the Republic of Moldova. The relations and the exchanges are not always captured in the administrative and statistical data, mainly because of the double citizenship of the Moldovans, which render their activity in the stakeholder territory not being recorded as external. The interviews provided insightful and useful information, which was validated with a group of stakeholders.

Thus, the interviews indicated a significant demand for services and products in the stakeholder territory coming from Moldovan citizens, due to differences in diversity, quality and availability of the goods and services. Visible effects are apparently in retailing, construction materials and other fast-moving consumer goods. Romanians are also attracted by good prices on the Moldovan market such as petrol, diesel, and cigarettes prices.

The stakeholder territory is an attractive place for the Moldovans to come work or do business. The Romanian market lacks workforce and presents itself as an opportunity for Moldovans with Romanian citizenship to set-up businesses and join the market. Interviews provided examples of such businesses in constructions, a sector benefiting of substantial fiscal facilities in Romania since 2019. Grants are also attractive to the Moldovan citizens and entrepreneurs. There were shared opinions in the interviews that, mainly in the recent years due to increased political instability and corruption, entrepreneurs from Moldova moved their businesses to Romania, attracted by grants as well.

The cooperation for improving the business environment and supporting businesses is present, and most of the players we interviewed consider this has to be extended. The

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<sup>31</sup> <https://www.bnr.ro/PublicationDocuments.aspx?icid=15748>

<sup>32</sup> <https://www.bnr.ro/PublicationDocuments.aspx?icid=19966>

cooperation involves initiatives and cooperation projects setup for creating business structures (incubators, business centres). For the Romanian businesses, Moldova is a gate towards the Russian and the CIS market. For Moldovans, Romania is a source of know-how and a gate towards the European markets.

There is substantial transfer of know-how from Romania to Moldova. The Moldovan clusters are members of CLUSTERO, while the Organisation for the Development of the SMEs<sup>33</sup> cooperates intensively with Romanian governmental and non-governmental entities. There is an intense cooperation between other local and regional development actors such as RDAs, county councils, business associations, communes and municipalities engaged in twinning projects and partnerships.

The Romania - Republic of Moldova Joint Operational Programme (RO-MD JOP) 2014-2020, as well as its predecessor, The Romania- Republic of Moldova- Ukraine (RO-MD-UA) Joint Operation Programme (JOP) creates opportunities for cooperation in different areas such as: education, research, technological development, innovation, culture and preservation of historical heritage, transport and communication networks and systems, safety and security.

The EUR 81 million EU contribution (EUR 89.8 million total budget) is allocated to infrastructure projects as well as to soft projects funding “people to people” actions, transfer of know-how and soft skills development. The allocation is small for the large range of cooperation needs identified in the programming period, therefore the selection of only a small number of thematic objectives was challenging. The large consultation process in the previous programming period did not advance business support as a priority among the limited number of priorities selected. However, there were included in JOP investments in education and research, or cultural heritage that may have a positive impact on the business markets and foster new opportunities.

### **1.2.7 Any other relevant aspects and potentials**

#### **Civil society**

The capacity of the civil society to participate in the policy-making process was subject of support for many years in Romania. Although there is evidence of progress in terms of the number of civil society entities, their expertise and activity, the current stage shows a number of weaknesses and challenges that limit their contributions to the decision-making process and operationalisation of policies.

The organisational capacity of civil society organisations decreased in two consecutive years (2017 – 2018) on all dimensions<sup>34</sup>, except infrastructure, after three years of stagnation or slight increase (FDSC, 2019). Significant disparities are found between rural and urban NGOs.

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<sup>33</sup> Organizatia pentru Dezvoltarea Intreprinderilor Mici și Mijlocii (ODIMM).

<sup>34</sup> The seven dimensions of the index measured by FDSC are: the legal framework, organisational capacity, financial sustainability, advocacy, services provision, sector infrastructure, public image.

The associativity index shows increases in all regions (FDSC, 2017). Nevertheless, as a general trend, the less developed regions have less NGOs and their financial and economic performance is lower. Thus, the highest levels of associativity are found in: Bucharest Ilfov with 3.25, in the Centre with 3.04, in the North West with 2.63, and in the West with 2.02. The North East is ranked last with 1.13, although it is almost three times the level in 2007. The South East region ranks among the last three with 1.29.

The interview confirmed that associativity is a weak point of Romania and the stakeholder territory. This is reflected in the pervasive lack of trust that problems could be solved through joint action, in low participation in business associations or in employers' associations.

### 1.3 Territorial developments

#### 1.3.1 Settlement structure and population development

The national settlement network in Romania is comprised of urban and rural localities (LAU units), ranked in a national hierarchy according to the Law no. 351 / 2001<sup>35</sup>.

“**Romania’s Territorial Development Strategy (RTDS)**”, a project initiated by the Romanian government in 2017 currently under approval by the Parliament, proposes a new classification at the level of the North-East Development Region, namely: Iași – metropolitan pole with international potential, Bacău, Botoșani – metropolitan poles with regional potential and other cities such as Pâncuți, Huși, Roman as urban poles.

The **highly fragmentated settlement structure with** few towns and cities is furthermore reflected in the higher than the average percentage of rural population. This gives an overall picture with a **few high-density urban areas** within a large low-density rural area, which furthermore creates vulnerable areas of significant size outside a 25-30 km radius from city services, which, according to the Law no. 351/2001 require priority intervention to ensure inter-community amenity access. Depopulation in the area has further accentuated this dysfunction.

The settlement structure is furthermore characterised by the **distinct polarity of the Iași municipality**, the only tier I city in the stakeholder territory, second most populous city in Romania, and the historic capital of the region of Moldova in Romania. Iași has been classified as one of the seven growth poles under the Government Decision (HG) no. 998/2008, benefitting from earmarked ESIF funding and further consolidating its undisputed role in the North-East Development Region, polarising directly or indirectly the whole settlement network in the region. **Iași Metropolitan Area** (voluntary Intercommunity Development Association of 13 LAU units and the Iași county) has a population of almost half a million inhabitants. It represents one of the most dynamic FUAs in the country. Through the same HG no. 998/2008, **Galați was appointed development pole** for the South-East Development Region, albeit

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<sup>35</sup> The ranking describes certain endowments and specialised functions of the main urban centres, as well as the radii of service provision to the surrounding rural regions, which range from more than 80 km for tier I municipalities and Bucharest (among which Iași and Galați) to 60-80 km for tier II county seat municipalities (Botoșani, Vaslui), to 20 km for other tier II municipalities (five in the stakeholder territory), to 10-20 km for tier III cities.

functioning within a bi-polar urban system together with Brăila municipality (Brăila county seat, outside the analysis territory, but only 20 km away from Galați) and sharing its FUA with it. **Galați-Brăila Metropolitan Area**, currently under development, is assessed as having the potential to become the second urban agglomeration in Romania after Bucharest and it involves the urban and suburban areas around the cities of Galați, Brăila and Tulcea, representing almost 30% of the population of the South-East region (SE RDA, 2019)<sup>36</sup>. As the first step for the emerging metropolitan area, the Association of Inter-Community Metropolitan Area Development “Lower Danube” was established. This association is based in the municipality of Galați and includes the cities of Galați, Isaccea and Măcin and 44 other communes from Brăila, Galați and Tulcea counties.

The settlement network of the territory is strongly **tributary to the hierarchy imposed by the presence of Iași** (for Botoșani, Iași and Vaslui counties in the NE region) and **Galați**. Recent development trends have followed the same pattern, accentuating both the inter-regional disparities as well as the intra-regional urban-rural divide, as these centres become more and more attractive for people, offering better living conditions with **better access to public services and job opportunities**.

A cross-border cooperation study (Mitrică et al., 2016) underlines the outstanding role of urban centres, which is even more pronounced in Romania, where the eastern and southern borderlands are mostly characterised by rural areas with low rates of working-age inhabitants and few towns and cities with prominent figures. Good examples for these peaks are the already mentioned Galați and Iași at the Romania-Moldova border. The separation due to the hydrographical axis, associated with high human pressure and with the existence of some passage fords on both sides of the Prut river favoured the appearance of a well-defined system of coupled settlements, but which was annihilated by the closed character of the border during the communist period. This fact was also emphasised by the villages that form toponymic couples on both sides of the Prut river: Sculeni-Sculeni, Medeleni-Medeleni, Grozești-Grozești, Răducani-Tochil Răducan, Pogonești-Pogonești.

### **Settlement development trends**

The population of the **stakeholder territory had a continuous decreasing trend since 2003**, similar to the national one. Inside the stakeholder territory, there is a major difference between **Iași gaining steadily resident** population, and the other **three counties facing a decreasing** population. Botoșani presents the largest decrease, losing 5.3% of the resident population registered in 2012 (see Annex 3, Figure 1.18).

The polarisation effect of the Metropolitan Zone Iași is traceable in the population changes in the settlements of Iași county, with substantial increases in the communes integrated into the zone, other tier II and tier III towns, such as Hîrlău and Pașcani, and constant depopulation of the communes of the county (see Annex 3, Table 1.6).

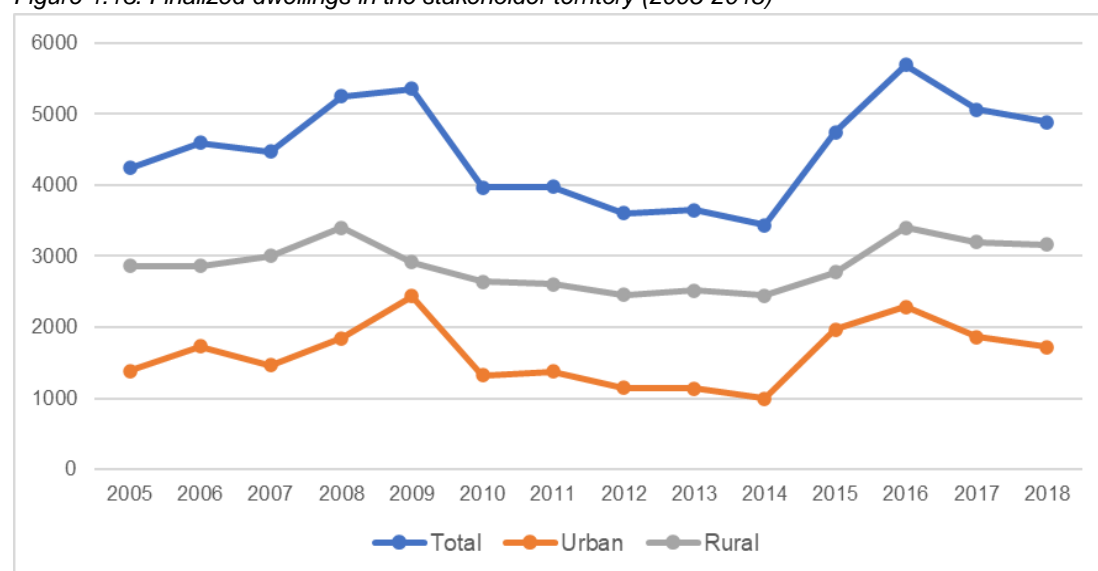
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<sup>36</sup> [http://www.adrse.ro/Documente/Planificare/Studii/Studiu\\_EDER.pdf](http://www.adrse.ro/Documente/Planificare/Studii/Studiu_EDER.pdf)

The decrease in birth rate and emigration are the first two main reasons for the population variations (Toth and Şerban, 2007). Romania had a sharp drop in the birth rate at the beginning of the 1990s, due to the adoption of the abortion legalisation, and was followed by a continuously negative trend, with some fluctuations. The stakeholder territory is characterised by an **almost constant natural population dynamic, close to the zero value**, which nevertheless is significantly higher than the national average. The only net-positive natural increase of the population is recorded in Iaşi (0.05% in 2019) as can be seen in Annex 3, Figure 1.19.

The **internal migration on both directions** (rural to urban and urban to rural) increased in the last 15 years in Romania showing a higher rate for the latter (see Annex 3, Figure 1.20). The factors determining urban-rural migration are governed by the phenomenon of peri-urbanisation, specifically that of areas that are close to larger cities such as Iaşi and Galaţi. Specifically, the period before the economic crisis in 2008 was governed by an excessive urban expansion, which consequently led to an enlargement of the built-up area of the cities in the four counties with 59%. Post-crisis expansion was more moderate in urban areas, leading to a built-up area increase of only 13% (for a total of 32.434 ha in 2018), yet compensated with an increased development trend in the rural areas situated in proximity to urban centres (e.g., Iaşi rural metropolitan area). Overall, building statistics show the decline of finalized new dwellings starting with the year 2010 and leading up to 2015 when the market started to re-emerge and even exceed the figures recorded in the 2009 peak (5691 finalized dwellings in 2016, as opposed to 5356 in 2009).

Figure 1.13. Finalized dwellings in the stakeholder territory (2005-2018)



Source: NIS Romania

The dependency rate of the population increased since 2014 with around five percentage points, with the exception of Botoşani county, which remained approximately constant at around 56%. This variation could be associated with the decreasing number of the population aged 15-64 and an increased emigration rate.

### 1.3.2 Labour market development

The low labour force qualification rate in the stakeholder territory may appear as **a weakness for future development**, but could also be seen as unused human capital potential.

The **drainage of the workforce of all categories** left the stakeholder territory, as most of Romania, with an aged population, or an inactive and unqualified workforce. The external migration, particularly that of the working-age population (16-65 years of age) started to increase in 2000 when high rates of working-age migrants were recorded.

The **low capacity of vocational education** and lifelong learning hinder the efforts of the employers to enrol the existing inactive workforce. The interventions undertook to develop a qualified workforce did not show results yet, however, there are positive signs. This refers to the reactivation of the VET system based on dual learning in school and at work, improving participation, mainly of the young people, and attracting Romanian workforce from other EU countries.

According to the European Commission's country report for Romania (2019c)<sup>37</sup>, continuous emigration of the labour force creates problems for sustainable economic growth. In almost three decades, **Romania lost 23.3% of its working-age population due to emigration**, with over 3 million people leaving the country, mainly from large cities. The emigration of the population from the poor rural areas, mainly young population (between the ages of 15 and 34) is significant in the North-East region. Although the main reasons for emigration are higher wages, better working conditions and public services, especially education and health, the emigration of persons with higher education is also determined by the low quality of public governance (Andr n and Roman, 2016). In December 2018, a series of measures were adopted aimed at reducing labour migration abroad, more specifically in the construction sector, involving the granting of tax facilities for a period of 10 years starting from January 2019 and by adopting a higher minimum wage specific to this sector. Moreover, the salaries for medical doctors increased in 2016 and mostly 2018, as a policy measure for discouraging external migration of the highly skilled from the health sector.

The fight of the localities for workforce relies now on investments to create good living conditions and opportunities for business development. The capacity of the localities to leverage this is not even, mainly in a territory with excessive fragmentation of the administrative units, and most likely it will deepen disparities in the absence of directed intervention of the government.

**Unemployment** in the stakeholder territory shows **a general decreasing trend in the last 10 years**, after the economic crisis, with slight increases between 2012 and 2016. The unemployment rate (share of unemployed persons in the population aged 15 - 64 in %) in Iași county (2,9%) and Botoșani (2,7%) was in 2019 closer to the national level (3%), while in Vaslui and Galați the rate was more than double - 7.4% and 5.6%, respectively.

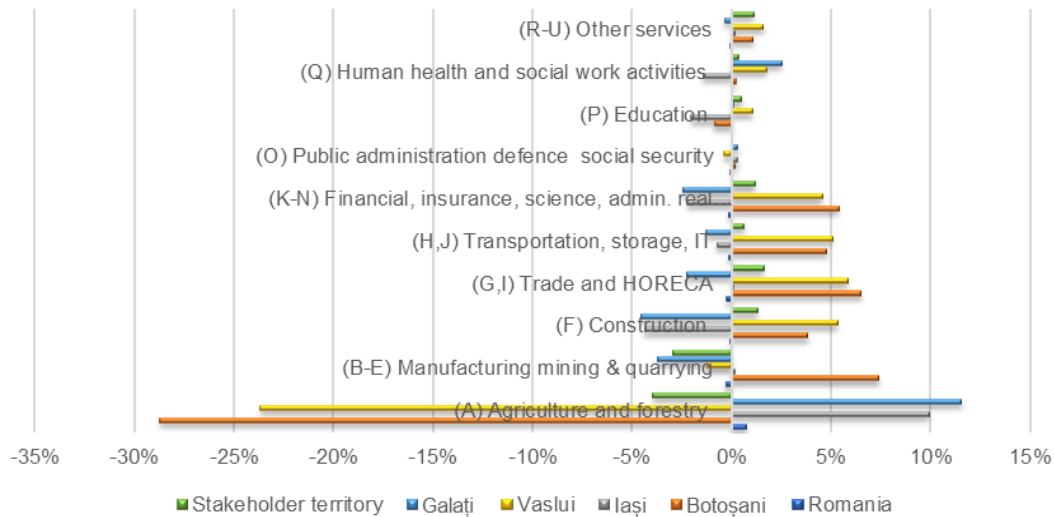
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<sup>37</sup> [https://ec.europa.eu/info/sites/info/files/file\\_import/2019-european-semester-country-report-romania\\_en.pdf](https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-romania_en.pdf)

In the last ten years, the employment structure witnessed a significant change, especially in Vaslui and Botoşani: the share of employment in agriculture (NACE A) decreased with 24 and 29 percentage points, respectively, while in Iaşi and Galaţi witnessed increases by 10 and 12 percentage points, respectively.

Employment in manufacturing (NACE B-E) decreased in all counties except Botoşani, while in trade and HORECA (NACE G, I), constructions (NACE (F), financial insurance (NACE K-N) only Botoşani and Vaslui saw an increase of the share in total employment.

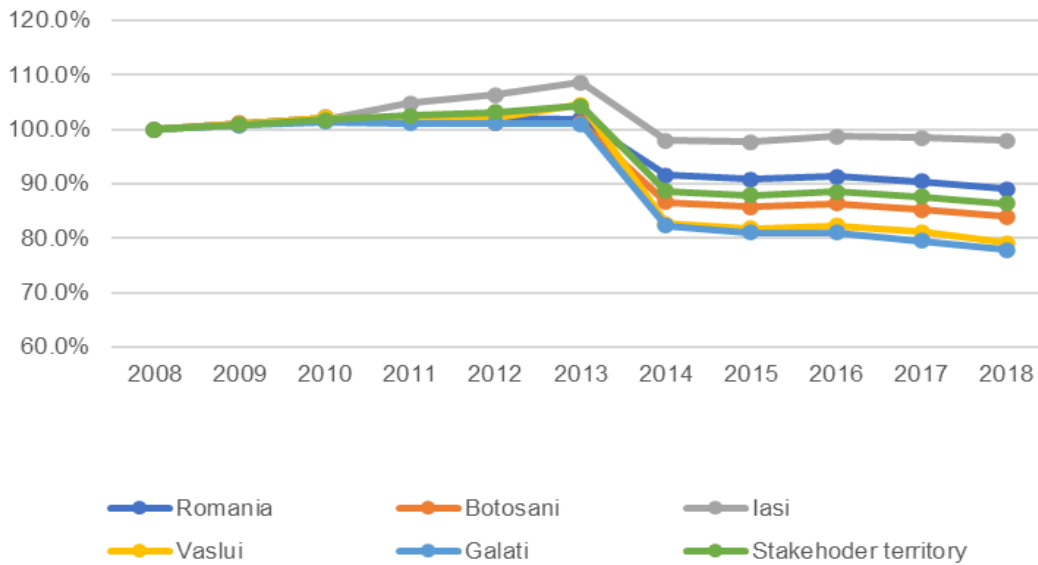
Figure 1.14: Employment in the stakeholder territory by NACE sectors, dynamics 2018 against 2008



Source: Consortium based on data from NIS Romania

The stakeholder territory is witnessing a constant decrease in labour resources since 2008. The trend is similar to the whole country. The labour resources in the stakeholder territory had a slight increase after 2008, followed by a sharp drop of 12% in 2014 compared to the previous year. This was followed by small variations and a more pronounced decrease in 2018.

Figure 1.15: Labour resources dynamics against 2008 (2008 = 100% )



Source: Consortium based on data from NIS Romania

The employment rate of the labour resources<sup>38</sup> in the stakeholder territory has been constantly below the national rate. In 2018, the rate of employment of the labour resources in the four counties varied between 55.7% in Iasi and 57.4% in Botosani, while the national rate was 68.7% (Annex 3, Table 1.3)

The trend of the employment rate is overall positive in the last 10 years, in Romania and in the stakeholder territory. However, the employment rate had a significant dropdown in 2014 and slight variations afterwards. After 2016, the employment rate increased in the whole stakeholder territory as well as at national level – however, net disparities are still relevant, which is conducive to a general lack of attractiveness for both young workforces as well as investments.

### 1.3.3 Accessibility

The stakeholder territory has **low accessibility** due to its peripheral location, at the eastern border of the EU as detailed in section 1.1.1. The most significant obstacle in the way of socio-economic development in the stakeholder territory has been the lack of investment in high-speed transport infrastructure. There is currently no such crossing in the territory, and **delays in implementing key infrastructure projects** have significantly reduced the development perspectives in the region.

Three major projects foreseen for the 2021-2027<sup>39</sup> period have the potential to change the status quo:

<sup>38</sup> The employment rate of labour resources represents the ratio, expressed as percentage, between the civil employment population and the labour resources (NIS Romania).

<sup>39</sup> Ministry of Transport, Infrastructure and Communications (2016) General Transport Master Plan. Available at: <https://mtransporturi.maps.arcgis.com/apps/webappviewer/index.html?id=4e84b8ff37de48c6a001c0bae9974693> (accessed 15 July 2020).



- **The A8 Highway**, connecting Moldova (through a new Ungheni bridge crossing) with Iași, west towards Transylvania and finally the Romanian-Hungarian border crossing near Oradea, via A3;
- **The Siret Expressway**, DX5, running parallel with the stakeholder territory and facilitating the N-S connection with Galați, Constanța and Bucharest;
- **The Brăila Bridge** (under construction), 15 km from Galați, offering a strategic crossing point to the Black Sea accessible to The Republic of Moldova.

Currently, albeit the NE region is one of the areas with the highest population density, it is also among the poorest and least urbanized. In the SE region and the metropolitan area of port cities Brăila-Galați can represent a point of reference for the commerce and industry in Romania, developing as a regional logistics hub between the countries of the western Black Sea region such as Turkey, Greece, Bulgaria, the Republic of Moldova and Ukraine. In this area, the road and rail infrastructures are very dense compared to the national level and crossed by the main trade routes of Europe.

Albeit lacking high-speed infrastructure, the **road and rail density is relatively high** in the stakeholder territory (0.44 km / km<sup>2</sup>, as opposed to a 0.36 km / km<sup>2</sup> road density at the national level). The **percentage of upgraded roads has historically been low**, of about 25% in 2012 and reaching 41.38% in 2019 (against 44.1% at the national level). The density of national roads is close to the country average. In contrast, the upwards trend in national road upgrades has brought the total percentage of modernized national roads to 91.63%, four points under the national average.

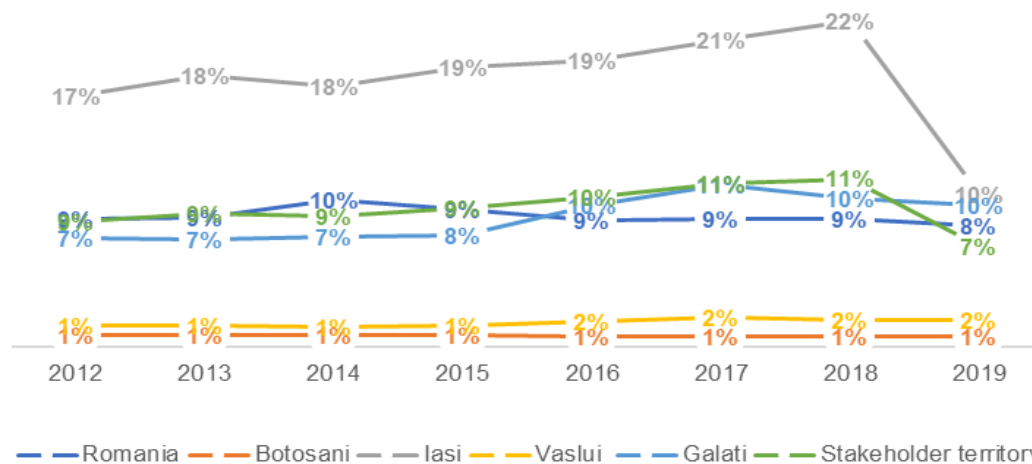
In cities, street infrastructure has benefitted from ESIF funding, although this reflects very little in the evolution of the quality of urban streets in the last decade, with an improvement of only 7.8%. Public transport (including tram, trolleybus and bus transportation) operates in 10 major cities in the area and has registered a **slight decrease in passenger traffic**, of 9.05% between 2012 and 2019 (see Annex 3, Table 1.10).

Internal disparities also reflect at the level of public transport. Botoșani and Vaslui have a very low level of service, almost 10 times lower than the national average (assessed based on the number of passengers transported divided by the usually resident population in the county). This weakness counterbalanced in the stakeholder territory by higher volumes of public transport in Iași, where it is constantly and substantially above the national average. However, after reaching a peak in 2018, Iași county experienced in 2019 a sharp dropdown in tram, bus and minibus public transportation. In 2019, Galați and Iași were scoring the same level as the national average, while the stakeholder territory scored below due to the poor level of service in Vaslui and Iași.

Although improvements are visible in the extension of the coverage of public transport (NE RDA, 2020) and the extension or renewal of the vehicles fleet, the stakeholder territory public transportation remains a key priority to ensure accessibility of the citizens to services. Still, a significant number of tier III towns and communes do not provide public transport services.

Green transport extension is in its early stages and relies on the EU funding based on the Sustainable Urban Mobility Plans (SUMP).

Figure 1.16: % of passengers travelling by public transport divided by usually resident population



Source: Consortium based on data from NIS Romania

The report of the Ministry of Regional Development and Public Administration (2017) shows that the lowest values of accessibility via the road network (expressed as the average value of the distance travelled by the inhabitants to get from their hometown to the county residence using the public transport network on the shortest route) are in Galați and Iași<sup>40</sup>.

The poor state of the road and rail infrastructure (see section 1.1.1) affects the efficiency of enterprises in the cross-border transport of goods and services, and limits the mobility of the workforce thus contributing to deepening the regional disparities.

**The port of Galați** is the second port in Romania by size and is considered one of the core ports of the TEN-T network. It is the largest river port at the Danube in Romania, which allows access to maritime vessels. However, the lack of multimodal facilities is a major obstacle to aligning port logistics with international transport flows. Also, the port infrastructure and triage areas are old and inadequate for modern logistics needs and connections with national roads, and rail networks are slow and inefficient. These barriers reflect in **the accentuated downward trend of both river and maritime traffic**, as well as of the volume of shipped goods: in 2017, the shipped volumes were 58.2% lower than the peak year 2005, while the number of ships decreased with 64.2%<sup>41</sup>.

The only airport in the stakeholder territory is **Iași International Airport**, located 8 km north of Iași city. Iași airport is located in the border area of the European Union with the eastern countries, its position being one of special importance considering the cross-border cooperation. It has recently witnessed **a strong increase in passenger volume** after

<sup>40</sup> MDRAP (2017) State of the Territory Report, Romania  
<https://www.mdrap.ro/userfiles/Raport%20privind%20starea%20teritoriului%202017.pdf>

<sup>41</sup> Based on data from the National Company Maritime Danube Port Administration Galați,  
[http://www.romanian-ports.ro/html\\_nou/traficapdm.php#](http://www.romanian-ports.ro/html_nou/traficapdm.php#)

infrastructure upgrades in 2015 and after it expanded its capacity with a new runway. The traffic values in 2019 (1.3 mil. passengers) have been 7.5 times higher than in 2012, and 31.3 times higher than in 2005.

Studies confirm that the proximity of a TEN-T road or a highway is one of the most important conditions favouring the development of an area, by attracting investors and creating an important critical mass of enterprises. For the stakeholder territory, the basic TEN-T network crosses the eligible area from north to south, as well as from east to west through the middle part, ensuring, on the one hand, the connection of the capital Bucharest with Ukraine through the north of the NE region, as well as the connection with the west (Timișoara, Cluj, Târgu Mureș) of the eastern part (Iași) and further with the Republic of Moldova (with a border crossing point on the basic network at Ungheni 38). The extended TEN-T network includes the connection of Bucharest with Chișinău on the SW-NE direction, crossing the municipalities of Bârlad and Huși in Vaslui county.

#### 1.3.4 Entrepreneurial activity

Although the entrepreneurship evolved positively between 2008 and 2018 in multiple aspects as reflected by entrepreneurial indicators, a gap with the EU level still remains.

The entrepreneurship generally follows the territorial economic disparities, although the dynamics are significantly influenced by factors external to the business environment such as fiscal measures.

Thus, **the density of the business units in Romania had an overall positive trend.** However, it remained below the EU member states. In 2015, Romania had 23 SMEs per 1 000 inhabitants, compared with 140 in the Czech Republic, 116 in Slovakia, 115 in Latvia, 106 in Estonia, 90 in Slovenia, 60 in Hungary, 60 in Croatia, 55 in Bulgaria, 47 in Poland and 32 in Lithuania.<sup>42</sup> At the regional level the trend was similar.

The urban environment has the highest density of companies, especially in the municipalities of Iași and Pașcani, as well as in their immediate proximity and in the Iași metropolitan area.

**The interregional disparities tend to increase.** Thus, the number of micro-enterprises increased in 2017 compared to 2010 by 3.71% in the stakeholder territory while at the national level the increase was by 12.22%. At the county level, Galați witnessed the largest increase of micro-enterprises (by 8.69% compared to 2010).

The self-employed rate (self-employed in total active population) had slight variations between 2008 and 2018. Finally, the rate is lower in 2018 compared to 2008 at the national level and in all counties of the stakeholder territory, except for Iași and Vaslui. The different dynamics reveal the vulnerabilities of self-employment in the face of external factors manifesting at local level.

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<sup>42</sup> <http://www.opiniiibnr.ro/index.php/macroeconomie/203-mirabila-intermediere-financiara?highlight=WyJpbW0iXQ==>

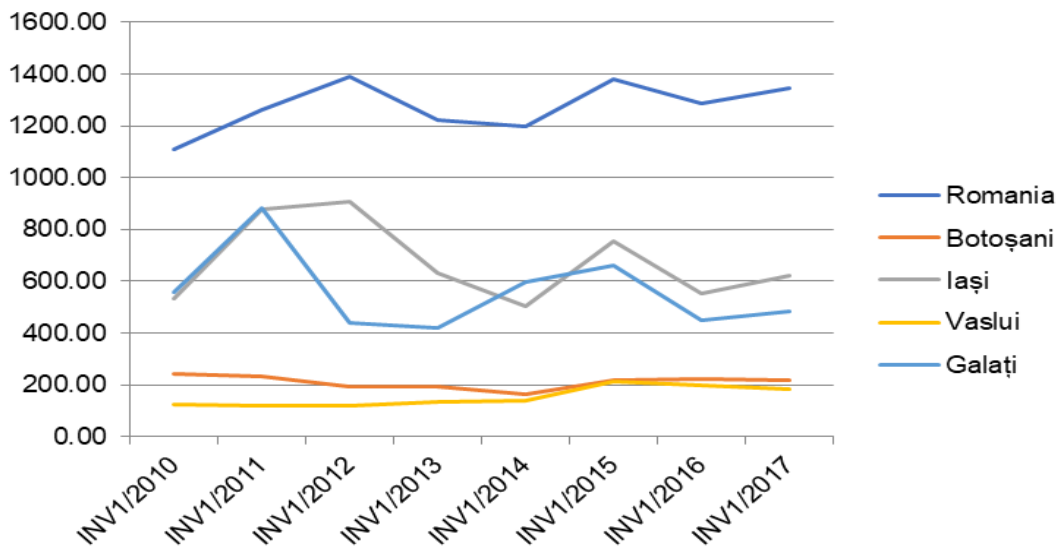
### 1.3.5 Investments and financing

According to a paper published by the European Investment Fund (Torfs, 2019), Romania was at the same level of 2018, and ranks among the last member states in terms of the index of access to finance, followed only by Cyprus and Greece, and scoring lower than Bulgaria.

In contrast to its strong performance on the legal rights index (measuring the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders), Romania scores poorly on alternative funding, including business angel funding, where it ranks among the worst performers in the EU, venture capital and equity financing. The overall drop from last year's score is due to strong declines in traditional funding.

The evolution over the last eight years of the **gross investments in intangible fixed assets per capita has oscillated in the stakeholder territory**, similar to the national level. Two of the four counties in the stakeholder territory– Iași and Galați, show similar dynamics and, where these investments show timid increase in a year, the tendency is to drop in the following year. In Vaslui and Botoșani counties, this evolution is constant in all analysed period. In all eligible area the level of this indicator is under the national one of EUR 1 343.62 per capita with big differences between 185.32 EUR/capita in Vaslui (13.79% of the national level) and EUR 620.22 per capita in Iași (46.16% of the national level).

Figure 1.17: Gross investments in tangible fixed assets per capita in EUR



Source: NIS Romania

In conclusion, the level of the gross investments in tangible fixed assets per capita level is very low in the eligible area, leading to the conclusion that the investment level is not attractive in the stakeholder territory.

### 1.3.6 Foreign Direct Investments

The stakeholder territory has a low attractiveness to foreign investors, with less than 2% share in the total FDI at national level.

Table 1.6: FDI and FDI per capita 2017-2018

Territorial level	2018			2017		
	M EUR	% in total FDI Romania	FDI/capita	M EUR	% in total FDI Romania	FDI/capita
Botoşani	76	0.1%	197	77	0.1%	197
Iaşi	460	0.6%	581	469	0.6%	594
Vaslui	92	0.1%	242	43	0.1%	112
Galaţi	844	1.1%	1657	603	0.8%	1170
Stakeholder territory	1472	1.9%	713	1192	1.6%	573
Bucharest	41273	54.7%	22581	38699	51.3%	21187
Total Romania	41273	54.7%	2113	71173	94.3%	3623

Source: NBR

The Bucharest-Ilfov region is the most attractive region for FDI, reaching 60% of the total FDI in Romania in 2018. The remaining 40% is shared by the other seven development regions.

The NE region ranks last with only 2.3% in 2018, while the SE region experienced a decrease from 5.16% in 2016 to 4.69 % in 2018. The intraregional disparities are also significant as follows: in 2018, Iaşi county attracted 26.12% of the FDI region, while Botoşani and Vaslui have modest shares of around 10%. Galaţi has a share of 23.86% from the FDI regional value. The largest investments come from the Netherlands, Austria and Germany. The main pillars of industrial development are the steel company ArcelorMittal and Damen Shipyards.

According to the ESPON study “The World in Europe, global FDI flows towards Europe”, a net positive impact of FDI should not be taken for granted. At the same time, FDI has the potential to enhance economic growth in Europe. The old member states with high levels of GDP (e.g., France, the Netherlands and Germany) are generally net investors. At the same time, the new member states like the South-East European countries (e.g., Hungary and Romania) are generally net recipients of intra-European FDI (ESPON, 2018).

Romania has many advantages to attract FDI: in addition to a large domestic market, the country has a strong industrial tradition, along with a cost of labour which is among the lowest in the EU. These were the main reasons for the development of important industrial sectors, especially automotive, shipbuilding, etc., but also for the development of services in general.

The local stakeholders interviewed revealed changes in the business environment with impact on the attractiveness level of the stakeholder area for investments. The increase of the minimum wage reduced the attractiveness of the low labour costs, with effects in the stakeholder territory. Thus, the labour-intensive businesses, such as textiles (a traditional sector) moved from the stakeholder territory to Eastern countries, such as Moldova, Ukraine or China.

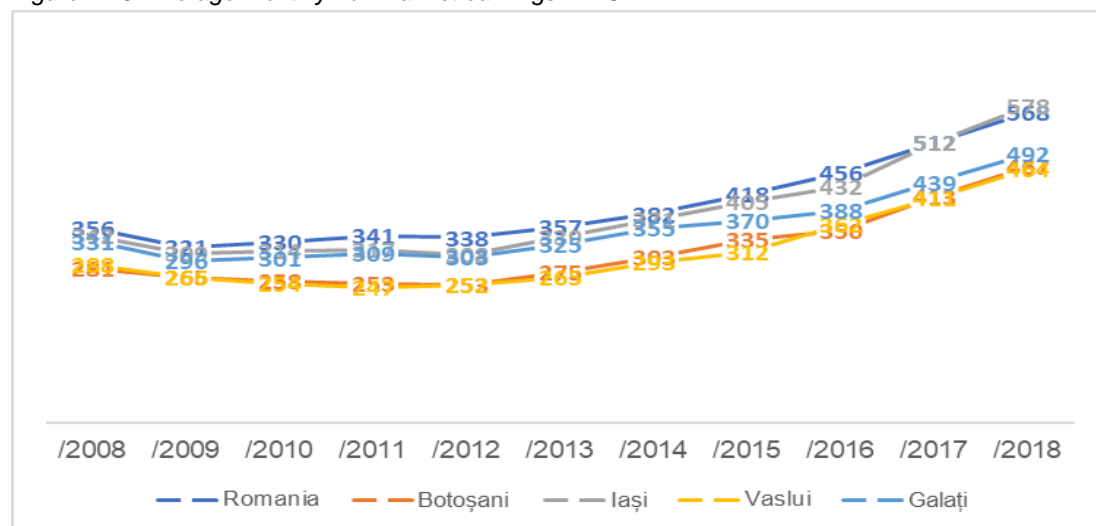
To conclude, we can say that the stakeholder territory, showing similar features to the two main regions they are part of, did not succeed in attracting FDI and boosting the economic development, mainly because key features such as transport infrastructure to ensure good connectivity with Bucharest as well as with international markets, skilled labour force, low

production costs and so on, which could render the territory environment attractive, are missing.

### 1.3.7 Income levels

The stakeholder territory shows a net nominal earning trend similar to Romania. It reflects the internal economic disparities of the four counties, however to a less extent than the economic indicators do. Botoşani and Vaslui reach at around 80% of the national level. The substantial increases of the minimum wage established by law and of salaries in the public sector are reflected in the ascendant trend from the figure below.

Figure 1.18: Average monthly nominal net earnings in EUR

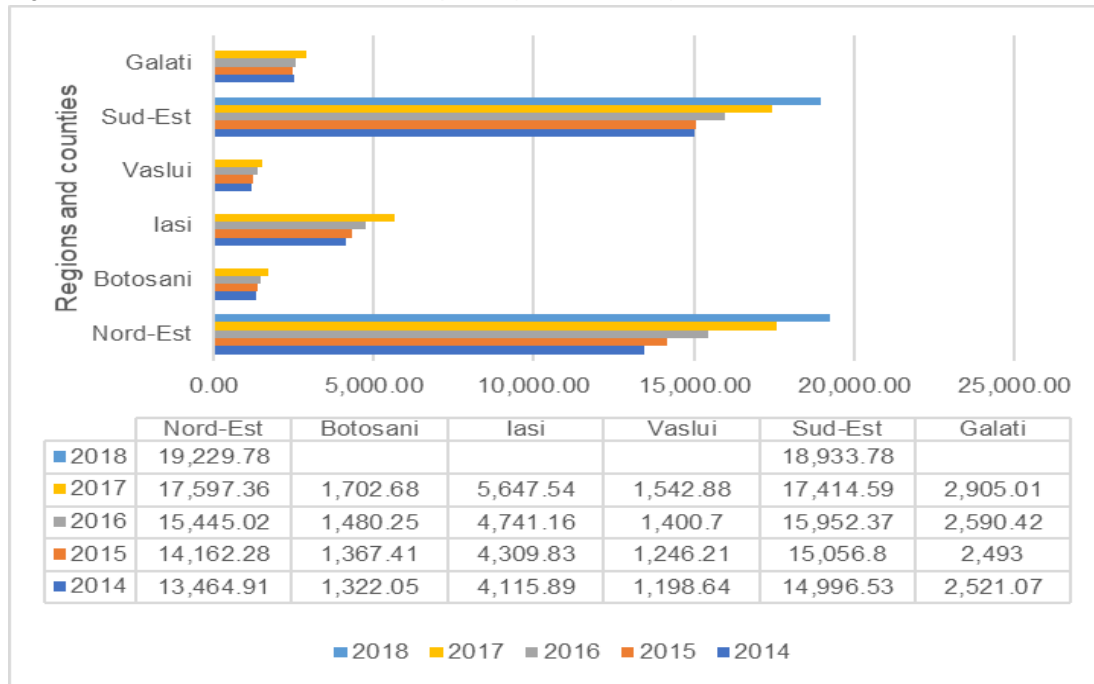


Source: NIS Romania

### 1.3.8 Gross value added

Similar to the GDP, the GVA increased constantly between 2014 and 2018 in the stakeholder territory and at the level of each county.

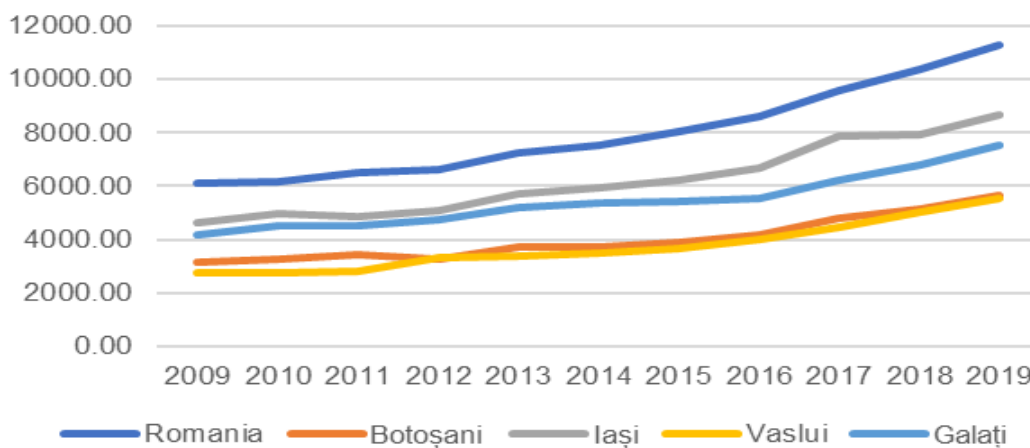
Figure 1.19: Gross added value at basic prices (in million EUR)



Source: Eurostat (data not available at the county level for 2018)

The changes in the economy structure between 2014 and 2017 are not significant (see Annex 3, Figure 1.21). Except for wholesale and retail trade, transport, accommodation and food service (NACE G-I), activities with a decrease of around 3 percentage points, other sectors had gains and losses of less than 2 percentage points, such as: Information communication (NACE J) and professional services (NACE M-N) decreased with up to 2 percentage points, agriculture and constructions (NACE A) increased up to 2 percentage points.

Figure 1.20: GDP per capita development (2009-2019), in EUR



Source: Consortium based on data from NIS Romania

**Value-added at factor cost (per person employed)** had a similar trend as GDP starting with 2013 with the paired evolution of Iași and Galați close to the national average, while Botoșani and Vaslui were significantly below. However, Botoșani and Vaslui narrowed the gap from 70% and 65 % in 2013 to 74% and 71% in 2017 (see Annex 3, Figure 1.22).

The evolution of labour productivity per person employed and hour worked in the stakeholder area was positive and significant (see Annex 3, Figure 1.23). At the national level, Eurostat data shows that Romania and Lithuania had the highest increases in 2018 against 2008 among the Eastern and Central European member states with 33%, followed by Latvia with 23% (see Annex 1, Figure 1.24).

## 1.4 Conclusions

The stakeholder territory covers the **four easternmost counties of Romania** along the border with ENI East country, the Republic of Moldova, counting **almost 10% of the Romanian population**. It has a **significantly higher density** than the national average and a **predominantly rural population**.

The territory records **significant disparities, both internal and external**, against other Romanian territories and the EU. Vaslui and Botoşani counties have similar features, with a profile of less developed territories compared to Iaşi county, whose homonymous capital and metropolitan area represent an important economic, academic and cultural centre of Romania. Galaţi is a predominantly urban and historically industrial county, having a different and partially divergent development trend compared to the former three, due to its strategic position on the lower Danube and its bi-centric interaction with Brăila, an urban centre of 300 000 inhabitants only 20 km away.

The stakeholder territory is characterized by a high **polarization of Iaşi**, the historic capital of Moldova and a beneficiary of the **national Growth Pole policy**<sup>43</sup>, which favours the development of seven second-tier cities and their metropolitan areas. **A second polarization area is Galaţi, a development pole** which, jointly with Brăila, has a high potential to become a key urban agglomeration of the country. The rest of the stakeholder territory is mainly rural with high administrative fragmentation, underdeveloped infrastructure and low accessibility of the citizens to public services. The two main poles, Iaşi and Galaţi, present a stark contrast against vast rural territories outside the service radius of cities, especially in Vaslui, which is scoring the lowest on the local Human Development Index.

The stakeholder territory is **a negative net migration area**, more pronounced in the counties of Botoşani, Vaslui and Galaţi compared to the national level and to Iaşi. New features of the external migration flows are evidenced by 2018 and 2019 data, with negative net migration for segments between 30 and 49 age, which is also the age group with the highest labour productivity, specific only to urban areas. The interviews confirmed there is evidence of the interest shown by Romanians working abroad to return. This interest increased in the COVID-19 pandemic conditions due to a dramatic decrease of job opportunities for Romanians in the Western EU countries.

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<sup>43</sup> The policy was applied in the 2007-2013 programming period and it did not continue for the following (2014-2020) period.



**The labour resources of the stakeholder territory decreased substantially in the last 10 years**, contributing to a low attractiveness for investments.

Besides the **ageing workforce**, there is also a **low participation in education and training** and limited or slow progress of the education and vocational training systems reforms, generating shortage of skills and failing to respond to employers' needs, **growing imbalances and skills mismatch on the labour market**. The enterprises perceive this problem together with the insufficient workforce as one of the main constraints for business development.

Still, the existence of inactive labour force, the return of the emigrants as an upskilled workforce with experience in competitive environments, new policies targeting retention and upskilling of the young generation retained represent **a potential that could turn the labour force into a territorial advantage**.

The social and cultural links with the population of the Republic of Moldova and the dual citizenship which lots of Moldovans hold create the premises for **a common labour market, however, with unidirectional flows from the Republic of Moldova** to the stakeholder territory.

The stakeholder territory has a **significant economic disadvantage** with a GDP per capita and labour productivity below the national level in all four counties.

Due to its peripheral location, at the eastern border of the EU, the population and businesses of the stakeholder territory have **limited access to markets and services**, which is lower than in most other parts of Romania. The lack of investment in high-speed transport infrastructure and the **delays in implementing key infrastructure projects** have significantly reduced the development perspectives in the region.

The **port of Galați and Iași International airport are strong points** of the stakeholder territory. However, the port and the related infrastructure are old and depreciated; the connections with roads and railways are slow and sub-optimal. At the same time, Iași is limited to passenger transportation and is not operating freight.

The entrepreneurship ecosystem is less favourable to business development than in other parts of Romania, leading to a **drain of high potential business ideas and entrepreneurs**, who are looking for dynamic markets, good infrastructure, and inspiring business environments. At the stakeholder territory level, the access to finance appears to be more difficult than in other, more developed areas, due to lower performance of the enterprises and low prospects to qualify for bank loans.

The level of co-operation and the **interest of SMEs to associate is limited**. The large number of associations set up at local level join federations and confederations to strengthen their position. However, they all struggle with **underfunding and low openness of the local public administrations** to undertake economic development and enterprise support measures. The needs and the proposals coming from the local, grassroots levels are communicated to policymakers at the central level by large confederations.

The **border political relations are fluctuant. The generally cold relations** of the Republic of Moldova with Romania and the EU alternate with stronger pro-European positions. The significant economic disparities on the two sides of the border generated business opportunities, workforce mobility, which evolved organically, aided by the common language and the large number of Moldovans holding Romanian citizenship.

The **dominant feature of the cross-border reality is the cultural and social dimension** based on strong social and cultural links, originating in the common history, tradition and language. More than 25% of the actual Moldovan population received Romanian citizenship between 2002 and 2018.

## 2 Business support and territorial effects

### 2.1 Existing business support system

#### 2.1.1 Finance

##### Public business support

In the stakeholder territory, as in the whole country, public support is essential for business development as it balances the limited access business actors have to private finance. Chapter 1.2.5. provides further details and considers this aspect in the wider framework of business finance.

The need for public business support is justified also by the SMEs' reserved approach towards debt. This is reflected in the survey carried out by the National Bank of Romania in 2019, which shows that 64% of the SMEs are not willing to use loans, because they aim to reduce debt rate. A couple of other aspects which curb access to private finance are: low business performance, collateral deficit, undercapitalization (40% of the Romanian companies have equity below the minimum threshold) and a high insolvency risk which is partially owed to the high commercial credit compared to the financial one (The National Bank of Romania, 2019b).

The landscape of the business finance support in the stakeholder territory features **a mix of programmes and instruments which are managed at territorial level (national, regional, and local)**. Our research also shows that business support funding programmes managed at the EC level are available in the stakeholder territory. The most popular in this segment are the Horizon and Erasmus programmes, but they mostly involve narrow targets, tailored to specific EU policies.

Regarding **national support mechanisms**, our analysis shows these are based on EU funding (at present, the European Structural and Investment Funds, ESIF), which has been, for many years, **the main source of funding** for businesses in Romania. After small grant schemes were implemented in all regions including in the stakeholder territory, in the preaccession phase (between 1996 and 2007), the funding for business increased sharply in size and became more diverse. In 2007-2013 and 2014-2020 large national programmes with ESIF support were implemented under several objectives, as further detailed. Complementary grant schemes, which are funded from the national budget, have been available, addressing specific SME segments and policy objectives such as start-ups, RDI, micro-industrialisation, commerce, women entrepreneurship.

The analysis in this study is structured around four categories of business support mechanisms, identified based on the scope of the support:

- **Support programmes for small business survival and development, and increased competitiveness of the SMEs.** It is delivered mainly through the Regional Operational Programme (ROP) but also through other national programmes, such as Start-up Nation. Indirect funding for SMEs through the ROP is provided in the form of business support structures.
- **Support programmes to increase competitiveness, research, development and innovation (RDI), technology transfer, ICT development** in the context of the Digital

Agenda, or investments in new technologies or innovative processes are mainly funded through the Competitiveness Operational Programme (COP) 2014-2020. Complementary national RDI programmes fund similar measures but to a lower extent.

- **Entrepreneurship, job creation and other employment mechanisms**, vocational and management training are funded from the Human Capital Operational Programme (HCOP) targeting active and aspiring entrepreneurs, and includes social economy entrepreneurship and business development.
- **Business support for agriculture and rural development**, either to support business in agri-food industries or for diversifying the rural economies for microenterprises and small enterprises, is funded through the National Rural Development Programme (NRDP), which is distinct from the ROP, and which is focused on urban territories for SMEs and on rural areas for middle enterprises.

All the **programmes listed above are designed and managed at national level**. The ROP and the HCOP are different in this regard. The former is implemented at regional level through delegated functions to the RDAs and the latter's entrepreneurship grant schemes are implemented at local level through selected entities which act as grant administrators.

The local authorities' business support mechanisms are limited to tax exemption schemes aiming to attract new business and investors. This is also the case of the FEZ Galați, which is basically a local mechanism complementing the specific facilities granted to business investors through the "free economic zone" status (see details in chapter 2.2.4).

In the 2014-2020 programming period the public support for improving access to finance was designed primarily in the form of **grant schemes**, as an alternative to bank loans, **and specific financial instruments aiming to facilitate access to bank loans**. The measures aimed to support SMEs with guarantee products, mitigate the cost of the credit, and increase capitalisation. Venture capital instruments were financed as well.

The guarantee schemes are funded through ESIF as well as through national funds. The National Guarantee Fund for SMEs (NGFSME) and The National Guarantee Fund for Rural Credit (NGFRC) is the largest and the most popular among several guarantee funds on the market. These funds were set up by the Romanian government to mitigate the risk associated with collateral deficit. Up to 90% of the loan collateral would be guaranteed through the funds. However, the collaterals are, in some cases, significantly above 100% of the loan, a figure which remains inaccessible for many businesses. The NGFSME has a local branch in Iași (i.e. in the stakeholder territory) where it promotes its products, but ultimately it is the banks that intermediate the guarantee products and thus have a strong say in the businesses' access to finance.

Table 2.1: Forms of business financial support available in the stakeholder territory by funding mechanism

No	Funding mechanisms (ESIF, national, regional and local)	Business support Grants	Business Support Financial Instruments
1	The Regional Operational Programme (ROP)	Yes	Yes
2	The Competitiveness Operational Programme (COP)	Yes	Yes
3	The Human Capital Operational Programme (HCOP)	Yes	No
4	The Large Infrastructure Operational Programme	No	No
5	The Administrative Capacity Operational Programme	No	No
6	European Territorial Cooperation	No	No
7	The Operational Programme Assistance to Disadvantaged People	No	No
8	The Technical Assistance Operational Programme	No	No
9	The Rural Development National Programme	Yes	Yes
10	The Operational Programme for Fishery	Yes	Yes
11	National support programmes <sup>44</sup>	Yes	Yes
12	Local authorities support mechanisms	Yes	No

Source: Consortium

### 2.1.2 Infrastructure

Three types of business support structures are subject to the Romanian legislation: **industrial parks, business incubators** and **technology transfer entities**. All three are available in the stakeholder territory, funded and implemented by public authorities or through public-private partnerships (PPP). In addition, a number of business centres have been created and which provide services similar to incubators, but which are not registered as such according to the legal provisions. It is usually the case that the land and the premises of the business structures are owned by local /county/ municipal/ town/commune authorities or by other founding partners of the businesses.

#### Industrial parks

**Industrial parks in Romania are business infrastructures subject to Law no. 186/2013. They are set up with the specific aim to support direct investments, regional development, SMEs development and the creation of jobs.** They are set up by local public authorities and other legal entities or natural persons who are able to make available for the declared scope an adequate infrastructure (land and premises). The industrial parks are subject to the title award procedure, under the responsibility of the Ministry of Regional Development and Public Administration.

<sup>44</sup> Due to the very large number of programmes they are not detailed in this table.

**6 out of the 90 industrial parks of Romania (6.66%) are located in the stakeholder territory:**

- Botoșani Industrial Park;
- Miroslava Industrial Park;
- Miroslava II Industrial Park;
- Iași Industrial Park (a greenfield park);
- Galați Industrial Park.

There is no industrial park in Vaslui, but there are plans for a future industrial platform to be developed.

The industrial park legislation allows for tax exemption for hosted enterprises. The range of facilities offered to companies in the industrial parks include:

- exemption from payment of the fees usually charged for repossessing vacant land;
- exemption from payment of the tax on land;
- exemption from payment of the tax on premises;

exemptions from taxes due to the local budgets granted by local public administrations.

### **Business Incubators**

The business incubators are subject to Law no. 102/2016, revised as of 2019 and pending approval by the Parliament. The revised proposed legislation improves the conditions for registration as an incubator and defines “accelerators” as incubator programmes, while also allowing for certain tax facilities which can be initiated by local public authorities. Business incubators, an important component of the existing business infrastructure, and with a major role in stimulating small entrepreneurs, are unevenly represented in the stakeholder territory. Although the social and economic analysis of the NE region (NE RDA, 2020) concluded that the business infrastructure is developed and well distributed, there are still significant segments in need of attention. Business incubators and business centers, which provide services to businesses but are not registered as incubators, are currently operational in Iași (2) Vaslui (2) and Botoșani (1). The same situation is in Galați where no incubator is registered, only business centers (RDA SE, 2020).

The current support to business incubators has been informed by the less successful experiences in the past. In 2006 in Romania there were only 21 business incubators monitored by the Ministry of Economy. The amount dropped in 2012 to 10 operational structures. The interviews confirmed that the business infrastructures subject to support from public sources encounter significant obstacles in the operational phase due to strict financing conditions which tend to limit their range of free operations in the market. The business representatives we interviewed shared the opinion that some business infrastructures are perceived as limited in their range of space and service rental offer and have limited or no business support services at all. The private business infrastructure appears to have done better than the public one.

The Republic of Moldova showcases a positive experience with a business incubator network managed by the Organization for SMEs Development. It includes 11 business incubators with

220 residents, out of which 110 companies are start-ups and one-stop-shops for SMEs, which are part of the incubators. Since its inception 937 new jobs were created.

### **Support to innovation and technological transfer (TT) entities**

The current regulatory framework for these entities is set up through the Government Decision no. 406/2003 establishing the methodology for the creation, functioning, evaluation, and certification of innovation and TT infrastructure entities. In addition, Law no. 50/2003 institutes the framework for the creation, functioning and certification of Science and Technology Parks. Thus, the current regulatory framework identifies 5 categories of entities of innovation and technological transfer: Technology Incubators; Technology Transfer Centers; Technology Information Centers; Science and Technology Parks; Liaison offices with the industry. They are set up for the purpose of capitalizing on the results of technological research and development. These entities contribute through innovative activities to increasing the quality and competitiveness of products, processes and services, and to creating new jobs and to sustainable economic development in a competitive environment.

In Romania, 4 scientific and technological parks are set up and operate in the urban area. They are located in different regions: North-East, West, Bucharest-Ilfov and South-East.

The **scientific and technological park “Software Park Galați”**<sup>45</sup> is located in the SE region. It aims to contribute to the development of the high-tech industrial sector, facilitating the transfer of technology and creating a viable alternative to the labour market in the SE region<sup>46</sup>. The Software Park Galați was initiated by a public-private partnership, a consortium consisting of Galați County Council, Galați Local Council, Galați “Lower Danube” University and S.C. Navrom – Business Center SA Galați. The consortium has designated the administrative responsibility to the Cons Management Park Soft Park S.R.L., a company which partnered the County Council and the Local Council Galați to ensure the management. According to a recent study (SE RDA, 2020), there are currently 40 companies hosted in the park, totalling 300 people who work on the premises.

Similar to the SE region, the NE region has only one science and technology park - **Tehnopolis** in Iași. The park is a consortium formed by the local universities – the Technical University “Gheorghe Asachi”, the “A.I. Cuza” University, the “Ion Ionescu de la Brad” University of Agricultural Sciences and Veterinary Medicine, the “Grigore T. Popa” University of Medicine and Pharmacy, the County Council Iași, and the Local Council of Iași city. The objective of the science park is to use the research results and apply cutting-edge technology to support the economy and to stimulate the participation of higher education institutions in social and economic development (Boboc and Titan, 2014). The park is 10 km away from the border point Ungheni at the border with the Republic of Moldova. The priority sectors covered

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<sup>45</sup> The Software Park offers for use 64 offices with ranging between 12, 22, 42 to 70 m<sup>2</sup>, a conference room with a capacity of 70 seats, a multimedia, training, protocol and server rooms, as well as spaces for consulting and research.

<sup>46</sup> [http://www.adrse.ro/Documente/Planificare/RIS3/Smart\\_Specialization\\_Strategy\\_SE.pdf](http://www.adrse.ro/Documente/Planificare/RIS3/Smart_Specialization_Strategy_SE.pdf)

by the park are ICT, multimedia, biotechnologies, and food industry. The main activities of Park Tehnopolis Iași are related to scientific research, technology development, education, consultancy, processing and application of the research results, commercialisation of the experimental models and prototypes.

The business infrastructures created with public support struggle for survival in the post-implementation phase while continuing to provide value-added services to SMEs. The interviews confirmed there are several constraints stemming from the grant support specific conditions that limit the flexible operation on the market of such infrastructures. They also confirmed there is little interest from local authorities to facilitate access to and develop further support mechanisms.

### 2.1.3 Business consulting services

The access to business consulting services in the stakeholder territory relies on a number of key organisations and the private market.

The most prominent actors providing business consulting services are the two regional development agencies, namely the NE and SE RDA. They cover a large range of activities ranging from sector awareness, to skills and competency development to facilitation. Both RDAs are very well-known in the business environment due to the grant schemes implemented for several years. The information, promo and results dissemination functions for the ROP, which the two RDAs are covering for their regions, has extended to the provision of information regarding funding opportunities and business development in general. The RDAs are the main source of information regarding funding opportunities but also regarding the active businesses in the region (through their NR region SMEs database).

The NE RDA has put in place, at their own initiative, an **extensive system for business support**. There seems to be a dynamic presence on their website<sup>47</sup>, at the training center, and regarding the events hosted under the Enterprise Europe Network (EEN)<sup>48</sup> umbrella. The “**Entrepreneurial Discovery Process**” (EDP) process was introduced in the RIS3 pilot project “Support for Lagging Regions”, implemented by the NE RDA in partnership with DG REGIO and the Joint Research Center (JRC). The project results and outcomes were further used in 2020 when the NE RDA implemented a third round of the EDP and subsequently transferred expertise to other RDAs, including the SE RDA.

In the SE region, business support is also provided through tailored international projects aiming at stimulating entrepreneurship and regional innovation. Some of these have already been completed. Although the priority axes (PA) 2014-2020 foresaw the set-up of “one-stop-shops” at local level to provide information to entrepreneurs and businesses regarding various sources of funding, the respective entities have not been established officially. However, due

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<sup>47</sup> [https://www.adrnordest.ro/index.php?page=een\\_oportunitati\\_bd](https://www.adrnordest.ro/index.php?page=een_oportunitati_bd)

<sup>48</sup> <https://een.ec.europa.eu/about/about>



to their prominent role in the regions, the **RDAs fulfil the role of one-stop-shops**, and, even more, they provide knowledge and catalyse the development of businesses and local actors.

The NE RDA is the most active business actor in the stakeholder territory. Their strategy to business support is now focused towards the less developed parts of the territory. The RDA cooperates with relevant actors in the region in business development and with local authorities. However, in general, the actors have limited capacity but tend to multiply the effects of the implemented actions.

**The second source for business consultancy services** are the ESIF projects, including their consultancy components. It is the case of the HCOP start-up support projects. Nevertheless, these services are not permanent, they are offered only throughout the project implementation and are not evenly spread over the entire programming period. Entrepreneurship training is provided almost exclusively through the funded projects.

#### 2.1.4 Events & Marketing

The events and marketing activities are managed from the central level by the line ministries, from the regional level where the RDAs are the main actors, and from the local level by a range of business development actors.

**Annual events.** “The Entrepreneurs’ Day” (May 20) and “The SMEs’ Day” (June 27) are celebrated annually by the business associations meeting at conferences and fairs. In 2019, the Romanian Parliament voted to adopt the celebration of the National Day of the Romanian Entrepreneur on September 30, marking the anniversary of the foundation of Chambers of Commerce in Romania in 1864.

The annual “National Business Ranking” (“Top-ul național al firmelor”) is a popular annual event organised at county and national levels by the chambers of commerce.

**National Conferences.** The National Conference of Clusters has a particular relevance for the stakeholder territory. Since 2012, the National Conference of Clusters in Romania takes place annually. In 2014, this conference was held in Iași, in 2016 in Galați (and it focused on the Danube-related opportunities) and in 2020 it was planned to be held in Chișinău (The Republic of Moldova) because many clusters from the Republic of Moldova are members of the Romanian Cluster Association. The national conference is considered an engine for the association’s development and for gaining visibility and recognition at national level. Romania is the charter member of the European Clusters Alliance.

**Enterprise Europe Network (EEN) events.** The EEN has established three centers in the stakeholder territory: two in Galați (the Chamber of Commerce and Industry and IPA, a private company with extensive experience in research and innovation international programmes) and the third centre is hosted by the Scientific and Technological Park Tehnopolis in Iași. The businesses from the stakeholder territory also benefit of the services provided by the **EEN centre established on the NE RDA premises** (located in Piatra Neamt), outside the stakeholder territory. Still, it has a regional coverage that includes Botoșani, Iași and Vaslui counties.

The six EEN centres located in the NE and SE regions created a consortium – the Eastern Romanian Business Support Network (ERBSN). **It aims to promote and deliver their services jointly, including expert advice for internationalisation**, for business innovation, innovation opportunities, sources of funding, etc.

**Fairs and exhibitions, international business forums and missions.** The Chambers of Commerce and Industry (CCI) and the business associations complement the marketing support offered to businesses through fairs and exhibitions, international business forums and missions. The intensity of the activities is uneven in the four counties; the most active and dynamic appears to be the CCI in Iași with updated information and actions. The economic missions and the training courses presented on the websites appear outdated, indicating a decrease in their activity in the last two years. This trend was confirmed by the entrepreneurs we interviewed.

### 2.1.5 Support for business cooperation across the border with the Republic of Moldova

Another finding that resulted from the interviews is the strong cooperation of businesses with partners from the Republic of Moldova, which led to many joint projects, including fairs and exhibitions, logistics, storage facilities, commercial forums, missions on specific themes. The actions organised in 2018-2019 did not have significant effects. The Romanian investors' interest in the Moldovan market decreased for many reasons. There is a strong workforce deficit, the competition with Russian investors increased, and the road infrastructure continues to be underdeveloped. Agriculture and energy are perceived as sectors for opportunities for Romanian investors, but these are not sufficiently explored. The Romanian investors also consider the Romanian government did not support enough investments in the Republic of Moldova. Against this challenging background, the CCIs continue to promote bilateral cooperation with the Republic of Moldova.

## 2.2 Main business policies

**The business support available in the stakeholder territory is part of a multi-layered strategic framework which is detailed in the table below:**

*Table 2.2: The strategic framework of the business support interventions in Romania (2014-2020)*

<b>EU Level</b>
The Europe 2020 Strategy The European Small Business Act (2008) The Euro Plus Pact The European Neighbourhood Instrument (ENI)
<b>Macro-regional level</b>
The European Union Strategy for the Danube Region
<b>National level</b>
The National Competitiveness Strategy The National Strategy for the Development of the Small and Medium Enterprises The National Regional Development Strategy The National Research Development and Innovation Strategy The National Rural Development Plan The Digital Agenda

The National Employment Strategy The Partnership Agreement 2014-2020 The National Reform Programme
<b>Regional level</b>
The Regional Development Plan 2014-2020 of the NE Region The Regional Strategy for Research and Innovation through Smart Specialisation (NE RIS3) The Regional Development Plan 2014-2020 of the SE Region The Smart Specialisation Strategy of the SE RDA
<b>Local level</b>
Strategies for economic and social development of the counties (Botoşani, Iaşi, Vaslui and Galaţi) Strategies for economic and social development at municipality, town and commune levels Strategies for Local Development (at Local Action Groups level)

Source: Consortium

### 2.2.1 EU business policies

The **Europe 2020** represents EU's 10-year strategy for growth and job creation. For the 2014-2020 period three interrelated thematic priorities were proposed:

- Smart growth: developing an economy based on knowledge and innovation;
- Sustainable growth: promoting a more resource-efficient, greener and more competitive economy;
- Inclusive growth: promoting an economy with a high employment rate, able to ensure economic, social and territorial cohesion.

The business support is directly linked with the thematic priority 1, entrepreneurship with the thematic priority 3, and all are interlinked with the interventions of the thematic priority 2.

The flagships defined to catalyse progress within each thematic priority apply also to the business support measures, i.e., "an innovation union" and "an integrated industrial policy for the globalisation era".

The 7 most relevant national strategies framing the interventions for business development (listed in Table 2.1) are translated in line with the EU strategic framework into ESIF operational programmes and national programmes.

The Partnership Agreement sets the priorities for business support under three thematic objectives, and establishes the complementarities and the limits of the interventions funded through the ESIF or the national budget interventions:

- TO 1. Strengthening research, technological development and innovation;
- TO 3. Enhancing the competitiveness of the small and medium-sized enterprises (SMEs);
- TO 8. Promoting sustainable and quality employment and supporting labour mobility.

All ESI funds contribute to the interventions designed to support businesses at the entire country level.

**European Territorial Cooperation (ETC)** has become one of the major goals of the European Union (EU) Cohesion Policy. The ETC includes three types of cooperation: cross-border (CBC); transnational; and interregional cooperation. CBC programmes are an additional

source of revenue and promote the regional development of EU border areas by supporting different priorities specific to the eligible area of the border.

With a history of over 50 years, the **Common Agricultural Policy (CAP)** was the first measure developed and adopted by the European Union and is one of the major policies of the Union that has been continuously reformed. The latest reform, called the Ciolos Reform in 2013, aimed at transforming this policy into a more equitable and environmentally friendly approach to agricultural development while ensuring a simple, competitive and efficient policy. The proposals included, among other things, **increasing competitiveness and development in rural areas** by supporting the agriculture and non-agriculture SMEs from rural areas.

For the post-2020 period, a new CAP reform is envisaged, with an emphasis on smart agriculture aiming to strengthen competitiveness and innovation while ensuring the sustainability and balance of ecosystems, creating a resilient agriculture by addressing income volatility and strengthening the position of European farmers in agri-food chains; a living rural economy, by encouraging growth and jobs in rural areas and by renewing generations, correlating with other policies, and by improving governance.

**The Euro Plus Pact** is an additional programme of reforms for competitiveness, employment, sustainability of public finances and strengthening of the fiscal stability agreed by the Eurozone member states and joined by other six, including Romania.

### 2.2.2 Business development policies at the national level

The implementation of the objectives of the Europe 2020 Strategy in Romania resulted in the **National Reform Programme (NRP)**. In Romania, the NRP 2019 aims to stimulate competitiveness and productivity, strengthen social and territorial cohesion, and create new jobs - all objectives subsumed under the main scope: reducing the gaps between Romania and other EU member states. This document is being monitored on an annual basis.

The **National Competitiveness Strategy (NCS)** is built around five strategic priorities and 27 directions of action. This strategic document proposes solutions for economic development in Romania in the short and medium terms. The five strategic priorities proposed by the NCS consist of: improving the regulatory environment; create partnership actions between the public and the private environment; stimulate factors and support services; promote future sectors; prepare for the 2050 Generation and societal challenges. Within this Strategy 10 economic sectors with competitive potential have been identified, which correlate to areas of smart specialization identified in the **National Strategy for Research, Development and Innovation (NSRDI 2014-2020)** - tourism and ecotourism, textiles and leather, wood and furniture, construction, creative industries, automotive and components industry, information and communication technology, food and beverage processing, health and pharmaceuticals, energy and environmental management, bioeconomy (agriculture, forestry, fishing and aquaculture), biopharmaceuticals and biotechnologies.

**The Government Strategy for the Development of The Small and Medium Enterprise Sector** (The SMEs Strategy), was the first strategic document elaborated in Romania in the

field of supporting the business environment. It aims to create an environment conducive to business, private initiative and entrepreneurship, stimulate the establishment and development of SMEs and support the increase of competitiveness of the local business environment at local, regional, national, European and international levels through significant growth, the development of existing enterprises and the creation of new jobs by the end of 2020. Within the SME Strategy, 5 directions of action are identified: supporting and promoting entrepreneurship; support access of SMEs to adequate financing; support innovative SMEs, access to markets and internationalisation of SMEs and stimulate the reaction of public administration to the needs of the SMEs. 26 measures for implementing the 5 directions of action have been identified.

According to a World Bank report (2019a), the support to businesses and business environment is further strengthened according to **the Institutional Strategic Plan 2018-2019 of the Ministry of Business Environment, Trade and Entrepreneurship** (currently the Ministry of Economy).

The business support policies are operationalised through the national programmes. A synthetic view is provided in *Table 2.2: The strategic framework of the business support interventions in Romania (2014-2020)*, including a selection of the most relevant programmes available in the stakeholder territory.

### **2.2.3 Business development policies at the regional level**

**The Regional Development Plans (RDP) 2014-2020 of the two development regions** (the NE and the SE regions) represent the main strategic documents for guiding investments at this level. They substantiate the structure of both the operational programmes with European funds and of the programmes with national funding at central and local levels. The RDPs need to reflect economic, social development policies, etc, relevant at national level in relation to regional needs and highlight those policies which are relevant for the regions, regardless of the public authority that manages them. The ROP 2014-2020 was elaborated based on the regional needs identified in the RDPs and national strategies.

#### **Regional Development Plans (RDPs)**

**The SE region's RDP** is a cohesive document that covers a wide range of needs identified in the territory. The RDP implementation seeks to promote sustainable development and improve the quality of life of the population, becoming a competitive and attractive region for investment, capitalizing on environmental heritage, highly qualified human resources. It also seeks to create new employment opportunities and achieve a significant growth of the regional GDP by 2020, up to 90% of the national average.

The plan is based on 10 priorities and 27 intervention areas. Out of the 10 priorities, one is dedicated to improving the competitiveness of the regional economy, in the context of promoting smart economic specialization and achieve an open and competitive territorial system, mitigating intra and interregional economic and social disparities.

**The NE region's RDP** is a strategic plan. Its objective is to develop a process of sustainable economic growth, favourable to increasing economic competitiveness and social inclusion, leading to a decrease of the current gaps compared to other regions of Romania. The strategic document is built on 4 priorities and 29 measures. Of the four priorities, one is dedicated to supporting a competitive economy and local development to support innovation and competitiveness of the economic environment and to promote the results.

### **Regional Strategies for Smart Specialisation (RIS3)**

The Regional Strategies for Smart Specialisation (RIS3) were elaborated for all eight development regions. Their content reflects the struggle to adapt and transpose a new and lightly understood concept at the level of the regions and to communicate it to a large range of partners. The NE Region was the first region of Romania who approved RIS3 and became a model for many European countries and regions. Thus, investments for entrepreneurship, research development and innovation are all guided by the RIS3 strategies.

#### **2.2.4 Local policies, other forms of business support**

##### **Free Economic Zones**

One of the six Free Economic Zones (FEZ) of Romania is located in the stakeholder territory, in Galați. FEZ Galați was set up in 1994 by the Local Council Galați. Its objective is to increase trade and industrial development using the opportunities offered by the excellent connection to the Black Sea, the North Sea by Rhine – Main – Danube Canal, the transit point between Orient and Europe.

**The FEZ responds to specific investment and transit needs such as:** (i) Land and industrial buildings and facilities, (ii) Fast connections to road, rail, river and maritime networks, (iii) Tax exemptions for trade to increase profitability and competitiveness on the international markets.

The main services offered are: (i) land and other facilities concession, renting and transition of goods, (ii) Fast connections offered: to the Danube and maritime routes and the European road network (Ukraine, Romania Bulgaria, Turkey), rail network connection, direct access to the broad Russian railway, (iii) free zone legal regime (goods are introduced inside Galați Free Zone from any part of the world without any custom duties or VAT). FEZ Galați's administration and the local council proposed an additional tax exemption (i.e., exemption on tax on buildings for investments larger than EUR 200 000) to attract more investors, but it proved unsuccessful.

Local authorities' initiatives to introduce tax exemptions and state aid schemes are a rare practice. One reason for this is the limited budget of most of the administrations in the deprived areas, but also the lengthy and complex process involving impact assessment, which needs to be endorsed by the Romanian Competition Authority, but also monitoring of and reporting by the beneficiaries of the state aid scheme.

## 2.3 Effects of selected business mechanisms

### The assessment approach

The assessment of the business support mechanisms' implementation and their effects in the stakeholder territory aims to inform stakeholders about the relevance and effectiveness of the implemented measures, the specific factors influencing access to funds, and the degree to which they generate the expected effects.

Three research hypotheses have been formulated based on the existing literature. The regional development literature reveals a large interest in the association of the allocation of public funds and the inter and intraregional disparities. The research regarding the distribution of funding for SMEs support in Romania reveals that the more developed counties tend to attract more funds (Lucaciu, 2018). This conclusion is confirmed by other studies (Novosák et al., 2017), which also highlight that social disparities are better addressed through a concentration of funds than are the economic ones, and that the economically disadvantaged micro-regions (LAU1 and associations) tend to lag behind in EU structural funds allocation.

The evaluations of the business support measures in Romania (MA ROP, 2019) found that grants offered to enterprises during the 2007-2013 programming period had had a positive impact on the supported businesses. However, the evaluation could not conclude based on the available evidence, that the business support mechanism had a net contribution to the national or local economies or that it led to reduced disparities.

Three research hypotheses have been proposed. These are consistent across the three stakeholders' territories of the present study. The methodology for testing has been adapted to the logic of intervention of the business mechanisms assessed as described below.

Table 2.3: Research hypotheses

Hypotheses	Methods for testing	Quantitative and qualitative data and sources
<p><b>H1.</b> Due to low entrepreneurial capacity in the stakeholder territories, business support funding uptake is lower in the stakeholder territories than in other parts of the same country.</p> <p>Even within the stakeholder territories, uptake of business support funding varies between unevenly developed areas.</p>	<p>Comparative analysis of the share of funding attracted by the stakeholder territory (and the respective counties) and the regions and national level.</p> <p>Analysis of the variation compared to other features of the stakeholder territory (population, no. of enterprises, businesses).</p> <p>Qualitative assessment.</p> <p>Validate with stakeholders the possible causes for the differences, i.e.:</p> <ul style="list-style-type: none"> <li>The number of eligible businesses;</li> <li>The capacity to apply for funding;</li> <li>The support services available.</li> </ul>	<p>Programme administrative data:</p> <ul style="list-style-type: none"> <li>Value of public funds allocated to the national level and the stakeholder territory (if applicable)</li> <li>Value of funds contracted at national level</li> <li>Value of funds contracted in the stakeholder territory</li> <li>Value of funds disbursed (payments)</li> <li>No. of projects contracted at national, regional and stakeholder territory levels</li> <li>Qualitative data (interviews)</li> <li>Businesses survey</li> </ul>
<p><b>H2.</b> A lack of flexibility in addressing the needs of businesses in the stakeholder territories</p>	<p>Review of the OPs, call for proposals and applications (where available) and funded projects</p>	<p>EFRD, ESF, EARDF, National Programmes, OPs 2014-2020 Applications guides</p>

<p>contributes to a low uptake of business support funding. This inhibits the relevance of available support for business units in the stakeholder territories.</p>	<p>Mismatch identification (needs and available funding). Verify adequate funding is available to address the needs of businesses in the stakeholder territories. Collect data on a) reasons for application failure in the stakeholder territory; b) application requirements businesses find difficult to fulfil; c) what should be changed to better address the needs in the stakeholder territory?</p>	<p>AIRs and evaluations Qualitative data (interviews)</p>
<p><b>H3.</b> Business support funding (as a proxy for all business support measures) has a positive effect on the business performance, viability, and productivity in the stakeholder territories but to a lesser extent when compared to the results achieved in other parts of the same country.</p>	<p>Analysis of the businesses performance (turnover, profitability, no of employees, net assets) at least one year after the project implementation. Assessment of the volume of funding in the stakeholder territory, compared to other areas. Assessment of the economic indicators of the stakeholder territory. Qualitative assessment of the factors influencing the measure effects in the stakeholder territory.</p>	<p>Effects at the business level (turnover, profitability, no. of employees, debts, productivity) Output and result indicators of programmes – at programme/project level Regional data (of stakeholder territories &amp; other regions in the country) on: Productivity development (as above) Business support funding within relevant programmes in € (2014-2018) Active local units and Turnover from active local units Productivity in the stakeholder territory GDP per capita development in € (2015 - 2017)</p>

Source: Consortium

### Selection of the business support mechanisms for assessment

From the long list of relevant programmes active in the stakeholder territory in the 2014-2020 timeframe (corresponding to the ESIF cycle), there were selected the business support mechanisms consisting of direct and indirect support to businesses. The selection aimed to extract those which are sufficiently advanced in implementation to allow an assessment of the outputs and effects (results and impact). Availability of data was also assessed for early identification of the analysis limitations. The table below lists selected measures and the limitations in the analysis. The selected business support measures are grouped in **four categories**, defined according to their main objectives:

1. Measures aiming at increasing SMEs competitiveness, viability and productivity. These measures are addressed to SMEs with at least one year of activity.
2. Measures supporting new business creation and entrepreneurship (addressed mainly to start-ups). This measure aims at increasing the number of businesses and employment through entrepreneurship.
3. Measures supporting RDI in SMEs to increase competitiveness using innovation and transfer of research and new technologies into the businesses.



4. Measures supporting new or existing business infrastructure (such as incubators) aiming to contribute to business creation and the viability of SMEs.

Table 2.4: Business support programmes and measures implemented in 2014-2020 in Romania, selected for the assessment

No	Programme / (Fund) Type of support (category)	Direct or indirect support to SMEs	Selected Yes/No Justification and limitations in the analysis
<b>Investments in SMEs to support businesses viability and competitiveness</b>			
1	ROP 2014-2020 / SO 2.1 A (ERDF, STATE BUDGET) Support for microenterprises (1)	Direct	Yes Data available for finalised projects.
2	ROP 2014-2020 / SO 2.2 (ERDF, STATE BUDGET) Support to SMEs aiming at increasing productivity and competitiveness (1)	Direct	Yes Data available. Small number of projects finalised leading to limitations for quantitative assessment of effects and impact.
3	NRDP 2014-2020 (EAFRD+ STATE BUDGET) Investments in non-agriculture business in rural area, for diversification of the rural areas economy (1 and 2)	Direct	Yes Analysis limited to the implementation assessment (uptake of funds). Unavailability of microdata for effects assessment.
4	EMFF OP 2014-2020 (EMFF + STATE BUDGET) Investments in non-aquaculture businesses for diversification of traditionally fisheries areas economy (1 and 2)	Direct	Yes Analysis limited to the implementation assessment (uptake of funds). Unavailability of microdata for effects assessment.
<b>New business creation, entrepreneurship</b>			
5	Startup Nation Programme (STATE BUDGET) 2017, 2018 (2)	Direct	Yes Limited to the measure implementation assessment. Unavailability of microdata for effects assessment
6	HCOP 2014-2020 SO 3.7 (ESF + STATE BUDGET) Support to new business creation, startups (2)	Direct and Indirect	Yes Analysis limited to the implementation assessment (uptake of funds). Unavailability of microdata for effects assessment.
7	NRDP 2014-2020 (EAFRD+ STATE BUDGET) Investments in non-agriculture business in rural area, for diversification of the rural areas economy (1 and 2)	Direct	Yes Analysis limited to the implementation assessment (uptake of funds). Unavailability of microdata for effects assessment.
<b>Support to Research Development and Innovation to increase economic competitiveness and business development</b>			
8	COP 2014-2020 SO 1.1. (ERDF + STATE BUDGET) Investments in large Research and Development private infrastructures (3)	Direct	Yes Limitation to qualitative assessment, only one project funded in the stakeholder territory.
9	COP 2014-2020 SO 1.3. (ERDF + STATE BUDGET)	Direct	Yes Limitation to qualitative assessment, very small

	Investments to support research development and innovation in SMEs (spin-offs and start-ups) (2)		number of projects funded in the stakeholder territory.
<b>Business infrastructure development</b>			
10	ROP 2014-2020/ SO 2.1B (ERDF + STATE BUDGET) Support to creation, development of incubators (4)	Indirect	Yes Limitation to qualitative assessment. A small number of projects, leading to limitations for effects and impacts assessment.

Source: Consortium based on data from the Ministry of European Funds, the Ministry of Economy, Energy and Business Environment, the Ministry of Agriculture and Rural Development, the Ministry of Regional Development and Public Administration.

Other measures were explored (see Annex 2, Table 2.1), but they were not included in the analysis due to the complexity of the programmes' design, and due to difficulties in disaggregating data at NUTS 3 level, as in the case of projects implemented across several counties and regions. The availability of data was discussed with the managing authorities, who pointed out that the task to provide data in the required format and structure clashes with available monitoring tools.

The assessment model is visualised in the form of three result causal chains, developed on the logic of the interventions of the selected business mechanisms providing direct support (categories 1 and 2 we refer to above). The causal chains are synthesised in Table 2.6.

Table 2.5: The causal chain of results for the selected business mechanisms<sup>49</sup>

<b>Key problems in the stakeholder territory</b>	<b>Group of measures</b>	<b>Outputs</b>	<b>Effects</b>
<p>The low survival rate of the SMEs.</p> <p><i>High employment in agriculture.</i></p> <p><i>Low GDP level.</i></p> <p><i>Large disparities between Botoşani and Vaslui on the one hand and Iaşi and Galaţi on the other hand.</i></p>	<p>Grants for: Investments in existing enterprises; Support for innovative SMEs – start-ups and spin-offs; Business incubators creation and development; Financial instruments (start-up and existing enterprises, innovative enterprises in the rural area); Facilities in the Free Economic Zone Galaţi.</p>	<p>Enterprises beneficiaries of grants undertook modernization and extension investments.</p> <p>Jobs created.</p> <p>Enterprises incubated.</p> <p>Enterprises beneficiaries of the FEZ facilities.</p>	<p>Improved survival chances; Improved financial performance one year + after the intervention.</p> <p><i>Reduced GDP gap.</i></p>

<sup>49</sup> The wider contextual problems and effects are shown in italics to differentiate from problems and effects directly related to businesses.

<p>Low productivity of SMEs</p> <p><i>High employment in agriculture.</i></p> <p><i>Low GDP level.</i></p> <p><i>Large disparities between the stakeholder territory and national average and within the stakeholder territory.</i></p>	<p>Investments in existing enterprises.</p>	<p>Enterprises beneficiaries of grants undertook modernization and extension investments.</p> <p>Jobs created.</p>	<p>Improved productivity;</p> <p>Improved financial performance one year + after the intervention.</p> <p><i>Reduced GDP gap.</i></p>
<p>Low number of SMEs</p> <p>Low density of SMEs</p> <p><i>High employment in agriculture.</i></p> <p><i>Low GDP level.</i></p> <p><i>Large disparities between the stakeholder territory and the national average, on the one hand, and within the stakeholder territory.</i></p>	<p>Investments in start-ups.</p> <p>Support for enterprise creation counselling and financing of the start-ups.</p>	<p>New businesses created.</p> <p>Supported in the start-up phase .</p>	<p>Increased number of businesses.</p> <p>New businesses created in agri- and aquaculture in traditionally dependent area.</p> <p><i>Increased employment in non-agriculture activities.</i></p> <p><i>Reduced GDP gap.</i></p>

Source: Consortium

### Assessment of the access to funds in the stakeholder territory

**H1. Due to the low level of entrepreneurial capacity in the stakeholder territories, business support funding uptake is lower in the stakeholder territories than in other parts of the same country. Even within the stakeholder territories, uptake of business support funding varies between unevenly developed areas.**

The analysis focused firstly on the key features of the business mechanisms: the type of businesses supported, the form of support (grant intensity and threshold, selection mechanism), the total allocation of funds in the programme and funds absorbed in the stakeholder territory. The detailed information on each selected measure is provided in the factsheets attached to this report. A synthetic view is presented in the Annex 2, Table 2.2, highlighting the features that influence the relevance and effectiveness of the support mechanism.

Three measures (lines 2.2, 3.2 and 4.1 in Annex 2, Table 2.2) are highlighted in blue, representing indirect business support, such as global grants managed locally, incubators or RD infrastructure. Due to the differences in the projects' selection processes, the uptake of funds was assessed separately for direct and indirect support.

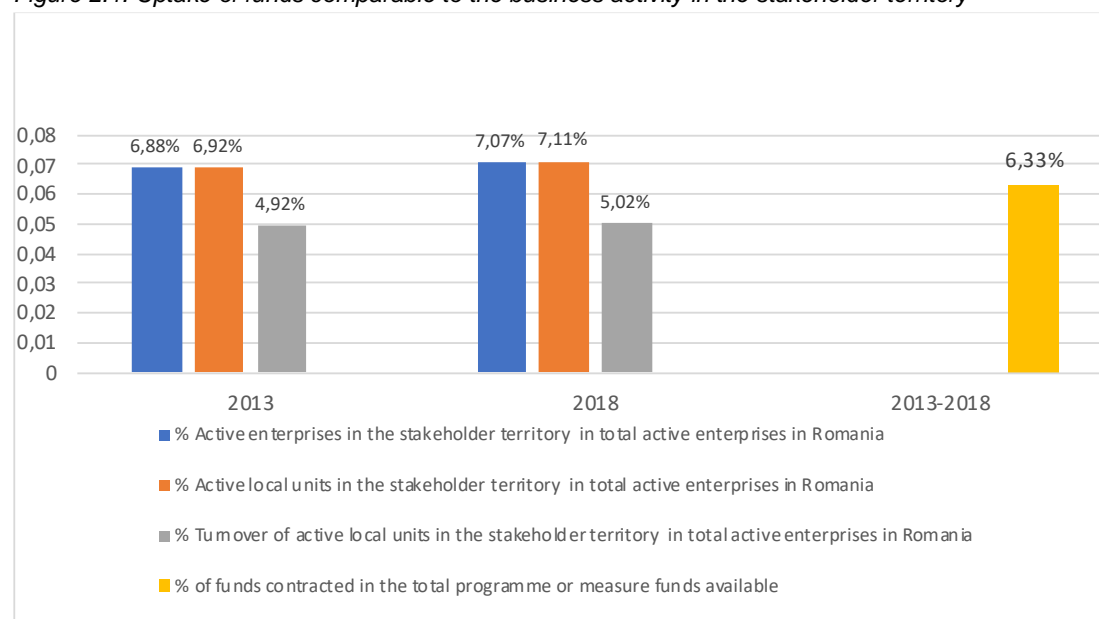
The quantitative analysis is summarised in Table 2.6 and Table 2.7 and reveals the findings explained further on.

**For all competitive measures designed as direct support (grant schemes) to SMEs the uptake of funds<sup>50</sup> in the stakeholder territory is between approximately 5% and 7%.** However, there are two exceptions, the measures with lower funds uptake, i.e., the NRDP “Support for setting new non-agricultural activities” sub-measure 6.2 (4.35%) and the EMFF “Business development for the diversification of activities in the traditionally fishery-dependent areas” (1.87%). **The average uptake of funds in the stakeholder territory for direct support is 6.33%** (see Annex 2, Table 2.2).

The EUR 105.67 million contracted in the stakeholder territory were unevenly shared by the counties as shown in Table 2.7, with Iași taking up almost half of the funds, followed by Galați with around 30%, and Botoșani and Vaslui taking up only 15% and 9%, respectively.

The **uptake of funds is coherent with the intensity of the business activity in the stakeholder territory**, which is reflected by the following indicators: “The number of active enterprises”, “The number of the active local units”, and “Turnover of the local units” (data in the stakeholder territory shown by county in Annex 3, Table 1.8). The values of these indicators vary between 4.92% and 7.11% in the corresponding national values between 2013 and 2018 (see **Error! Reference source not found.**).

Figure 2.1: Uptake of funds comparable to the business activity in the stakeholder territory



Source: Consortium calculations based on data from NIS Romania and measures’ administrative data

Each measure has specific features influencing the uptake of funds, which is explained below.

**The Start-up Nation Programme** is a national grant scheme for start-ups, managed at the national level, which became popular in the last two editions, 2017 and 2018, when a very

<sup>50</sup> Funds contracted in the stakeholder territory divided by funds available in the programme or the respective measure (%).

large interest led to tens of thousands of applications and around 17 000 grants awarded<sup>51</sup>. The stakeholder territory attracted **6.9%** of the national funding, with 341 projects contracted. The case studies highlighted the availability and accessibility of consultancy services, which were eligible in the project budget, as a positive factor allowing entrepreneurs to remain informed, and able to plan and comply with the grant scheme requirements.

The two **grant schemes ROP 2.1 and ROP 2.2**, “Support to microenterprises” and “Support to SMEs” are implemented regionally and take from the national funds **6.25%** and **7.18%**, respectively, rates which are close to the average rate of the direct support mechanisms uptake. The details on the implementation process (see Factsheets 1 and 2) of the schemes reveal high interest and demand, but also a balanced success rate in the selection process among the counties of the stakeholder territory. The qualitative data collected reveals the opinion that the presence and the support of the RDAs is a positive factor for the quality of the applications and improves access of all counties to funding. A positive factor is also the know-how and experience acquired in the region and counties with similar grant schemes implemented in 2007-2013 programming period and the preaccession period. Still, the process is perceived as bureaucratic, lacking predictability which businesses need in their development planning.

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<sup>51</sup> The call for proposals for 2018 annual programme was launched in 2019, therefore at the time of data collection in 2020 the contracting process was ongoing.

Table 2.6: Summary of the uptake of funds in the stakeholder territory and counties

Code	Business support mechanism assessed	National Allocation *	Contracted at national level*	Contracted in stakeholder territory *	Uptake of funds**	Contracted by county			
						Botoşani	Iaşi	Vaslui	Galaţi
		MEUR	MEUR	MEUR	%	MEUR	MEUR	MEUR	MEUR
<b>1</b>	<b>Investments in SMEs to support businesses viability and competitiveness</b>								
1.1	ROP 2.1A	425.03	283.54	17.72	6.25%	1.93	8.57	0.99	6.23
1.2	ROP 2.2	884.02	633.24	45.47	6.66%	4.16	21.95	2.66	16.70
1.3	NRDP SM 6.4	176.5	152.7	8.67	5.68%	3.09	3.65	0.76	1.17
1.4	EMFF OP PU1/2/4/	77.68	77.68	1.26	1.62%	0.764	0.057	0	0.435
<b>2</b>	<b>New business creation, entrepreneurship</b>								
2.1a	Startup Nation 2017	283.5	283.5	19.5	6.88%	2.2	11.0	1.3	4.9
2.1b	Startup Nation 2018 (ongoing)	417	93.3	6.5	6.97%	0.9	2.9	2.4	0.3
2.2	HCOP - 3.7 Startup	503.43	447.9	133.8	29.87%	data not available because of cross-counties funding			
2.3	NPRD SM 6.2	111.57	113.68	4.95	4.35%	1.87	0.81	1.69	0.58
<b>3</b>	<b>Research Development and Innovation to increase economic competitiveness</b>								
3.1	COP SO 1.3	20	30.5	1.6	5.25%	0	1.6	0	0
3.2	COP SO 1.1	180	130.2	26.61	20.44%	0	25.67	0	0.937
<b>4</b>	<b>Business infrastructure development</b>								
4.1	ROP SO 2.1B	85.52	67.4	0.486	0.72%	0	0.486	0	0
	<b>Total all measures</b>	<b>3164.25</b>	<b>2313.64</b>	<b>266.576</b>	<b>11.52%</b>				
	<i>Total direct support measures (1.1+1.2+1.3+1.4+2.1ab+2.3+3.1)</i>	2395.3	1668.14	105.67	<b>6.33%</b>	14.96	50.54	9.85	30.31
	<i>% of county contracted funds from the stakeholder territory contracted funds</i>	n/a	n/a	n/a	<b>100%</b>	14.16%	47.83%	9.33%	28.68%

\*Public support.

\*\* Contracted in the stakeholder territory/contracted at the programme or national level.

Source: Consortium based on administrative data

Table 2.7: Funds contracted by inhabitant at county, stakeholder territory, and national levels

Measures involving large national or regional competition (1.1,1.2, 1.3,1.4, 2.1 a/b, 2.3, 3.1 lines)	Botoşani	Iaşi	Vaslui	Galaţi	Stake holder territory	Romania
All selected measures: Funds contracted (MEUR)	48.41	110.15	43.31	64.70	266.57	2,363.64
Resident population at 1st January 2019 (million inhabitants)	0.379	0.793	0.373	0.504	2.051	19.414
All selected measures: Funds contracted (EUR/inhabitant)	128	139	116	128	128	122
Direct support measures: Funds contracted in the county/stakeholder territory/ Romania (MEUR)	15.25	51.95	10.27	28.00	105.48	1718.14
Direct support measures: Funds contracted (EUR/inhabitant)	40	65	27	56	40	88

Source: Consortium based on administrative data and data from NIS Romania

**Sector-focused grant schemes** managed at the national level may put at a disadvantage the stakeholder territory and in general the less developed territories, mainly when the volume of funding is small and the competition for funds is high. This feature is reflected in the case of rural development (non-agriculture activities), aquaculture, and research and development business mechanisms.

In the case of the **NRDP**, the stakeholder territory attracted for the diversification of the rural economy **less than 5%** of the funds contracted at the national level. All four counties of the stakeholder territory are ranked in the second half of the list of Romanian counties regarding the absorption of funds: Botoşani ranks first, followed by Iaşi, Vaslui and Galaţi. The access of the stakeholder territory to the **EMFF OP** funding is disappointing, with only 8 projects contracted out of the 197 in Romania, and **less than 2% funds** contracted from the total that was contracted at national level. However, the implementation is ongoing, and the uptake of funds may improve. A challenge in accessing funds for the diversification of the rural economies was the very low amount of funds available and the high competition at national level.

In the business support schemes for research development and innovation funded through the COP 2014-2020 and implemented nationally, only 3 projects (4% in the total number of projects contracted in Romania) were funded in the stakeholder territory, all in Iaşi, the main academic centre in the stakeholder territory).

Extending the analysis to the business mechanisms providing **indirect support to SMEs**, there is evidence of a higher potential to address the particular needs of the territories and to

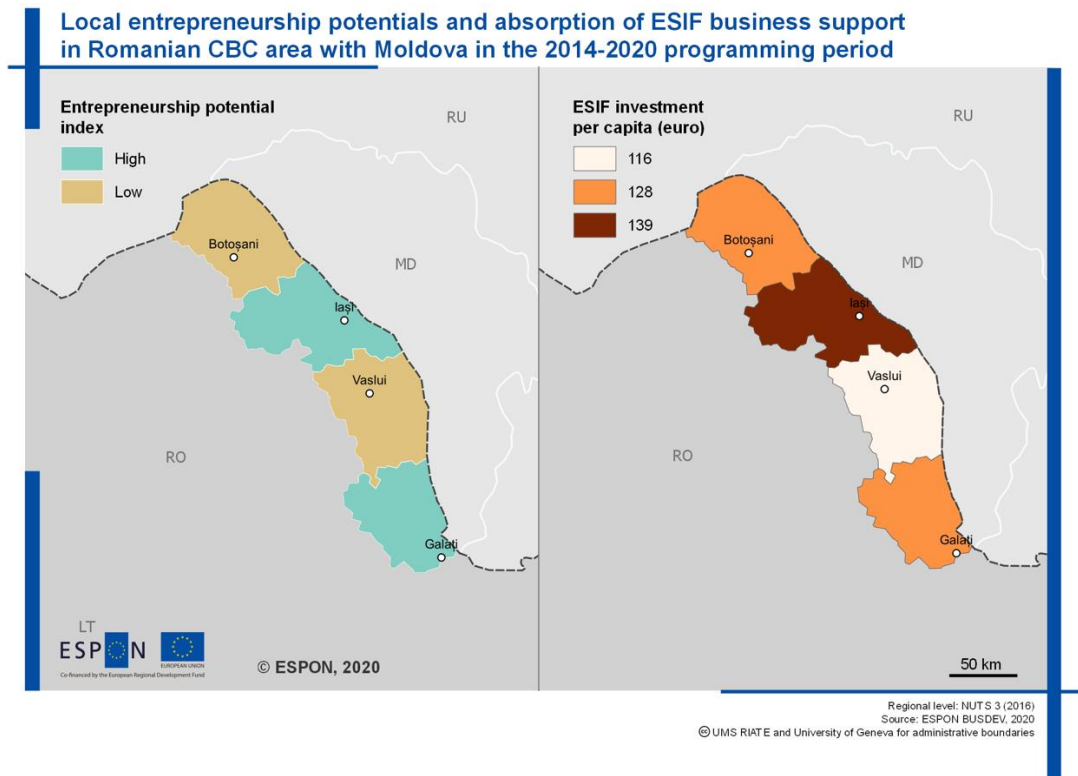
concentrate support. The stakeholder territory succeeded to attract through the HCOP measures for entrepreneurship and employment (consisting in two start-up programmes "Diaspora Start-up" and "Romania Start-up Plus") 30% of the total funds contracted at national level (see Factsheet #7). The implementation mechanism was based on global grants awarded in a national competition to local and regional actors, applying individually or as part of an association, and who were entrusted to ensure identification, training and advice business start-up and to guide entrepreneurs through the first phase of business activity. The case studies and the interviews indicated two main positive factors in the stakeholder territory, namely the capacity of the local actors to associate and provide the required expertise and the large demand mainly from economic migrants, the stakeholder territory having the highest rates of economic migration in Romania. The case study (Factsheet #7) and the focus groups highlighted the need to involve relevant stakeholders such as associations of students, or employers' associations of young students, associations of economic migrants or actors on both sides of the border and local authorities. EUR 133.81 million were contracted by local actors through the 56 projects in the stakeholder territory. The complexity of the global grant scheme did not allow at this stage a quantitative analysis of the start-ups created per county. Project implementation is ongoing, and some businesses were set up and operate outside the stakeholder territory. However, the 56 projects contracted in the stakeholder territory reported 879 SMEs which were set up and became operational 6 months after the end of the support.

Two other business support schemes analysed refer to business support infrastructure, the set up of incubators (ROP 2.1b), a measure designed complementary to the direct support schemes and investments in large research and development infrastructure (COP SO 1.1). These two schemes involve a limited number of potential beneficiaries and large projects of strategic importance. Although the funding mechanism is implemented regionally, regarding measure ROP 2.1b both regions encountered obstacles in implementation. The contracting rate was 50 and 60% and only one project in Iași was contracted at the time of the data collection for this study. The interviews revealed the need for a more strategic allocation of funds in the stakeholder territory rather than through a competition of projects, and more involvement is needed of the local authorities in business support structures.

The stakeholder territory attracted 20% of the funds contracted at the national level in a funding scheme for large research and development infrastructures, with five projects contracted, four of them in Iași and one in Galați. In this case, the research and development capacity of the local actors is the key factor, and is clearly linked to the university centers of the stakeholder territory.



Figure 2.2: Local entrepreneurship potentials and absorption of ESIF business support



Source: Consortium

Overall, the stakeholder territory absorbed in the selected business support mechanisms<sup>52</sup> EUR 266.576 million including the indirect support business mechanisms. The absorption of funds (measured as contracted amounts) is 11.52% from the total contracted value at national level, which is substantially higher than the absorption rate of the direct support business measures which is only 6.33%.

The stakeholder territory's performance in attracting funds for business support is best reflected in the indicator 'funds contracted per inhabitant' which is EUR 40 compared to EUR 88 at the national level in case of direct business support (see Table 2.7). With the indirect support better channelled to address local and regional needs the stakeholder territory relative uptake of funds changes, resulting in a higher uptake than the national average. Considering all measures selected, including those providing indirect support, the stakeholder territory succeeded to attract EUR 128 per inhabitant compared to the average of EUR 119 per inhabitant at the national level.

The evidence collected allow the **validation of the research hypothesis one**. Due to the low level of entrepreneurial capacity in the stakeholder territories, the business support funding uptake in the stakeholder territory is lower the national average and lower than in other parts of the country. This is valid for the business mechanisms based on large national competitions,

<sup>52</sup> The selected mechanisms are all part of the programming period 2014-2020.

while the measures based on support schemes managed regionally or locally allow for better uptake of funds. **Even within the stakeholder territories, the different level of uptake of business support funding between the unevenly developed areas is validated by the evidence collected.**

### **Factors influencing the uptake of funds**

The qualitative data collected provide evidence that three key factors contribute to an increased absorption of funds in the stakeholder territory: Firstly, the uptake of funds is positively influenced by the regionally and locally managed schemes, which are tailored on specific needs, target groups, or areas. Secondly, the counselling services provided to businesses for entrepreneurial skills development, in the early stages of the business contribute to a positive uptake of funds and to the effectiveness of the support. And thirdly, regional and local actors with adequate capacity to cooperate, design and implement business support measures at the local level including business support structures and RDI infrastructure and services can attract funds and distribute to businesses according to their needs.

**H2. A lack of flexibility to address the needs of businesses in the stakeholder territories contributes to a low uptake of business support funding. This inhibits the relevance of available business support for business units in the stakeholder territories.**

The largest part of the grant schemes assessed is designed and implemented nationally, leading to a high competition. The ROP is implemented regionally; however, because it is designed as a national programme, there are no significant differences between the regions in terms of project selection, financing conditions, sectoral or territorial focus, except for the intensity of the state aid. The NE and SE regions benefit of larger allocations of funds compared to more developed regions of Romania (such as the Western region), thus the stakeholder territory benefits of the most advantageous conditions with the highest intensity of the state aid because of its economic disadvantage.

The eligibility requirements vary for each type of scheme. In the case of the ROP, the eligibility and the technical evaluation is, to a large extent, focused on capacity and business performance. Therefore, microenterprises and SMEs with a good financial capacity and previous public support for investments have the highest chances. The project selection criteria aim at minimising the risk of project failure, although good business ideas may be lost. Therefore the aim to have a high-performance grant scheme may deviate the focus of the interventions from those who are most in need of the support to survive, towards those who would have survived regardless of the support received.

Job creation is rewarded by most mechanisms during the project selection phase through higher score conducive to increased chances for success. Therefore, there are cases when applicants go for a higher number of employees than their actual needs, compromising with a view to increase chances for success. This may have a negative impact on the profitability of the post-investment operations.

The interviews and the survey collected beneficiaries' opinions regarding the mismatch between the funding and their needs. This is summarised below through the following:

- The should not be a requirement for a precise number of jobs created;
- Competition should be narrowed to sectors or locations so that businesses can better assess chances for success and mobilise for accessing funds;
- Funding support should be steady and predictable so that the opportunity could match better the businesses' long-term needs.

The interviews and the survey provided examples of funding conditions that diminish the relevance of the programmes assessed relative to the needs of the businesses in the stakeholder area. These are summarised below:

- The limitation of the the ROP and the COP to urban areas (with few exceptions) and the NRDP to rural areas leads to the situation where SMEs with good potential to develop do not have access to competitiveness schemes because their formal location is in the rural area (although close to the urban centres), i.e., where funds are limited and inadequate.
- Previous projects implemented with RO funding is a criterium which creates an advantage for businesses that already benefited from funds;
- The selection criteria are, in some cases, favouring applicants from the county capital;
- Excessive conditions of eligibility for entrepreneurs regarding experience and competence;
- Excessive bureaucracy in the implementation phase;
- Unpredictable timetables for the launch of calls and long periods with no opportunity for funding constantly refrain some entrepreneurs to engage in the process;
- Excessive competition on many layers of activity reduces the capacity to focus on key areas with the highest potential;
- Working capital should be funded in addition to investment, to allow for the launch of the investment;
- The funding mechanism is too demanding for small businesses in the rural area if advance payments to suppliers are not accepted.

The above findings validate H2. There is evidence that the centrally-designed and managed grant schemes are less adaptive to the (regional, local) business needs and are less predictable.

**H3. Business support funding (as a proxy for all business support measures) has a positive effect on the business performance, viability, and productivity in the stakeholder territories, but to a lesser extent when compared to the results achieved in other parts of the same country.**

The effects of the interventions are analysed sequentially from the level of the programme outputs to the programme results and to wider effects at impact level.

#### **The outputs produced by the interventions**

The number of businesses supported represents the main output of the funding programmes.

A significant number of businesses received support (see Table 2.8), more than 2 600 (only in the selected funded programmes), which represents 6.39% of the 40 751 active enterprises in the stakeholder territory (NIS Romania, 2018).

Table 2.8: Number of enterprises supported by the selected measures<sup>53</sup>

No	Business support Programme	Beneficiaries of support Type of enterprise	Beneficiaries of funds at the programme level	Beneficiaries of funds in the stakeholder area (May 2020)	% to the total beneficiaries of the programme
<b>1</b>	<b>Investments in SMEs to support businesses viability and competitiveness</b>				
1.1	ROP 2014-2020 SO 2.1A	Microenterprises	1897	125	6.59%
1.2	ROP 2014-2020 SO 2.2	SMEs	490	69	14.08%
1.3	NRDP SM 6.2 -64	SMEs	2928	158	5.40%
1.4	ROP 2014-2020 SO 2.1B	Business incubators - No of enterprises	140	13	9.29%
<b>2</b>	<b>New business creation, entrepreneurship</b>				
2.1	COP SO 1.3.	Start-ups and spin-offs	274	3	1.09%
2.2	Startup Nation	Start-ups - No of enterprises	16 918	1341	7.93%
2.3	HCOP SO 3.7	Start-ups - No of enterprises	2 248	879	39.10%
<b>3</b>	<b>Research Development and Innovation to increase economic competitiveness and business development</b>				
3.1	COP SO 1.3	Number of enterprises receiving support	137	3	2.19%
3.2	COP SO 1.1	Enterprises with R&D activity, universities	52	5	9.62%
<b>4</b>	<b>Business infrastructure development</b>				
4.1	ROP 2014-2020 SO 2.1b	SMEs incubated	59	12	20.34%
	<b>TOTAL</b>		<b>25 143</b>	<b>2 608</b>	<b>10.37%</b>

Source: Consortium calculations based on administrative data and public data.

### The number of jobs created is significant in the stakeholder territory

Compared to the previous business support programmes from 2007-2013, the focus on jobs created is nuanced. Thus, the programmes supporting business productivity do not require any more for businesses to create new jobs. However, we do find job creation as an indicator in the start-ups and employment entrepreneurship support programmes and measures.

Only in the Startup Nation Programme there were more than 5 000 jobs created in the stakeholder territory, out of which 4 179 were addressed to the disadvantaged people. The

<sup>53</sup> The measures are currently undergoing implementation. See details in factsheets regarding the date of the data collection for each measures.

large share of jobs offered to the disadvantaged is due to the selection criteria scoring additional points for the employment of disadvantaged people. However, the interviews revealed the concern of the stakeholders that this does not translate into a net increase of jobs because in some cases new jobs are created at the expense of other jobs in other companies of the group.

## **The impact on the businesses supported**

### **Quantitative analysis**

The quantitative assessment of the measures' impact on the businesses supported was performed for the ROP measure 2.1 and 2.2, which we identified as the measures with the most adequate availability of microdata and a sufficient number of projects with at least one year of activity after the end of the support. This is the timeframe estimated as a minimum to observe effects of the investments in the economic and financial performance of the businesses.

The assessment methodology was adapted considering the differences between the regional calls for proposals in the NE and the SE regions. For the 167 completed projects in the SE region, including only one county of the stakeholder territory, the analysis was limited to the programme administrative data, and to programme and project results. For the NE region (including three out of the four counties of the stakeholder territory providing sufficient observations for analysis) the assessment was extended to the impact of the measures on the business performance.

The simplified assessment model (coherent with the intervention logic in Table 2.5) is based on a set of variables including:

- Funds allocated to the regions, no. of applicants and private cofinancing as input variables;
- Businesses supported (contracts) and funds contracted (as output variables);
- Projects finalised, investments in SMEs, jobs created or maintained, as immediate results;
- The economic and financial performances of the businesses supported by the following indicators: turnover, gross profit, current debts, number of employees, productivity.

A large number of moderating variables were considered including, the sector, the location in a large (county capital) or small urban locality, the age of the company, the number of shareholders.

The before & after analysis for the group of beneficiaries (referred to also as the “treatment group”) looked at the effect of the measure on the company performance regarding:

- The turnover in 2019 compared to 2016 (one year before the implementation);
- The number of employees in 2019 against 2016;
- The company debts in 2019 compared to 2016;
- The gross profit in 2019;
- The productivity (turnover/ no. of employees) in 2019 compared to 2016.

The quantitative assessment is extensively presented in Annex 2, Table 2.2 as well as the data sets. The methodology included an assessment before after the intervention considering the differences in location (inside or outside the stakeholder territory) and a comparison between the beneficiaries of funding (140 enterprises) and the non-beneficiaries. For the latter, one comparison group consisted of enterprises selected for funding where projects were cancelled (64 enterprises), and a second group extended to a sample of SMEs in the region's urban area (752 enterprises). The selection was limited to the urban area because this is the target area of the assessed measures.

### **Key findings regarding the funding impact on the businesses' performance**

The funding is more polarised in the county capital cities in the stakeholder territory than in the comparison counties. The same distribution of businesses is found for the entire group of the SMEs assessed in the NE region.

The measures proved to have a positive impact on the businesses' performance as reflected in the following data processed on a sample of 140 supported companies in the NE region:

- The cumulated turnover of the supported companies is almost double in 2019 (EUR 117 million) compared to 2016 (EUR 62 million);
- The additional turnover is around EUR 55 million, an average of EUR 0.38 million (explained mainly by the medium-sized enterprises funded under RO 2.2);
- The number of employees increased with 1 044, meaning an average of 7 additional jobs in the supported business.

The cost of an additional job (in terms of net gain in jobs, which, in some cases is different from the jobs created and reported as a project result) is around EUR 140 000 (calculated as the eligible funds ERDF + national state budget divided by the number of additional jobs).

Only around 10% of analysed companies had a profit. The others were on a loss in the first year of the operations, which could be explained by the additional costs related to the investment and operationalisation.

The comparison with the non-beneficiaries (selected but not financed) reveals:

- A higher performance improvement for the beneficiaries at regional level (including the counties outside the stakeholder territory);
- A higher turnover increase, a higher increase in the number of employees and a lower debt level;
- A slightly lower productivity, which could be explained by the increase in the number of employees and the need for more than one year for the investment to generate turnover at full capacity.

Data shows that the change in the performance of the beneficiaries in the stakeholder territory is lower than the change of the performances in businesses in the other counties of the region, in terms of increase of the turnover (3.42 times compared to 9.18 times) decrease of productivity (0.34 at the level of 2016) compared to an increase (1.29) in the other counties, an increase of the number of employees with 2.7 compared to 4.95. However, the differences measured are not statistically significant and they should be interpreted accordingly.

The comparison with the extended group of non-beneficiaries revealed similar findings, i.e., a higher change in performance of the enterprises outside of the stakeholder territory reflected in a higher turnover, more employees in the beneficiaries' enterprises, but a lower level of productivity. The differences in the outcome variables means are not statistically significant. Moreover, it should be considered the fact that the increase in turnover might require more than one year to have an impact on productivity.

The analysis revealed as well that the evaluation score is not a good predictor for the future performance of the beneficiaries. Thus, the score is not correlated with any of the outcome indicators, and even more, there is no strong or weak correlation for all variables, even for the negative ones, except the number of employees.

### **Qualitative analysis**

The case studies highlighted the benefits enjoyed by the grants' beneficiaries as a consequence of the implementation of their projects. In the Startup Nation factsheet we present the story of a business idea from Iași which emerged, after receiving the grant, into a family business with potential to extend the market at national and even European level. In other cases, the funding was a means to return home from abroad and work in Romania. Large businesses succeeded in remaining competitive or even in increasing competitiveness. There are success stories in all programmes.

**Startup interventions.** Because the interventions are currently undergoing implementation and very few of them have already been completed, the data provided for the case study (see the factsheet for the HCOP business support mechanism) in a similar scheme implemented in 2015 shows that 100% of the start-ups created were active 1 year after the project implementation and 40% of the companies supported were active three years after the end of the project.

### **The potential to generate long-term results and development in the wider economic and social environment**

In the absence of available impact data (at least one year after the support), we refer to the Impact evaluation of the ROP 2007-2013, support to microenterprises (MA ROP, 2019). According to the evaluation, approximately 50% - 60% of the companies developed as a result of the assistance they received continued to develop after the end of the project (more than half of these companies continued to invest either from the ROP funds 2014-2020 or from other sources).

The same evaluation shows there is no evidence of a clear pattern of regional disparities of the impact produced. This could be explained by the fact that the funding mechanism is able to select through this kind of schemes a relatively small number of businesses for funding, with have a similar potential regardless of the region where they operate in.

The interviews with Startup Nation beneficiaries and business consultants revealed a different perspective. Thus, the startup schemes aiming at increasing employment and self-employment create in the less developed areas a large number of new businesses, many of

them with low potential of development in absence of support for entrepreneurial skills development and integration into regional, national or European value chains.

The interviews also highlighted the presence of many business links **with the Republic of Moldova** in the business support mechanisms. Thus, businesses and entrepreneurs from the Republic of Moldova are attracted to move or even to set up new businesses in Romania and to apply for funding. There are among them returning economic migrants preferring to establish the business in the stakeholder territory instead of their homeland, the Republic of Moldova. The reasons for this are most often personal rather than economical.

Businesses may find opportunities on the Moldovan and on the more Eastern markets, for supplies as well as for sales. The interviews revealed interest for green energy investments, the agri-food sector in the Republic of Moldova, connected with logistic investments in the Romanian stakeholder territory (storage facilities) for the distribution of products on the EU markets. The businesses, both from the stakeholder territory and the Republic of Moldova, have a high interest in the EU markets, and the stakeholder territory is the first step towards the EU.

Although there are excellent relations between businesses and public entities from the Republic of Moldova and the stakeholder territory, the Romanian businesses perceive the business environment in Moldova as insecure and volatile due to corruption and the oscillating political relations between the two countries. The cooperation across border is affected also by the decreasing labour resources in the Republic of Moldova diminishing the interests of the Romanian businesses to set up operations on the eastern side of the border.

For some entrepreneurs, the commercial relations beyond the eastern border lack transparency. The access of the Romanian businesses to the eastern markets depends a lot on the political context, which has been described at present as “frozen”. Therefore, specialised advice would be needed to help entrepreneurs explore and valorize opportunities on the eastern markets. This should also be subject of a national policy to increase knowledge and trust for cooperation on the eastern markets.

### **The impact on the economic development of the stakeholder territory**

As visualised in Annex 3, Table 1.8, the number of local businesses and the turnover from the active local units had an increasing trend since 2015. Considering that most of the projects have been recently finalised (2018 – 2019) or are still undergoing implementation, it is not expected that the development in the stakeholder territory will be determined by the assessed interventions.

A further assessment of the net effect of the business mechanisms on the stakeholder economy is possible. However, in our opinion, the effort asked of the managing authorities to provide data for an extended impact assessment only for the stakeholder territory is not justified by the results. Therefore, such an assessment should be undertaken at the programme (national) level, and should include a view on the intensity of each programme in the regions and the stakeholder territory.



The qualitative analysis revealed the strong influence of social and physical barriers (isolation due to limited connectivity) on the long-term effects of the business support mechanisms. The inadequate connectivity infrastructure directly affecting access to markets and the depreciation of the labour resources are key problems that have to be addressed in a coherent manner and coordinated with the business support. The local administration is perceived as acting with a limited capacity for undertaking such integrated strategic measures.

**Hypothesis 3 is only partially validated.** There is evidence of the improved performance of the businesses supported in terms of increased turnover and productivity as a consequence of the funding. The businesses supported contribute significantly to job creation in the stakeholder territory. This is stimulated by the funding mechanism and through the selection's scoring system; however, there is evidence of negative influence on productivity due to increased intensity of the labour in the business. The data for the selected measures shows the impact on the businesses performance is lower in the stakeholder territory than in other regions; however, the conclusion cannot be generalised to a wider segment of businesses.

There is no strong evidence that the funded programmes had a net contribution to the economic development of the area.

## 2.4 Conclusions

**Clusters are well developed**, benefiting of international recognition and representing a strength of the stakeholder territory. The business support system implemented by the NE RDA within the 'Lagging behind regions' pilot project, extended to the whole macro-region 2 of Romania (comprising the NE and the SE regions) **is a strong point for the stakeholder territory**, with a high potential to assist new business creation and increase innovation in companies.

Still, a large part of the **business advisory services are dedicated to accessing funds** and are limited in many cases to programmes' mechanisms, missing support for the business strategy development and operations.

The business infrastructure is concentrated in Iași and Galați and is thus unevenly distributed in the stakeholder area.

A large range of business support programmes, funded by the EU and the national budget (NB), or exclusively by the national budget, makes available **funds in the stakeholder territory**. They cover all segments of businesses and business actors and priority sectors. However, **the volume of funding is insufficient compared to the size of the target groups** and the effective demand reflected in the high number of applications and the unfulfilled expectations of the migrants intending to return from abroad.

**The uptake of the funds in the stakeholder territory is in general lower in the national competitions** than in other regions or counties, but also when compared to the business population and activity. The impact is affected by the limitations of the businesses to local markets for many projects funded, especially in the case of small grants, e.g. the start-up support schemes.

**The regional development programme appears to be more successful in ensuring a balanced uptake by all counties** of the stakeholder territory, as well as of the grants for start-ups implemented locally. The approach to programmes' selection does not focus sufficiently on the quality of the business, although the quality of the business plans is assessed. The system is focused more on the selection procedure, on ensuring the minimum risks in implementation, than on the business idea and potential.

The implementation of the programmes is affected by **delays** and, in some programmes, **excessive bureaucracy**. The alternative to grants, the financial instruments, are successful, but although the number of the products and the volume of the funding increased, the access to financing remains suboptimal, especially for start-ups.

Some programmes' eligibility requirements **reduce the relevance of the support to the needs** of the businesses. It is the case with the **urban / rural eligibility** requirement asking to match the investment to the business location, which significantly limits the access to funding for business located in the rural territory.

There is evidence of **positive impacts on the businesses supported** made by the ROP in the stakeholder territory, in terms of jobs created and turnover. However, most of the supported companies did not have a profit one year after the programme implementation, due to investments' related costs.

The analysis **does not provide evidence regarding the net contribution of the interventions to the economic development of the territory**, in terms of GDP or productivity, but only highlights positive effects on the companies which were granted business support. Moreover, the business support mechanisms are not correlated with other interventions addressing the human capital needs and the physical infrastructure, key conditions for the business development for long-term impact.

**Retaining entrepreneurs and businesses in the stakeholder area and attracting new ones is strongly conditioned by the quality of life.** The latter is affected by the significant disparities compared to other regions of Romania. The stakeholder territory, fragmented in 306 rural administrative units, out of the 327, proved to have insufficient capacity, including financial and organisational resources to invest in infrastructure and operate services in a way to make the place attractive for people and businesses.

### 3 Territorial capital matrix

The Territorial capital matrix was prepared based on extensive research under tasks 1 and 2. The matrix provides an overview of the main perspectives or dimensions, as they are called in the matrix: (1) territorial and (2) business.

The territorial dimension elaborates on **five territorial development keys**: (1) accessibility, (2) services of general interest, (3) territorial capacities/assets, (4) city networks and (5) functional areas. Territorial keys identify the elements of convergence related to territorial capital. They position the region on the regional, national, cross-border and the European levels by grouping issues into policy-oriented aggregates. Each territorial development key is broken down into three sub-topics to reveal the regional territorial potential. Each sub-topic has 'three key words' and links are made to the four territorial levels.

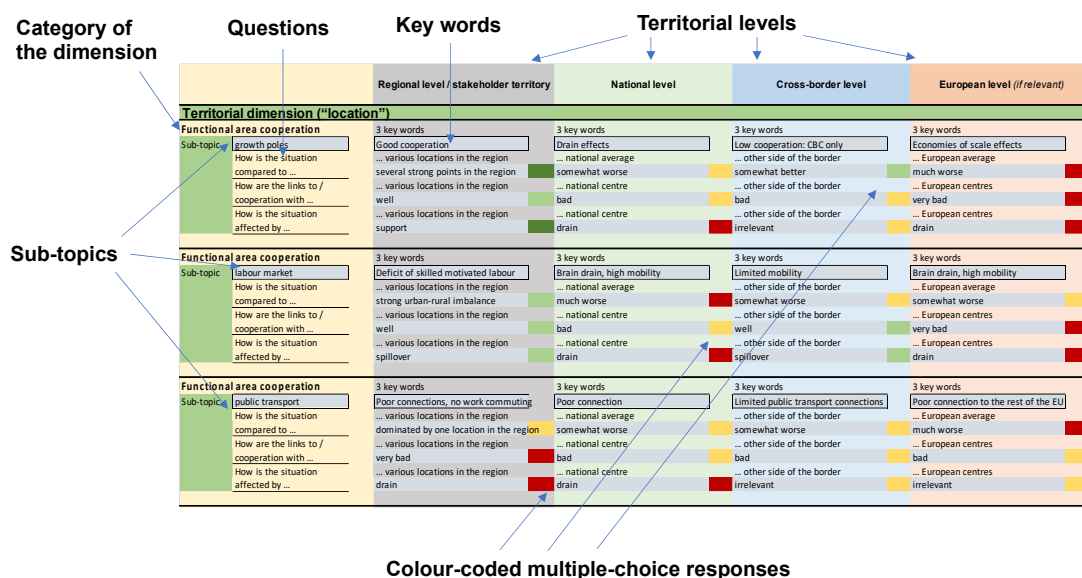
The business dimension concludes on the business environment in the territories and how its various components play out in a spatial dimension. They reveal findings of the regional potential analysis with a focus on **five business determinants**: (1) clusters and networks, (2) professional support, (3) legal and financial framework, (4) education and innovation and (5) the business support system. The business dimension capital matrix follows the same logic as for the territorial, linking them to territorial levels.

The Territorial capital matrix encompasses analysis findings per territorial development key and business determinant. Transposing the main elements discloses the regional potential while also relating them to the national, cross-border and territorial contexts. The matrix highlights the strengths and weaknesses of the region in focus and puts them in a larger territorial context.

The process entailed answering three questions on five categories under both territorial development keys and business determinants. These were divided into three sub-topics on average which have three key words at the four territorial levels. The process is standardised where possible for the matrices be comparable and aligned between the three territories in this analysis.

The introduction to the three reference questions is similar, while its final part depends on the territorial level. Each question has four similar color-coded multiple-choice responses. These vary only by territorial level, with the regional level having its own set and the other three levels have the same set of responses. The responses have been standardised allowing for comparison and alignment between the sub-topics.

Figure 3.1: Sample of the extended Territorial Capital Matrix including the reference questions and colour-coded multiple-choice responses



Source: Consortium

Table 3.1 A set of reference questions and multiple-choice responses by the territorial levels

Reference questions	Multiple-choice responses at the regional level	Multiple-choice responses at the national, cross-border and European level
<b>1. How is the situation compared to ...</b>		
1.1. various locations in the region for the regional level?	dominated by one location in the region	much better
1.2. the national average for the national level?	several strong points in the region	somewhat better
1.3. other side or a cross-border area for the cross-border level?	strong urban-rural imbalance	somewhat worse
1.4. the European average for the European level?	no strong points in the region	much worse
<b>2. How are the links to / cooperation with ...</b>		
2.1. various locations in the region for the regional level?	dominated by one location in the region	much better
2.2. the national average for the national level?	several strong points in the region	somewhat better
2.3. other side or a cross-border area for the cross-border level?	strong urban-rural imbalance	somewhat worse
2.4. the European average for the European level?	no strong points in the region	much worse
<b>3. How is the situation affected by ...</b>		
3.1. various locations in the region for the regional level?	dominated by one location in the region	much better
3.2. the national average for the national level?	several strong points in the region	somewhat better
3.3. other side or a cross-border area for the cross-border level?	strong urban-rural imbalance	somewhat worse
	no strong points in the region	much worse

Reference questions	Multiple-choice responses at the regional level	Multiple-choice responses at the national, cross-border and European level
3.4. the European average for the European level?		

Source: Consortium

Figure 3.2: Sample of the extended Territorial Matrix (Territorial Dimension)

	Regional level / stakeholder territory	National level	Cross-border level	European level (if relevant)
<b>Territorial dimension ("location")</b>				
<b>Functional area cooperation</b>				
Sub-topic: Regional Centers or growth poles	Underwritten, urban rural disparities, isolated cities	Capital polarization, urban rural disparities, inter-regional disparities	Capital polarization, cooperation	Functionalities, mobility, experience
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				
Sub-topic: Labour market	Insular skill bases, skills, innovation, including urban labour force ageing	Workforce skills, mobility	Mobility, cooperation	Workforce mobility, skills, qualified workforce
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				
Sub-topic: Public transport	Isolated coverage programs, fragmented levels	Isolated connectivity	Isolated public transport services	Cooperation, mobility and experience
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				
<b>Accessibility</b>				
Sub-topic: Road and rail	Underdeveloped, low accessibility, sufficient	Unmet, sufficient connectivity, isolated connectivity	Underdeveloped, investments planned	UN4 networks, experience
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				
Sub-topic: Internet	Good accessibility, rural disparities, uneven connectivity	Good accessibility, rural disparities	Connectivity, opportunities	Connectivity opportunities, cooperation
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				
Sub-topic: Airport	Strong development, polarization / concentration / single airport region, no large transport	Advanced distribution, competitive works, regional low profile	Upcoming hubs, accelerated growth, interconnectivity	Isolated connectivity, large mobility needs
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				
<b>Services of general interest</b>				
Sub-topic: Education and Vocational training	Low participation, disparities, uneven	Centralized education system	Cooperation, whole chain, support	Cooperation, financial support
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				
Sub-topic: Public utilities	Low accessibility and quality, uneven, uneven	Fragmented infrastructure needs, lagging, underfunded	Cooperation	Cooperation, financial support
Benchmarking				
Links / cooperation				
Impact / how developments in other locations				

Source: Consortium

Figure 3.3: Sample of the extended Territorial Matrix (Business Dimension)

	Regional level / stakeholder territory	National level	Cross-border level	European level (if relevant)
<b>Territorial dimension ("location")</b>				
<b>Functional area cooperation</b>				
Sub-topic	Regional centres or growth poles	Adaptation, urban rural disparities, isolated areas	Capital polarisation, urban rural disparities, interregional disparities	Capital polarisation, cooperation
Relevance				Policy priority, mobility, experience
Links / cooperation				
Impact / contribution to other locations				
Sub-topic	Labour market	Transfer and flows, skills, innovation, existing urban labour force, ageing	Diffusion, skills, mobility	Flexibility, cooperation
Relevance				Flexibility, mobility, skills, qualified workforce
Links / cooperation				
Impact / contribution to other locations				
Sub-topic	Public transport	Unmet coverage, ageing, transport needs	Unmet connectivity	Unmet public transport connectivity
Relevance				Cooperation, mobility and experience
Links / cooperation				
Impact / contribution to other locations				
<b>Accessibility</b>				
Sub-topic	Roads and rail	Underdeveloped, low accessibility, inefficient	Unmet, inefficient connectivity, delayed investments	Underdeveloped, investments planned
Relevance				EU-T networks, cooperation
Links / cooperation				
Impact / contribution to other locations				
Sub-topic	Internet	Good accessibility, rural disparities, economic backward	Good accessibility, rural disparities	Connectivity, opportunities
Relevance				Connectivity opportunities, cooperation
Links / cooperation				
Impact / contribution to other locations				
Sub-topic	Energy	Energy development, polarisation / interconnection / single energy region, or high transport	Balanced distribution, competitive energy, economic low profile	Missing links, unmet needs, growth, economic
Relevance				Unmet connectivity, large mobility needs
Links / cooperation				
Impact / contribution to other locations				
<b>Services of general interest</b>				
Sub-topic	Education and Vocational training	Over-participation, disparities, network	Centralised education system	Cooperation, scholarship, support
Relevance				Cooperation, financial support
Links / cooperation				
Impact / contribution to other locations				
Sub-topic	Public utilities	Low accessibility and quality, disparities, ageing	Unmet infrastructure needs, ageing, underfunded	Cooperation
Relevance				Cooperation, financial support
Links / cooperation				
Impact / contribution to other locations				

Source: Consortium

## **4 Recommendations**

### **4.1 Increase the relevance of the business support mechanisms in addressing the stakeholders' territory needs**

#### **Rationale**

The analysis revealed limited relevance of the business support mechanisms due to specific features we identified in the programmes' design. The planning and design are made at central level and this results in measures which are not able to respond to the specific needs in the stakeholder territory. The schemes which are designed locally show higher and better focus on the specific needs of the entrepreneurs and the businesses, and make better use of the local potential including opportunities at the border with the Republic of Moldova. The limited access to finance, weak business infrastructure and scarce advisory support are key constraints for business development, investments, and increased competitiveness.

#### **Recommended actions**

1. The business support mechanism should be designed and implemented at regional and local level and should be tailored to address specific territorial needs and potential, as well as types of entrepreneurs and businesses.
2. The business support mechanism should focus more on competitiveness and innovation, than on stimulating an artificial creation of new jobs which is rewarded through the scoring system in the application phase.
3. Complementary to finance (grants for investments), business support mechanisms should make available an adequate range of advisory services.
4. The business infrastructure should be extended in the stakeholder area covering the actual deficit and should focus on: business incubators, advisory services including the extension of the already piloted Entrepreneurial Discovery Process (EDP) process, Enterprise Europe Network.

### **4.2 Increase the impact of the business development support mechanisms**

#### **Rationale**

The assessment revealed that the impact of the business mechanism is inhibited by, on the one hand, the limited volume of funding accessed and, on the other hand, a range of factors such as limited and shrinking human capital (due to an accentuated drain phenomenon), isolation (due to the peripheral location and the underdeveloped connectivity infrastructure), and inadequate coherence of the actions implemented to allow synergies leading to wider economic effects. The previous measures missed an integrated approach and coherence. The participatory process highlighted the fact that the implementation modalities and the support from the EU and the national level are as important as the actions themselves.

An integrated approach will be able to **unlock the internal potential and engines**. The developmental process will not have a single ownership, instead it will be co-owned by the two regions and the many local administrations. To compensate for the high administrative fragmentation of the territory, the association of the local public administrations is necessary to be able to implement joint actions.

#### **Recommended actions**

1. Local actors should assume and undertake a strategic and integrated approach to development. Due to the high fragmentation and limited administrative capacity in the many small communities, the county councils and/ or metropolitan areas represent the most suitable level and the most adequate entity to assume ownership of the intervention, mobilise communities, and enhance their administrative capacity.
2. Design and implement pilot projects in each of the four counties, focusing on those parts of the territory which are most affected by human capital depreciation and which indicate high business development potential. A strategic implementation process should be guided in each county with support from RDAs, the EU and the central government levels.

### **4.3 Enhance the business cooperation across the border to make the best use of opportunities**

#### **Rationale**

The assessment revealed intense cooperation across the border - mainly due to the mobility of people, citizens of the Republic of Moldova holding Romanian citizenship -, which evolved mirroring the change in opportunities on the both sides of the border. The drain of the workforce, weak entrepreneurship development, weak capacity to make the best use of business opportunities and sectoral potential on both sides of the borders are common issues. Extension of businesses in the Republic of Moldova, and the access to eastern markets is inhibited by the political context, limited connectivity, insufficient support from the national level for businesses in accessing external markets.

#### **Recommended actions**

1. The CBC programme Romania – The Republic of Moldova should support cooperation of businesses for identifying opportunities, capitalising on the economic potential on both sides of the border, and for increasing entrepreneurship skills development.
2. Support from the national level should be provided for the extension of businesses onto the eastern markets, including a better understanding of trade conditions and the creation of business links.
3. Support to businesses for making the best use of the border area potential and opportunities, such as development of economy, green energy production, increased



accession of agri-food products from the Republic of Moldova and the Romanian stakeholder territory onto the EU markets.

#### **4.4 Increase the capacity of the local actors for economic development**

##### **Rationale**

The assessment revealed a number of weaknesses in terms of the capacity of the relevant local actors. This includes the overall excessive fragmentation of the administrative units, which requires association of LPAs to allow for a coherent territorial approach to development in general, and to business development in particular. The local capacity to support economic development is limited, the SMEs associations are weak, and the appetite of SMEs to associate is generally low. A key factor for the interventions is to share with the RDAs in the stakeholder territory support, best practices, inspiring ideas on how the local public administration could and effectively support economic development.

##### **Recommended actions**

1. The insufficient capacity at the local levels to manage strategic development processes in deprived areas requires **support from the regional and central levels**. This should include technical assistance for the initial steps for strategic planning, compensation of the limited capacity with technical assistance, and a longer-term programme for administrative capacity development.
2. Support for SMEs associations from **the regional and central levels** based on successful European practices should be provided.

#### **4.5 Catalyse development from the national and EU level**

##### **Rationale**

The specific needs of the border area are not highlighted in the planning documents (except under the CBC programme Romania – The Republic of Moldova). These needs are highlighted in different contexts such as in studies and analyses focusing on disparities and lagging behind territories. The local actors are at a disadvantage in a lack of focus on characteristics and features deriving from the peripheral location, and on the specific border opportunities in planning documents. A dialogue on the common issues with other, similar territories is needed and resulting proposals and solutions can be piloted and tested further on. Taking advantage of the potential of the border area also depends on national support such as investments in connectivity infrastructure, knowledge exchange and facilitation of business cooperation and trade on external markets.

##### **Recommended actions**

1. **The interventions should be steered from the regional level**, by the NE and SE Regional Development Councils (RDCs) with their executive bodies, the RDAs, which are the main policymakers at this level. The proposed actions are aligned with the two

regions' needs as reflected by the current stage of the regional planning; however, a better integrated approach from the local level is required.

2. **Actions and measures meant to increase the level of trust in the socio-economic and the political environments** across the border should be supported at the national and at the EU levels.
3. **Facilitate learning and cooperation of local actors in the EU external border areas.** Fund cooperation platforms, joint plans and actions that may lead to solutions. The actions should aim to inspire, integrate into European networks the stakeholder territory, and ensuring a feeling of equal attention and treatment for the peripheral locations.

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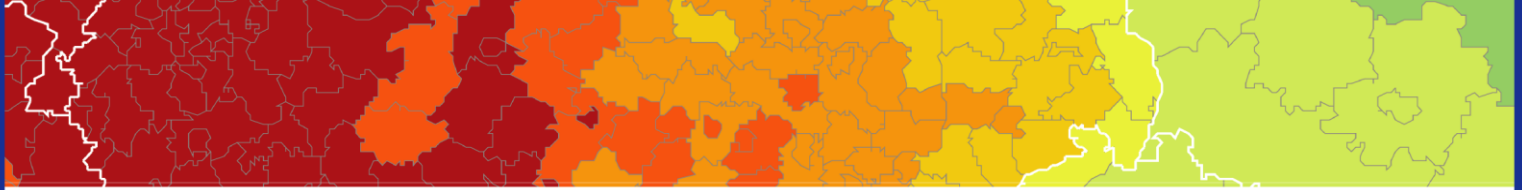
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### **ESPON 2020 – More information**

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