The Importance of Local Action Groups in the Romanian European Integration Process: an Empirical Study

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This article aims to examine the factors affecting the implementation of local action groups in Romania. A relatively new member state, Romania has the highest share of EU rural areas which generates and maintains a long series of regional disparities. Because of these disparities, the economy faces a number of issues that undermine the quality of human and social capital and reduce the growth potential: precarious social and economic infrastructure, reduced access to markets and thus to goods, a low level of both economic cohesion and living standards and a difficult access to education and training. From this perspective, the local action groups can contribute to the revival and development of urban areas, through the promotion of economic activities in adjacent rural areas. Therefore, an empirical analysis was conducted to study how economic and social disparities in the regional development of Romania influenced the implementation of local action groups.
Keywords: *Local Action Groups, Regional Development, Regional Disparities*

1 Introduction

Explaining the differences in levels of income across countries or regions is one of the main concerns among economists. Nowadays, high GDP levels are associated with high standards of living, quality of life, education and health. Thus, the most relevant question in cross-country or regional differences is what forces are driving that process that allows poor regions to grow faster than rich ones [1].

The regional policy of the EU aims to improve the economic well-being of its regions and also to diminish regional disparities. In the current 2007–2013 funding period, EU regional policy consists of three objectives: Convergence, Regional competitiveness and employment, and European territorial cooperation. The largest amount of regional policy funding (81.5%) is dedicated to the regions falling under the Convergence objective, whose aim is to allow the poor regions to catch up with the EU's more prosperous regions, thereby reducing economic disparity within the EU. This objective covers Europe's poorest regions whose per capita gross domestic product (GDP) is less than 75% of the EU average [4].

While there are a vast number of research papers on the convergence of EU regions and the impact of structural funds on convergence, the importance of local involvement often seems to have been neglected. In this paper we examine how formal recommendations supported and encouraged local development initiatives represented by local action groups.

The aim and thus the contribution of our paper is to examine the relationship between several factors (GDP per capita, level of employment, the village development index) and the value of the projects submitted by the local action groups. We study whether the involvement of the local communities depends on the level of income, employment or the development of villages.

The remaining part of the paper is structured as follows. Section 2 provides a review of the relevant theoretical and empirical literature. Section 3 provides a brief description of the Romanian rural development. Section 4 estimates a model in order to detect the relationship between several factors and the value of the projects submitted by the local action groups. Section 5 discusses the results, suggesting other possible factors behind the findings of the previous section. The last section concludes.

2 Literature Review

Only little empirical research has been devoted to local action groups promoted by the Leader initiative. Among the few papers is [10] who charts the operational terrain of local action groups in the Northern Ireland, suggesting that their strengths have been in developing the institutional capacity of rural communities and brokering connections in the local economy. The paper argues that multi-level collaborative activity is rooted in partnership governance, enabling a communicative process among local stakeholders.

[7] develop a suitable method for the measurement of social capital in the context of rural development. They decompose the social

capital concept into three specific dimensions: structural, relational and cognitive. This method was applied to all the local action groups in the Province of Foggia. The measurement method introduced in this paper represents a step forward for a more rigorous and systematic assessment of social capital's endowments and consequences in the specific field of area-based development policies.

[5] examines the characteristics of area-based partnerships in rural Poland. The research shows that partnerships are frequently subject to elite domination by local authorities and hence fail to fully engage a range of community and private sector actors. They argue that funding rules for Leader, most notably the condition that money will only be paid on the completion of projects, has been particularly significant in perpetuating the domination of partnerships by organizations with existing access to financial and human capital. As a result, they consider that funding arrangements can undermine the ability of Polish partnerships to operate in ways which harness the endogenous capacities of local communities. The research found that overt domination of partnership structures by state agencies limited the possibilities for community led development initiative in rural Poland.

[6] proposes a method for the evaluation of Rural Development Programmes, allowing for a quantitative analysis of tangible and intangible outputs of the Local Action Groups. They present some indicators accounting for the main aspects envisaged in the European Commission guidelines for the evaluation of the implementation of local plans, as utilization of resources, effectiveness, efficiency and sustainability. Using several sources of data, they argue that their quantitative method can contribute to resolve the tension between the center need for control of what has been achieved by each group and the endogenous logic which proceeds along locally-rooted paths characterized by specific value.

3 Rural Development of Romania and the Leader Approach

According to the European Commission [3] Romania rural areas (87.1% of territory and 45.1% of population) are typified by a scattered population and very low quality infrastructure (only 33% of rural residents are connected to a water supply network, only 10% to a sewerage system and only 10% of rural roads are of adequate standard). The rural economy is highly dependent on agriculture and forestry, with low development of alternative activities, and lower incomes than urban areas. Moreover, the structure of gross domestic product creation is much different than that of the EU developed countries. Romania has a large share of agriculture and industry, while the share of services is significantly below the European average. The same with the structure and use of labor, which differs even more than that of EU developed countries, especially on account of population employed in agriculture. If we consider other factors such as access to education, quality of life, the differences between rural and urban economic and social infrastructure, then the factors that slows down economic development in Romania are even more obvious [2].

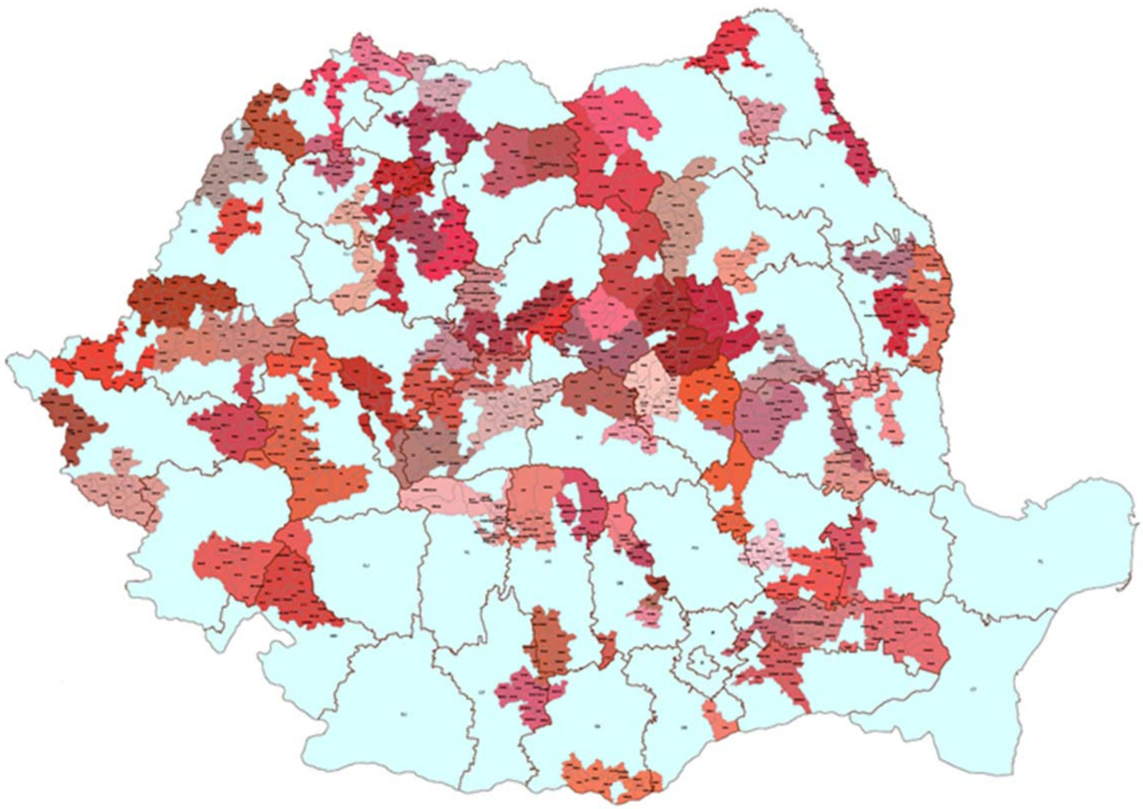
Financially and institutionally supported through pre-accession funds, Romania has made great efforts to modernize the rural area. After the EU accession, the new member states from Central and Eastern Europe have benefited from additional financial resources made available by the European Agricultural Guidance and Guarantee Fund. However, the opportunities to improve the quality of the European integration of the rural area in the new EU Member States have increased dramatically with the entry into force of the European Agricultural Fund for Rural Development (EAFRD). In accordance with the principle of the strategic approach of the EAFRD use, the Member States have to develop and implement the National Rural Development Programmes.

These National Rural Development Programmes are part of the rural development policy. This, in turn, consists of four axes:

- Axis 1: improve the competitiveness of agriculture and forestry;
- Axis 2: improve environmental conditions and support land management;
- Axis 3: extend the concept of rural development through projects implementation using development strategies to address sub-regional entities;
- Leader axis: create local strategies of development through a vertical approach (the "bottom up" approach).

Leader aim is to improve local governance through the establishment and operation of local action groups. The main objective of the axis is to start and operate the local development initiatives, while the strategic objectives derived from the main objective are to promote the endogenous potential of the territories and to improve the local governance.

The local action groups selected in Romania by the end of 2011 are presented in figure 1.



Source: www.madr.ro

Fig. 1. The map of local action groups in Romania

4 Methodology and Results

In this section we introduce the methodology used and estimate the relationship between GDP per capita, level of employment and the village development index on one hand, and the value of the projects submitted by the local action groups on the other hand. The data used for the 80 local action groups analyzed was collected from the Statistical Yearbook, the National Prognosis Commission and the Ministry of Agriculture and Rural Development.

We estimate a cross-section regression model for the value of the projects submitted using 2010 data. The model specification is given by:

$$\log(VPC_i) = \beta_1 + \beta_2 \log(GDP_i) + \beta_3 UR_i + \beta_4 VDI_i + \varepsilon_i$$

where i denotes the county observation. VPC represents the value of the projects submitted by local action groups at county level divided to the corresponding population. GDP denotes the GDP per capita. The GDP per capita was chosen because we considered that counties with a lower income level will try to raise more funds in order to increase their welfare. UR denotes the unemployment rate. We chose the unemployment rate because we considered that communities' involvement in attracting founds should increase if employment of its members is low. VDIdenotes the village development index. This index was measured using a methodology proposed by [9] and it is similar to the Human Development Index. VDI was calculated for 2849 Romanian villages, and takes values between 23 (Râca village in the Argeş county) and 188 (Dumbrăvița village in Timiş county). A high value means a higher level of development. As in the case of GDP per capita, we considered that communities' involvement in attracting founds should increase if the level of development is low. ε_i is a white noise, random variable, identically and independently distributed.

Econometric tests revealed a weak correlation between the value of the projects submitted and the other variables: GDP per capita, unemployment rate and the village development index. However econometric equation is consistent and can be useful for analyzing the influence meaning of causal variables:

$$\log(VPC_i) = 90.06 - 0.25\log(GDP_i) + 0.07UR_i - 0.24VDI_i$$
$$\quad\quad(6.46)\quad\quad\quad(-2.98)\quad\quad(3.66)\quad\quad(-2.06)$$

The F test (F = 10.65) for the null hypothesis shows that the regression model is valid. As shown by the t test probability, the relationship among the variables is statistical significant. It is likely that the relatively low explanatory power of the model ($R^2 = 0.305$) is due to other factors affecting regional disparities which are specific for individual counties and regions.

As expected, the correlation between GDP per capita and the value of the project submitted is negative. In other words, the poorer the community the higher the funds raised. One explanation may be that, in order to decrease the development gap between rich and poor areas, among others, a more substantial financial contribution is needed.

The relationship between unemployment rate and value of projects submitted is positive. That is, the higher the unemployment rate, the higher the amount requested. This means that the community believes that attracting higher amounts may increase labor demand and thus reduce unemployment.

The negative coefficient associated with the VDI shows that the value of projects submitted is greater in less developed counties. Basically, this means that the less developed a village is, the higher the community involvement will be.

5 Discussion

Although the relationship among the variables is statistical significant the relatively low explanatory power of the model is due to other factors affecting regional disparities. Some factors worth considering:

- Romania's economic *transition process* in the 1990s has resulted in a considerable increase in disparities. As shown by [11], for the most new members of EU, the economic situation of heavy industry centers deteriorated, mainly because of the Council for Mutual Economic Assistance disintegration, the result being an increase in unemployment and a steep decrease of income. The recovery was easier for the capital region as well as for the regions close to the Western markets.
- As claimed by [12], national development creates increasing regional disparities in the early stages of development, while later on, development leads to regional convergence. He argues that in *growth pole regions*, in which capital and skilled workers are concentrated, productivity rise faster. As a consequence, growth accelerates in these regions, which leads to increasing regional disparities. Later on, capital is likely to move to other regions with lower capital per worker as factor costs increase or diseconomies of agglomeration emerge. This, together with knowledge spillover effects, will eventually lead to convergence. A factor that would be possible to increase the convergence speed would be the adoption of euro currency.
- Behind any successful economic story always *efficient institutions* are found. The same with the regional development which, beside efficient institutions, also needs a sound administrative background and a decentralized decision-making procedure. Romania is characterized by weak institution building and limited administrative capacity despite the implementation of concrete steps toward decentralization.
- The level of development of a region may also depend on the *social disparities*. [8] explains the cultural areas grouping depending on the dominant type of sociability. Cultural areas depending on the dominant type of sociability are grouped as follows:
- Moldova: interpersonal "coldness" marked by distrust, a low relational capital and a high level of trust in the church and army;
- Wallachia: ethnic "coldness" with relatively high ethnic intolerance and moderate institutional criticism;
- Oltenia: institutional conformist, with high level of confidence in all types of institutions and ethnic intolerance slightly above average;
- Bucharest, Ilfov and Dobrogea: critical opening with distrust in institutions but moderate confidence in the "other";
- Transylvania, Banat, Crişana, Maramureş: general openness based on tolerance, trust and a rich relational capital.

6 Conclusions

The disparities in Romania will not decrease just because it is catching up to the more developed EU countries. Development policies should focus on the preferences and possibilities of its

peripheral regions as well. Also, besides making resources available to these regions, the local exponents should be taught how to communicate with the planning and decision-making bodies and how to efficiently use the resources.
As for the local action groups, they may represent an important opportunity to develop rural areas of Romania and implicitly to revitalize small towns included in such structures. Furthermore, this initiative could be a viable solution to reduce excessive weight of the Romanian rural area, if it would continue over on the medium to long run, beyond the current period of budgetary implementation of the National Rural Development Programme.

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