
Spatial Distributions of Regional Economic Activity

Innovation Cluster and Economic Development in Bucharest Ilfov Region

Ana Cristina Adumitroaei¹, Claudia Ionescu², Simona Curpan³

Abstract: Simultaneous globalization tendencies have created policy challenges for national and local governments. One response to these challenges has been a dramatic proliferation of development policies based on clusters of firms and industries. In EU Strategy 2020 – COM 546/6.10.2010 Initiative “An Union of Innovation”, COM 614/27.10.2010 Initiative “Industrial Policy in the Globalization Era” innovative clusters were considered the “engine” of economic development. They represent a framework for business development, collaboration between companies, universities, research institutions, suppliers, customers and competitors located in the same geographical area. Clusters of small and medium sized firms in developing economies are coming under increased pressure from competition as products mature, technology becomes widely available, and companies seek lower cost locations for production. In this paper, we consider that the cluster is an engine for economic development in our region and we need to have a regional strategy for clusters in Bucharest Ilfov Regional Development Plan for 2014-2020.

Keywords: cluster; innovation; economic development

JEL Classification: O1

European Clusters Policy

“Clusters are geographic concentrations of interconnected companies and institutions, in a given field. Clusters comprise a group of related industries and other entities important in terms of competition. These include, for example, suppliers of specialized inputs such as components, machinery and services, or providers of specialized infrastructure. Often, clusters extending to different

¹ The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, e-mail: anacristina.adumitroaei@adrbi.ro.

² Senior Lecturer, The Bucharest Ilfov Regional Development Agency, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, Corresponding author: adrbinvest@yahoo.com.

³ The Bucharest Ilfov Regional Development Agency, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, e-mail: simona.curpan@adrbi.ro.

downstream channels and customers and laterally to manufacturers of complementary products and the industries related by skills, technologies or common inputs. Finally, some clusters include governmental and other institutions- such as universities, standards agencies, vocational training providers and employers- to provide specialized training, education, information, research and technical support". (Porter, 1998).

All theoretical and historical considerations, concluded into today's paradigm of the "triple helix" as a model for successful cluster initiatives. According to this model a cluster must consist of following categories of actors:

- Universities, research institutes – as suppliers of innovative products, technologies, processes and services;
- Industry, especially SMEs – which represent the innovation demand and in an ideal case they should determine and absorb the offer mentioned above;
- Authorities responsible for the process facilitation (ministries, regional authorities, etc.).

The concept of clusters generally comprises of three important dimensions¹:

- clusters are seen as geographical concentrations of specialized firms, advanced skills and competences in the labour forces, and supporting institutions which increase knowledge flows and spill-overs as a result of their proximity. Regions compete with each other worldwide in providing the best framework conditions in order to facilitate business growth and to attract investment and a talented workforce.
- clusters serve a functional purpose to provide a range of specialized and customized services to a specific group of firms, such as the provision of advanced and specialized infrastructure, specific business support services or training and coaching of staff. Cluster organizations help to channel, facilitate or provide access to facilities and services, which may include specialized research and test centers, consultancy, training, and so on. In this sense, clusters are a form of "self-organization" that offers competitive advantages. Clusters facilitate both intense competition and close cooperation. Geographical proximity is believed to facilitate the flows of tacit knowledge and the unplanned interactions that are critical parts of the innovation process.
- clusters are characterized by a certain dynamic social and organizational element, the so-called "institutional fix" or social glue that holds the different interlinked innovation actors – such as universities, businesses

¹ DG Enterprise and Industry Report "Innovation Clusters in Europe: A statistical analysis and overview of current policy support".

and public authorities – together and facilitates intense interaction and cooperation amongst them.

Through their value networks and proven channels between businesses, research and academics, clusters provide efficient catalysts for innovation policy interventions. They are able to transform policy interventions into value creation and multiply public spending by private investments.

In the past decades European Cluster Policies played an important role for innovation and the transfer of technologies and thus and through the World Class Cluster Approach started by Europe INNOVA Initiative of the European Commission showed its commitment and aims to lift cluster activities on a higher level. Nevertheless, possibilities exist to further enhance the quality of cluster activities.

Since 2005 and the Lisbon Partnership for Growth and Jobs, Innovation has been the focus of various documents issued by the European Commission: “More Research and Innovation” (2005), “A broad-based innovation strategy” (2006), “Reviewing Community Innovation policy in a changing world” (2009). All of them have contributed to build an innovation policy framework that already brought some very positive results: A more research and innovation-friendly state aid regime, improvement of skills (Universities, research, etc.), a progressed cluster support framework as outlined in “Towards world-class clusters in the EU” (2008), a Small Business Act adopted etc. There were also positive results regarding new supply-side and demand-side measures: On the supply side, more EU innovation and research funding has been made available (86 billion Euro through Cohesion Policy between 2007-2013 for Innovation only), participation of SMEs in FP7 has been facilitated, the European Institute for Innovation and Technology and Joint Technology Initiatives have been launched and a support service for innovative SMEs – the Europe Enterprise Network – has been created. On the demand side, the Lead Market Initiative has been launched, standardization has evolved to support innovation, and public procurements have also increasingly be used to provide incentives for innovation.

Cluster policies can be defined as specific governmental efforts to support clusters. Such cluster policies may take different forms and follow different objectives, such as industrial and SME policy or research and innovation policy. Cluster policies are in most cases supported and implemented by specific cluster programmes of governments or initiatives. In consequence, cluster initiatives can be understood as organized efforts to increase growth and competitiveness of clusters within a region, involving cluster firms, government and/or the research Community.

The EU encourages the development and finance of clusters; we mention here initiatives like Regions for Economic Change, Regions of Knowledge, the Community Strategic Guidelines on Cohesion, European Grouping on Territorial

Cooperation. In the same time, the EU asks the Member States to include in their national programs for reforms measures for cluster.

Key Messages for Cluster Policy in Europe¹

Cluster policy is an important policy tool for countries/regions in their innovation and business development strategies. Each country/region should ensure that cluster policy and cluster programmes should remain high on the government's political agenda.

Cluster programmes are in all regions and countries an integral part of an effective innovation policy and cluster organizations have developed to be an important infrastructure in the regional and national innovation systems. Public authorities should ensure an effective public research and innovation system and improve further the governance of cluster programmes and cluster organizations.

Monitoring and evaluation of cluster policies are important, but difficult. Impact studies and guidelines for evaluation of cluster policies should be improved and shared. Exchange of national practices on the impact measurement and evaluation of cluster organizations should take place.

There is room for improvement in most regions and nations of the coordination of cluster programmes with other innovation policy instruments, e.g. innovation funding schemes and knowledge transfer mechanisms. This could enhance the impact of clusters and ensure a more effective innovation system. There should be more exchange of best practice in this field.

The importance of clusters in the EU economy is emphasized by the European Cluster Observatory which identifies around 2000 clusters (defined as regional agglomerations); it also shows that 38% of the work force is active within clusters.

Cluster Policy in Romania

In Romania the implementation of innovation policies is hindered by a wide range of obstacles (legal, institutional, financial, managerial, etc.) In addition, the 2009-2010 cuts budget in the public RDI had vast negative consequences that annihilated the improvements of the few previous years with higher RDI funding. In response to the budget cuts, the 2009 'Plan to increase the efficiency and effectiveness of RDI expenditure' introduced a funding re-prioritization to four main directions and several reform measures to maximize the social and economic impact of RDI investment and allow the release of the EU's RDI financial assistance to Romania.

¹ The NGP Cluster Excellence Benchmarking project and the Copenhagen Cluster Conference May 26-27, 2011.

This was followed in 2010 by the launch of the 2011-2013 National Reform Programme (NRP), coordinated by the Ministry of Economy, Trade and Business Environment, which comprises among other RDI measures, the ambitious target of 2% of the GDP for public and private RDI investment by 2020 (1% of the GDP for public RDI investment and 1% for private RDI investment to narrow the gap to the EU - RDI investment level).

Moreover, the National Reform Programme includes a set of new policies for improving the business environment and stimulating innovation in industry, such as:

1. Improving the administration decision-making, management and horizontal coherence of public policies.
2. Stimulating firms' capacity to create, add and retain value in the national production chain, based on processes, products and services.
3. Consolidation of regional/national/cross-border innovative clusters and their collaboration with academia, national RDI institutes and public administration.
4. The completion by 2013 of the Operation 'Competitiveness Poles' of SOP IEC Priority Axis 1, which supports infrastructure construction and modernization, acquisition of equipment and entrepreneurship services.
5. Establishment of several risk capital funds within the JEREMIE scheme during 2011-2013, with two funds expected to start in 2011.
6. Modernization of industry and consolidation of enterprises' technological capacity by stimulating investments in new technologies and introduction of quality management systems. Local/regional entrepreneurship is also encouraged in view of reducing regional gaps in the business environment.

In Romania we need to make the distinction between *natural clusters* and *public clusters*. The public clusters (industrial parks, scientific and technological parks) have been established by law.

In Romania don't exist a dedicated policy for clusters, but in the Sectorial Operational Programme "Increase of economic competitiveness" has been made an review about the Romanian clusters and have a dedicated operation "Support for enterprises integration in supplier chains and clusters".

According with Sectorial Operational Programme "Increase of economic competitiveness" here are several types of business infrastructure providing premises and logistics for SMEs (e.g. business incubators, industrial parks, science and technology parks). The business support infrastructures in Romania are still poorly promoted within business environment and their advantages are not enough well understood by potential entrepreneurs. Thus, incubators are underdeveloped

and under populated by SMEs. The existing business incubators were set up under different sources of financing (Phare funds, World Bank, Romanian budget) as tools to enhance entrepreneurial initiatives.

A number of industrial parks have been developed in order to encourage economic development and to reduce unemployment particularly in areas affected by the industrial restructuring process. In Romania were 34 authorized industrial parks¹ at various stages of development and these have a disproportionate regional distribution with 11 parks in both South and Central Regions and only 1 park in the West Region. Some of them have difficulties in operating, due to lack of finance and a too small number of SMEs using the facilities. Moreover, few of them shelter companies and clusters capable of competing in international or even national markets.

Also the document “Guide for implementing the concept of innovative cluster”, financed by the Ministry of Economy (2009), presents a list of industrial parks, entities of innovation and technological transfer, universities, foreign and Romanian investors that by associating can benefit from the advantages and benefits of a cluster. Even so, we observe at national level that such initiatives and partnerships are rare or if they exist they have only the goal of spending funds without a mid or long-term strategy.

Clusters in Bucharest Ilfov Region

Bucharest-Ilfov region has a high innovation potential that is largely underexploited because of the lack of a formal framework for innovation policies and programmes at the regional level, and poor articulation of the national innovation policies and programmes with the regional priorities.

In the region has been identified 8 clusters (according to “Clusters and potential clusters in Romania” elaborated by GTZ – 2010):

Furniture: Pipera, Militari

- ICT: - SEMA PARK, Northern – Bucharest, Siveco, Softwin, UTI, Oracle;
- Clothes, shoes and fashion: APACA;
- Audiovisual services: BUFTEA, ROMEXPO, all Televisions;
- Construction materials: Militari, Catelu;
- Food industry: Fundeni: Danone, Popesti: Tnuva, Bragadiru: Rostar, Icecream, Buftea: Avicola, Canning fact;
- Logistic: Militari, Buftea, Otopeni;

¹ Ministry of Economy (2009). Guide for implementing the concept of innovative cluster.

- Publishing companies: Bucharest.

A new cluster infrastructure and a very complex facility will be built in 2014 in Bucharest-Magurele - ELI - The Extreme Light Infrastructure. (Press release – European Commission) ELI will create a new European laboratory to consistently investigate a very broad range of science domains, from new fields of fundamental physics, new nuclear physics and astrophysics topics, to applications in material science, life sciences and nuclear materials management.

ELI is a European Project, involving nearly 40 research and academic institutions from 13 EU Members Countries, forming a pan-European Laser facility, that aims at hosting the most intense lasers world-wide. The facility, based on four sites, will be the first large scale infrastructure based on the Eastern part of the European Community and has obtained a financial commitment exceeding 700 M€.

Conclusion

We may say that clusters could be an instrument to improve national and regional competitiveness. A cluster can force economic development; promote the cooperation between enterprises, universities, research institutions, clients and competitors, suppliers within the same geographical area. In Bucharest Ilfov region the new cluster from Magurele could be one of the engines for economic development of the region. We need to have a regional strategy for clusters in Bucharest Ilfov Regional Development Plan for 2014-2020.

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Sustainable Development of Spa Tourism in the Romanian West Development Region

Cipriana Sava¹

Abstract: Sustainable development of tourism includes itself in world development politics based on respect and care towards the surrounding environment. Spa tourism is one of the ancient types of tourism developed by mankind and it attracts presently more people than those who have health problems. Romania has numerous spa resorts at several levels such as local, regional, national or international ones, and they are all based on diverse tourism resources. Spa tourism is also present in the West Development Region and its revival can be attained by taking into consideration the principles of sustainable development.

Keywords: development region; sustainable development; spa tourism

JEL Classification: R110; Q01; L83

1. Introduction

Tourism is one of the humans' activities that have known permanent development along time. The motivations of the potential tourists being multiple, the types and forms of tourism have evolved relatively at a fast pace. The great number of people spending their leisure time in different locations has led to the development of general and specific infrastructure.

Wanting to offer tourists more and more facilities, the environment, local population, safety and quality of services did not matter in many areas.

Pollution through tourism is a reality which, lately, has tried to be diminished or even eliminated. Thus, sustainable development is a concept accepted by specialists from several states of the world.

The idea of sustainable development was the answer to the pollution felt worldwide and was presented in 1972 during the UNO Conference on the Environment, which took place in Stockholm. It was only in 1983 that the World Commission on Environment and Development (Brundtland Commission) was established.

¹ Associate Professor, PhD, Faculty of Tourism and Commercial Management Timisoara, Christian University "D. Cantemir" Romania, Address: 176 Splaiul Unirii, District 4, Bucharest, Romania, Tel.: +4 0213307900, Corresponding author: cipriana.sava@gmail.com.

The Brundtland Report, the Declaration of Rio and Agenda 21 state that this type of development means to protect the environment and to make present generations responsible for the future ones. The most usual definition of sustainable development belongs to the Brundtland Commission, being included in the 1987 report "Our Common Future", thus it is "the development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (Constantin, 2000, p. 193)

For tourism, the environment is essential, that is why protecting it must be a permanent preoccupation. To that end, the World Tourism Organization considers that sustainable tourism is "tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities". Meeting all economic, social, aesthetic needs of tourism "actors", by keeping the cultural, ecological integrity, the biological diversity and all life supporting systems is taken into consideration.¹

Putting into effect a sustainable activity in tourism supposes the respect for certain principles regarding responsibilities ("polluter pays"), caution, prevention, integration, cooperation.

2. General Aspects Regarding the Wellness Tourism

Among tourists' motivations we find the need to restore their health. Even though it is considered a present day phenomenon, the wellness tourism has been practiced since old times. According to the legends Heracles was the first to have used the properties of the Sulphur mineral waters in Termopile to regain his strength.

The development of this type of tourism and implicitly of the wellness resorts has always counted on the existence of natural wellness factors, that is:

- mineral and thermal-mineral waters;
- waters from the therapeutical lakes;
- mud and turves;
- mofette gases;
- salt mines.

Taking these things into consideration, the main features of wellness tourism are:

- it mostly addresses the ailing population;
- it is not affected by seasons, taking place all year long;
- it mostly attracts the population from the urban environment;

¹ WTO, WTTC, The Earth Council-Agenda 21 for the Travel a Tourism Industry: Towards Environmentally Sustainable Development, 1995.

- the average duration of the stay is medium, even long;
- it has big economic-social efficiency;
- the necessity of a specific infrastructure.

Currently, the wellness tourism development is influenced by specific factors such as:

- the alteration of the population's health due to the change in the lifestyle of people and pollution;
- the increase of the average life time;
- the appearance of the interest for health care and disease prevention, at individual level and at society level.

The concept of "spa" was rediscovered and implemented in order to maintain health. It existed during the Roman Empire as "Salute Per Aqua" or "Sanitas par aquam", but in Europe the curative benefits of water were recognized only in the 17th century, at the present moment being very appreciated mainly for different disease prevention. Some of these benefits are the insurance of good health and humor, high tonus and psychic, the increase of performances at work and the implementation of the concept "Wellness". This term was introduced in the alternative medicine by Dr. Halbert L. Dunn in order to define a state of equilibrium between body, mind and spirit. The main objective of wellness is the creation and maintenance of wellbeing without turning to medicine treatments.

Both the spa and the wellness are based on traditional, nature treatment and prevention of illnesses generated by the daily stress and pollution.

Romania has numerous natural resources that can sustain the development of the wellness tourism. There are 117 places in our country that have one or more therapeutical factors (mineral waters, gases, mud, etc.). In order to sustainably exploit the natural resources used in the wellness tourism, the National Institute for Recovery, Physical Medicine and Wellness Bucharest established certain norms of valorization of therapeutical mineral substances. They refer to internal treatments with spring mineral water, external treatments with mineral or thermal water, external treatments with mud, mofette bath and aerosol therapy with mineral water. For the external treatment with mineral or thermal water the bath tub, the wellness pool and the kinetotherapy pool are used. The external treatment with mud, known also as mud therapy, can be made using the bath tub for the bath with diluted mud or wrappings.

As we have mentioned before, in order to practice health care tourism certain arrangements are necessary. In order to situate a place under the category „tourist spa” several elements are required:

- exploitable mineral substances;

- necessary installations for the exploitation and use of mineral substances;
- specific infrastructure (accommodation units, public food, leisure, treatment);
- minimum arrangements and urban equipment.

Wellness resorts can be:

- of great tourist interest (international interest);
- of tourist interest (national or area interest);
- of reduced or limited tourist interest (area or local interest).

Their classification on categories (1st, 2nd, 3rd and spa) is made according to some criteria.

Table 1. Classification criteria for wellness resorts

No.	Criterion	Compulsory minimum points		
		Category I	Category II	Category III
1.	Quality and quantity of natural factors	20	18	15
2.	Comfort and functionality of the infrastructure	20	15	10
3.	Organization and equipment of the wellness medical assistance	20	15	10
4.	Quality of urban equipment and arrangements	20	10	5
5.	Organization and materialization of environmental and specialty protection	20	17	15
6.	Organization and equipment of wellness parks and leisure spaces	15	10	5
7.	Cultural, commercial and administrative organization and equipment	20	15	5
8.	Accessibility, transportation	15	10	5
	Total	150	110	70

Source: FITEC, Minimum conditions of recognition of wellness resorts, 1978.

Unfortunately, in Romania the wellness tourism is in decline, and the spa is perceived as something too expensive, like a luxury product by many people.

3. West Development Region – Wellness Tourism

One of the eight development regions of Romania that formed in 1998 through a benevolent association of the neighbor counties, and that corresponds to the divisions of level NUTS II in the EU, is the West Development Region. This region includes the province Banat (counties Arad, Timis, Caraş-Severin) and a

county from Transylvania (Hunedoara). As its name tells, the region is situated in the western part of the country at the border with Hungary and Serbia.

Its total area is 32.034 km², each county having an area similar to the others. 33% of the area represents the field area, 11,5% the hilly area, 12,1% the depressions and 43,4% the mountain area.

In accordance with its geographic position and relief is the moderate continental climate with sub-Mediterranean and Mediterranean influences.

The hydrographic network is rich and varied being made up of the streams of flowing waters, natural lakes and depth thermal-mineral waters. A privilege of the region is the Danube, the biggest and most important hydrographic water flow of the country.

The tourist potential of the West Development Region comprises attractive and numerous natural and anthropic resources that can be valorized under different forms so as to draw a large number of tourists.

Among the types and forms of tourism practiced in the region we can mention cultural tourism, religious tourism, archaeological tourism, wellness – spa tourism, winter sports tourism, wine tourism, gastronomic and folklore tourism, ethnic tourism, industrial tourism, cruise tourism, equestrian tourism, scientific tourism, intercultural tourism, extreme sports tourism, speleotourism.

The wellness tourism is well outlined in this region, being found in all four component counties. Its development is based on the existence of mineral and thermal waters, some of them known since ancient times.

For a sustainable development people should:

- respect the general protection and exploitation of mineral waters principles;
- rationally exploit the resources so as not to exhaust them;
- carry on adequate water procuring works;
- not allow water losses at the distribution, heating and treatments;
- not evacuate waste mineral waters used in treatments, untreated chemically and biochemically as there is the danger to pollute the environment through their chemical, bacteriologic and temperature composition;
- not degrade the environment through non-systematized, intensive development of places, the overcharge with constructions, not respect the area's specificity.

In table 2 one can notice the resorts in the region.

Table 2. Resorts of the West Development Region

No.	County	Name of resort
1.	Arad	Băile Lipova Moneasa
2.	Caraș- Severin	Băile Herculane
3.	Hunedoara	Băile Geoagiu Călan Vața de Jos
4.	Timiș	Buziaș Calacea

Băile Lipova is situated at 30 km distance from Arad, 2,5 km from Lipova, in Lunca Mureșului, at an altitude of 138 m. GPS coordinates: 46°3'50"N, 21°42'22"E.

Carbonated, bi-carbonated, ferruginous, sodium-rich, magnesium-rich and hypotonic mineral waters with a mineralization of 1,4-1,8 g/liter were discovered in 1818, and the resort was established in 1892. During the interwar period the Royal House used the water from this location.

In the resort the tourists benefit from baths with heated mineral water, hydrotherapy, electrotherapy, internal treatment with mineral water, but also from three outdoor pools. The accommodation possibilities are modest: bungalows, hotel-type rooms and lodges, even though they were rebuilt and equipped according to the criteria stipulated in the field legislation.

Moneasa is a wellness resort situated at 97 km distance from Arad and 19 km from Sebiș (the nearest town) in a beautiful area of the Codru-Moma Mountains, having the following GPS coordinates: 46°35'N, 22°18'E.

The archaeological discoveries showed that Romans used the waters here. Since 1886 Moneasa has been declared a resort and acknowledged in the whole country.

These thermal waters are mesothermal (24 – 33°C), bi-carbonated, calcium-rich, magnesium-rich, sodium-rich having the total mineralization between 234 and 256 mg/litre and a flow that varies between 0,4 and 4 litres/second. Following the measurements on water radioactivity from 1976, there resulted values between 0,69-1,0 nCi, that is much under 20 nCi, value starting with which waters are considered radioactive. Tourists can enjoy different therapeutical procedures like hydrotherapy, thermotherapy, phototherapy, massage, kinetotherapy, electro and magnetotherapy. The hotels, villas and pensions in the resort provide accommodation to all those in need.

Băile Herculane resort, well-known for its miraculous waters ever since 153 AD, is situated on the Cernei Valley between the Mehedinți and Cernei Mountains, in the Cernei-Domogled Valley National Park, 41 km distance from Drobeta Turnu-Severin, 80 km from Caransebeș and 170 km from Timisoara.

The place is situated at an altitude of 168 m, presents an ionization specific for an altitude of 3000 meters and has the following GPS coordinates: 44°52'N, 23°30'E.

The waters are thermal, their temperature varying between 20 and 67°C, slightly radioactive, and their composition groups them into:

- chlorine-sodium, bi-carbonated, slightly sulphurous waters with a total mineralization of 500 – 2600mg/ liter;
- chlorine-sodium, bi-carbonated, calcium-rich, magnesium-rich waters with a total mineralization between 600 and 3500mg/ liter;
- chlorine-sodium, bromine iodide, slightly sulphurous waters with a total mineralization of 2800mg/ liter;
- chlorine-sodium, bromine iodide, sulphurous waters with a high mineralization between 3870 and 7938 mg/ litre.

The procedures that tourists can benefit from are sulphurous or chlorine-sodium thermal baths, kinetotherapy, electro and hydrotherapy, inhalations, pump rooms, massage, sauna, medical gymnastics, leisure in the outdoor pool. There are numerous accommodation places, some older (hotels, villas) and others newer (pensions) that can accommodate a great number of tourists. Unfortunately, the hotels and the villas are run down and need big and rapid investments (some rehabilitation works have already started).

Băile Geoagiu are situated at an altitude of 350 m on the south-east side of the Apuseni Mountains, more precisely at the bottom of the Metaliferi Mountains, 19 km distance from Orăștie and 46 km from Deva, GPS coordinates being: 45°56'8"N, 23°9'44"E.

Also here, Romans used the mineral waters for therapeutical purposes. This is demonstrated by the archaeological discoveries, and in 1885 it was stated in documents that the baths were visited by locals and foreigners. The waters here are bi-carbonated, calcium-rich, magnesium-rich, slightly radioactive, hypotonic, mesothermal (29-33°C) waters which have a total mineralization of 1,1 – 1.4g/litre. The tourists can have warm baths with mineral water, electro and hydrotherapy, aerohelioterapia, medical gymnastics, massage, internal treatments at pump rooms. Băile Geoagiu offer accommodation to potential tourists in hotels, pensions and a 1 star camping site.

Băile Călan are situated at 2 km distance from the town of Călan, on the banks of the river Strei, at an altitude of 230 m, its GPS coordinates being: 45°45'11"N, 23°0'9"E.

Legends say that in these waters Decebal himself would comfort his pains and fatigue amassed during the wars. The rock carved pool with a length of 14,2m, a

breadth of 7,5m and a depth of 4m stands witness for the use of the mineral waters in Călan by the Romans.

The waters have a temperature between 27 – 29⁰C, and are bi-carbonated, chloride-rich, calcium-rich, sodium-rich, magnesium-rich and ferruginous (the presence of iron gives the waters the yellowish pinkish colour).

They are made available to those arriving in the area in the special pools. The resort presents a local interest. For the time being, the accommodation possibilities are modest since there are only 14 lodges.

Vața de Jos resort is located in the Zarandului Depression, in the Crișul Alb valley at an altitude of 233m, at 19 km distance from Brad and 55km from Deva. Its GPS coordinates are: 46°17'68"N, 22°59'83"E.

The mineral waters were appreciated by King Carol IInd of Romania. They are sulphurous, chloride-sodium rich, calcium- rich and thermal (35 – 38⁰C). The guests can use installations and equipment for warm baths with mineral water, subaquatic showers, aerosols, sauna, electrotherapy, infrared, ultraviolet, electro sounds, laser therapy, magnetotherapy, aeroheliotherapy, and cold baths in the outdoor pool. At the same time, they can stay at the hotels and pensions. This resort is of area interest and is set up as a spa and wellness resort.

Buziaș resort is situated in the Banat Plain at an altitude of 128 m, a distance of 34 km south-west from Timisoara and 23 km south-west from Lugoj, its GPS coordinates being: 45°5.'65 N, 21°21'.6 E.

It has been considered a resort since 1819, having a national interest. Its waters are mineral carbonated, bi-carbonated, chlorine-rich, sodium-rich, calcium-rich, magnesium-rich, hypotonic with a total mineralization of 2 – 6,6 g/l. Tourists can benefit from warm baths with carbonated water, mofettes, aerosols, inhalations, electro and hydrotherapy, medical gymnastics, fitness room, massage, internal treatments. The accommodation is provided by hotels, pensions and villas.

Calacea is situated in the Banat Plain at an altitude of 117m, 25 km distance from Timisoara and 30 km from Arad. Its GPS coordinates are: 45°91'16 N, 21°1.'01E. The waters with 38-39⁰C temperatures were discovered in 1880, and they are known to be bi-carbonated, sodium-rich, chlorine-rich and hypotonic. Those who come here can benefit from procedures like baths, hydrotherapy, kinetotherapy, laser therapy, wax wrappings, solux, ultraviolets, acupuncture, aerosols, massage and baths in the open. The accommodation is provided by a sanatorium type unit, and the interest is merely local.

As one can notice there are resources for the sustainable development of health care tourism in the West Development Region.

4. Conclusions

Currently, in Romania and abroad, there is an interest for health care. At a region level, as we have shown, the existent resorts do not meet the present standards because of old infrastructure and equipment. The quality of the waters, climate and other natural resources from the respective places could support the future development of the wellness sustainable tourism. Poor involvement from the authorities could lead to pollution and the destruction of resources.

An overcharge of the territory and a degradation of the anthropic resources have already been noticed in Băile Herculane, that is why the acceleration of preservation measures and the stagnation of issuing construction certificates for new accommodation units is required.

The defective exploitation of the springs in Buziaş and Lipova has led to the decrease in the quantity of CO₂, but luckily, since the deposit is very well fed the degradation phenomenon has been stopped.

The spa and wellness activities are perceived by the majority of the population as luxury activities and thus they are not very much solicited.

The wellness tourism known since ancient times has a future, and in the West Development Region it can develop taking into consideration the sustainability principles.

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Effectiveness of the Use and Management of Municipal Real Property in Bulgaria

Statty Stattev¹, Stela Raleva², Tatyana Daskalova³

Abstract: The paper provides an assessment of the effectiveness of the use and management of municipal real property (MRP), using data gathered through 173 questionnaires, addressed to representatives of 39 municipalities in Bulgaria. The paper is structured as follows: The first section gives information about the municipalities and is based on the following criteria: evaluation of the conditions in the cities; appraisal of the financial situation of the municipalities, the main sources of funding, and the sources that should be used in order to improve their finances; existence of the relevant planning instruments, etc. The second section focuses on MRP and refers to criteria such as: rating of different aspects of MRP; existence of MRP inventory, municipal strategy and municipal unit dealing exclusively with MRP; evaluation of the selling values and the level of actual MRP rents in comparison to market rents; outsourcing of MRP management functions; assessment of the interdependence between different units of the municipalities; analysis of the focus of the attention of the elected decision makers. The paper ends with some conclusions concerning the identified problems in the process of MRP management in Bulgaria.

Keywords: municipal real property; effectiveness; management

JEL Classification: H82; R50; C10

1. Introduction

The municipal real property (MRP) is an important component of the local public wealth, which provides material facilities for the development of the local government. It is one of the major factors for ensuring the effective economic independence of the municipality that must be treated by the local government as an instrument for sustainable urban planning and must be managed in the interest of the territorial community. MRP can perform these functions if it is used and

¹ Professor, DSc. University of National and World Economy, Department of Economics, 1700, Sofia, Bulgaria, e-mail: sstattev@unwe.bg.

² PhD, University of National and World Economy, Department of Economics, 1700, Sofia, Bulgaria; Corresponding author: stela.raleva@gmail.com.

³ Associate Professor, PhD, University of National and World Economy, Department of Economics, 1700, Sofia, Bulgaria, e-mail: tansu2@abv.bg.

managed effectively by the development of an integrated inventory and accounting systems, and by the use of corporate management approaches.

The paper presents the analysis of the effectiveness of the use and management of municipal real property in Bulgaria, based on the 173 surveys conducted among representatives of 39 municipalities. The selection of the municipalities was based on the principle whereby the biggest towns in the country had to be included, so that the experience of even the smallest settlements could be taken into account and the majority of regional centers and planning regions could be represented. The exact number of respondents from each municipality was determined on the basis of its size and the number of staff engaged in solving the problems of municipal real property.

The methodology adopted as well as the content of the questions laid down in the surveys was developed by a research team from the University of Thessaly - Volos, Greece, as a part of the activities under the project “PROMISE: Municipal PROperty Management In South-Eastern Cities”, funded by South East Europe Program of EC.¹ The questionnaires were filled in online or through face-to-face interviews, and the results were processed by a standard statistical analysis. The types of quantitative grades were determined taking into consideration the scale applied to each of the presented questions. Scales which contained both positive and negative grades involved percentage ratios (shares), whereas scales containing only positive values involved the estimation of average grades.

2. Analysis of the Municipalities

2.1. Evaluation of the Conditions in the Cities

In the grades given to the *dynamics of the population* in the respective towns, 50% of the respondents describe this dynamics as positive (see Table 1). According to 46.5% of the respondents, the population is declining whereas 3.5% think that the population has remained unchanged. The positive grades are most typical of the biggest towns, mostly of Sofia and Varna, whereas the negative grades are typical of the smallest settlements. The most frequent specific grade along a scale ranging from -5 to +5 was -1, which was given by 18.2% of the respondents. Next in the ranking are the -3 and +3 grades, which have an equal share of 12.9% of the overall grades. Third comes the highest +5 grade with a relative share of 11.8%. The relative share of the two lowest grades of -5 and -4 are symbolic standing at 2.4% and 2.9%, respectively, which holds true for the 0 grade which also has a share of 3.5%. The last two grades show that despite the negative dynamics in the

¹ See <http://www.promise-project.net/>

population in a number of municipalities, the cases of dramatically declining trends are exceptions rather than the rule.

Table 1. Evaluation of the conditions in the city

(% of the responses)

SCALE	-5	-4	-3	-2	-1	0	1	2	3	4	5	
Shrinking UP	2.4	2.9	12.9	10	18.2	3.5	9.4	6.5	12.9	9.4	11.8	Growin g UP
Shrinking LE	5.4	10.2	15.6	21	13.2	12.6	9.6	2.4	6	1.2	3	Growin g LE
HM in downturn	5.9	14.2	23.1	23.1	12.4	6.5	7.1	1.8	3.6	0.6	1.8	HM in upturn
CPM in downturn	7.1	19.6	15.5	20.8	12.5	10.1	6	3.6	1.8	1.8	1.2	CPM in upturn
High unempl.	9.5	16.7	14.3	11.3	13.1	9.5	10.1	5.4	8.3	0.6	1.2	Low unempl.
Many LIH	18.3	18.9	22.6	11.6	9.8	7.9	5.5	3.7	1.2	0	0.6	Few LIH
Low QUL	3	11.2	15.4	11.8	9.5	15.4	8.9	11.2	9.5	3	1.2	High QUL
Low QMS	1.8	2.4	3.6	3	5.9	10.7	8.3	16	24.3	20.1	4.1	High QMS
PT is in the beginning	1.2	3	3	4.8	10.8	28.1	13.2	8.4	9.0	12.6	6	PT has complet ed

Note: UP – urban population, LE – local economy, HM – housing market, CPM – commercial property market, LIH – low income households, QUL – quality of urban life, QMS – quality of municipal services, PT – property transfer.

The assessment of the municipality's *economic health* is definitely more negative (see Table 1). The negative grades of this indicator have been given by 65.3% of the respondents compared to a mere 22.2% who have given positive ones. Some 12.4% considered the economic situation as unchanged, which exceeds by several times the grades under the previous criterion. The maximal share of 21% of the respondents has given the -2 grade, followed by -3 and -1 grades with shares of 15.6% and 13.2% respectively. At the same time the share of all positive grades is measured by single-digit numbers, and the highest grades of +4 and +5 were given by only 1.2% and 3% of the respondents who answered this question.

The negative grades prevail in *the real estate market*, which account for 78.7% of the overall number of responses. The most frequent values are -2 and -3, each of which was given by 23.1% of the respondents, followed by -1 grade with a share of 14.2%. The positive grades are less frequent compared to the previous indicators for the state of the municipal economy. The +2 and +5 grades were given by only 1.8% of the respondents, whereas 4 grade was given by only one respondent. Respondents show a similar attitude to the *commercial property market*, in which

the share of all negative grades is 75.6% compared to 14.3% of positive ones. The most frequent negative grade is -2 given by 20.8%, followed by the -4 и -3 grades which have a share of 19.6% and 15.5% respectively.

Unemployment is described as high by 64.9% of the respondents, while according to 25.6% it could be described as low rather (see Table 1). This indicator reveals a well expressed differentiation by municipality, and is not seen as too serious a problem in the capital city of Sofia and the bigger towns, though it is seen as a serious one in the smaller settlements. Even the bigger settlements, however, assess unemployment as very low, which is shown by the small share of +4 and +5 grades. As for the *number of low income households*' indicator, it is seen as serious by 65.3% of the respondents, as 18.3% believe that this problem concerns a wide circle of households. With regard to the *quality of life in cities*, negative grades given by 50.8%, while positive ones – by 37.7% of the respondents. This shows that despite all of its disadvantages, urban life also enjoys a number of advantages, which cannot be ignored. *The quality of the offered municipal services* is described as high by 72.8% of the respondents, as the highest shares are those of the +3 and +4 grades – 24.3% and 20.1% respectively. At the same time the share of the minimal grades is again negligible, which shows that the municipal officials see sufficient room for improving the quality of municipal services. The largest number of the respondents (28.1%) has given an average grade of the progress of *the transfer of ownership process*, which comes to show that this is a process that began long time ago and that some of its negative stages have already been completed, but nevertheless the overall process still cannot be regarded as fully completed. This last conclusion is connected not only with the technological conditions of the ownership transfer, but also with its perception as an asset which could generate revenues and be used and managed effectively.

2.2. Existence of the Relevant Planning Instruments

Nearly 73% of the respondents think that their municipalities have an effective *current urban plan* (see Table 2). What is more, we have reason to think that the given number is far smaller than the real one, as it has been based on the overall number of respondents, not on the number of those who have answered this question, because of the lack of alternative answers. Most municipalities have adopted relatively recently current urban plans, as almost 80% were adopted after the year 2000, while 42% were approved in 2011. The *average number of years needed for their elaboration* is 3.2, whereas *the average number of years, needed for their approval* is 1.6. Most respondents think that the average time needed for the elaboration and approval of this planning document is 2 and 3 years respectively. Almost the same percent of respondents confirm the existence of *current development plans* – 72.3% and 23% say that these plans were adopted in

2011 or in 2012, and in just one case the current development plan was adopted before the year 2000. The situation with the *municipal real property (MRP) development plan* is almost analogous to the previous two planning documents. However, it is a common feature that all municipalities adopted these plans in the last 5 years, and many of them adopt such plans every year. The fact is that 2/3 of the municipalities have a MRP development plan in place, which comes to reveal that this problem is seen as a priority.

Table 2. Planning instruments

	Existence (% from responses)	Average number of years needed for its elaboration	Average number of years needed for its approval
Current urban plan	72.8	3.2	1.6
Current development plan	72.3	n.a.	n.a.
MRP management plan	71.1	n.a.	n.a.

2.3. Financial Situation of the Municipalities

The majority of the respondents (43%) described *the financial situation of the municipalities* in 2011 as enjoying a balanced budget (see Table 3). According to 42.4% the negative grades prevail, while only 14.5% assess the performance as positive. Among the negative grades the moderately negative ones (ranging from -1 to -2) prevail, whereas among the positive grades the average ones (2 and 3) prevail. Compared to the period of 5 years ago the financial situation has deteriorated, which may be largely attributed to the global economic recession and the debt crisis in the EU.

**Table 3. Financial situation
(% of responses)**

SCALE	-5	-4	-3	-2	-1	0	1	2	3	4	5
	high deficit		balanced			high surplus					
Last year	9.1	2.4	3.6	10.9	16.4	43	1.2	4.2	4.8	3	1.2
5 years ago	3.8	3.2	2.6	7.1	12.8	31.4	14.5	11.5	5.8	3.8	3.2

2.4. Currently Used and Recommended Sources of Funding

According to the respondents, the major *actual funding source* of municipalities are the *taxes imposed*, whose average score is 6.5 given that the evaluation scale ranges from 1 to 10 (See Figure 1). The second place goes to the *national and*

regional funding with an average score of 5.3, whereas the next place is taken by the exploitation of the MRP with a score of 5.2. Exploitation of other assets is assessed relatively low compared to the real property use, while the share in the overall funding of issuing bonds is almost negligible. The aforementioned information shows that municipalities see exploitation of the MRP as one of the major funding sources, which suggests focusing more attention to the effectiveness of its management.

The findings of the questionnaires show that the ranking of the currently used funding sources is almost analogous to their ranking in terms of the need for their use in order to improve the municipalities' financial situation (see Figure 2). Priority is attached to taxes imposed with an average score of 7.7 along a ten-point scale, while the issuing bonds potential is again the lowest (4.4%), even though it has been assessed as twice higher than the real use of this funding source. Exploitation of MRP now ranks second with a score of 7.3, which is quite close to that of taxes. This finding comes to show that municipal officials think that this funding source must be more widely used compared to its current application. Furthermore, it is believed that national and regional funding must preserve their central role and that the potential of exploitation of other assets must be further improved.

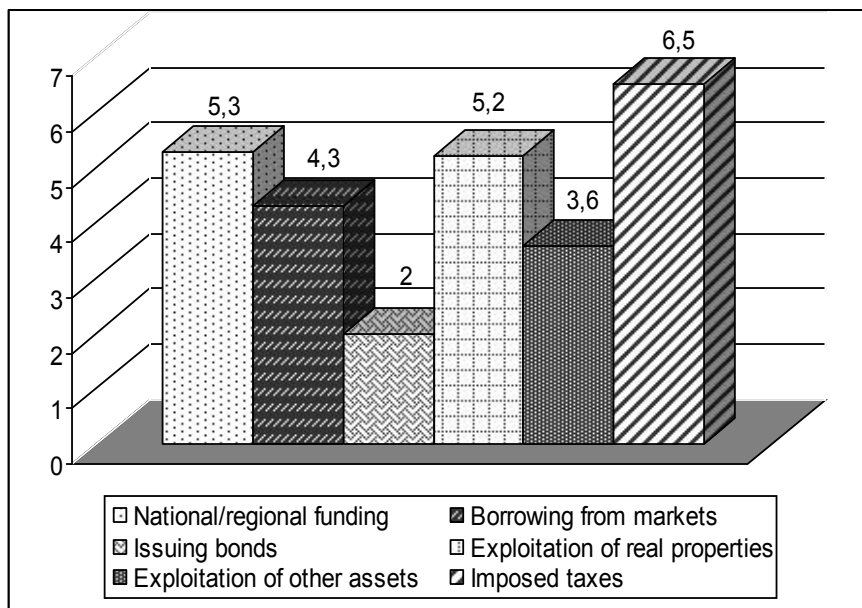


Figure 1. Actual financial sources (grades)

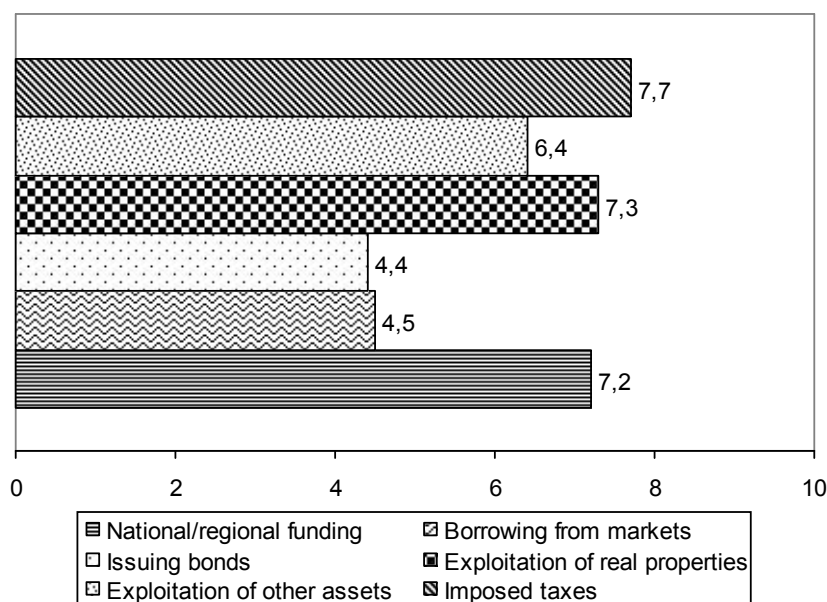


Figure 2. Recommended sources of funding (grades)

3. Analysis of the Municipal Real Property

3.1. Evaluation of Different Aspects of the MRP

The costs of holding MRP have been assessed as 4.3, which is below the average score in the applied scale and is among the lowest values compared to the other analyzed criteria. (See Table 4) It exceeds only the average scores for the *degree of vacancy of the MRP* and *the quality of MRP that is rented*, which have 3.1 и 4 respectively. The presented scores show that the respondents think that the available municipal real property is deemed as insufficient both in quantitative and in qualitative terms. *The net gains of the MRP* (revenues minus costs), *the degree of user satisfaction* and *the flexibility that the institutional framework affords to MRP management* have received almost equal scores. At the same time *the efficiency of the institutional framework* has received a high score, which holds also for *attitude towards the more active involvement of the private sector* and *the effectiveness of the MRP management*. First in the ranking come the importance of MRP in comparison to other municipal assets (in terms of values) and the importance of MRP in comparison to other municipal assets (in terms of revenues earned) which have received average scores of 5.6 и 6. These scores reveal that municipal officials are well aware of the relevance of municipal property, but they

believe that its potential which could bring economic gains and user satisfaction has not been fully taken advantage of yet.

Table 4. Indicators for MRP evaluation

Indicators	Grades
The costs of holding MRP	4.3
The net gains of the MRP	4.6
The degree of vacancy of the MRP	3.1
The quality of MRP that is rented	4
The degree of user satisfaction	4.7
The effectiveness of the MRP management	5.2
The importance of MRP (in terms of revenues)	5.6
The importance of MRP (in terms of values)	6
The efficiency of the institutional framework	5
The flexibility of the institutional framework	4.7
The attitude towards the more active involvement of the private sector	5.1

3.2. Municipal Strategy with Regard to the MRP Actions

Some 76.2% of the respondents point out that their municipalities have adopted a consistent MRP strategy. Only 36 of the respondents who are representatives of the smaller municipalities have given a negative response to the question of whether there is such a strategy in place. The existent strategies are largely based on the goals for cost-minimization, value (profit)-maximization, efficiency of use/services and social considerations, and the scores of all these goals are higher than the average ones and are relatively close in values. As leading motives, however, have been suggested *social considerations* and *efficiency of use/services* which have received scores of 6.5 и 6.1 respectively along a scale 0 to 10, which have prevailed over the traditional aspirations of the private sector for *cost-minimization* (5.8) and *value (profit)-maximization* (5.9).

3.3. Existence of a Municipal Unit Dealing Exclusively and Solely with MRP

Some 94.5% of the respondents have pointed out that there are *units that deal exclusively and solely with MRP* in their municipalities, which yet again comes to show that the problem of property management is seen as a priority (see Table 5). *The average number of employees* in these units is 10, which show that municipalities could rely on considerable administrative resources to achieve their goals in this direction. However, upon the

interpretation of these values it must be taken into consideration that they have a conditional nature to some extent. This is due to the fact that a larger number of representatives of the bigger municipalities were included in the sample, where the respective departments were more numerous. Also, part of the respondents from the biggest cities work at the regional administrations, and in their responses some have envisaged those engaged with municipal property management, whereas others – the overall number of the employees.

Table 5. Units and employees dealing exclusively with MRP

Existence of such a unit	Yes		No
	94.5%		5.5%
Number of employees	10.5		
Are they enough?	Yes	No	
	58.1%	41.9%	
How many more (average)?		3.6	
Are they sufficiently educated?	Yes	No	
	81.8%	18.2%	
Responsibilities overlapping (average grade)			5.3
Need for such a unit			7.1

The majority of the respondents – 58.1%, define those currently employed in MRP related units as *insufficient*. According to those who share this opinion, the number in question is insufficient and the opinion is formed that 3.6 officials on average should be further attracted. Hence attitudes prevail that shortages are related to the number of the employees rather than to their qualification. This conclusion is reconfirmed by the fact that almost 82% of the respondents describe as sufficient *the educational level of those currently employed* in MRP management. Among the municipalities which do not have any special MRP-related units in place, there emerges the view that the absence of such units leads to a higher than average *degree of responsibilities' overlap between those dealing with MRP*. The very need to set up such units is quite logically assessed as *high*, gaining an average score of 7.1.

3.4. Setting the selling values of MPR

According to 38.1% of the respondents, the value of a MPR for sale is set only by *external experts*. According to 20.2%, this price is determined *through auction*, whereas the *internal values* are decisive in only 15.5% of the cases (See Table 6).

The same percent of 15.5 of the respondents point out that the selling values of MPR are determined either by external experts or through auction. All other combinations for measuring selling values are applied relatively rarely and concern only less than 6% of the cases. If the aim is to see in what part of the questionnaires every method of evaluating the MRP is presented, then the sum of all percents exceeds 100%. With this second approach the external expert opinion is mentioned by 63.1% of the respondents, the auction – by 42.9%, while internal expert opinion – by 26.2%.

Table 6. Modes for setting the values of a MPR for sale

	% of the responses
Internally	15.5
By external experts	38.1
Through auction	20.2
Internally or by external experts	3.6
Internally or through auction	1.2
By external experts and through auction	15.5
Internally or by external experts, or through auction	6

3.5. Level of Actual MPR Rents in Comparison to Market Rents

Actual MPR rents set in the lease contracts are seen as lower than *market rents* by a total of 71.4% of the participants in the survey (see Table 7). The majority of the respondents have graded this indicator by -1 – 21.4%, which comes to show that the lagging behind of actual rents is not considered as significant. Next in terms of frequency of the responses comes the -3 grade, which has been given by 19.6% of the respondents, whereas 0 grade comes third, revealing an overlapping with rents, as suggested by 17.9% of the respondents. The real MPR rents are ahead of the market rents according to only 18 respondents, who comprise 10.7% of those who have answered the question about their ratio.

Table 7. Actual MPR rents set in the lease contracts

SCALE	-5	-4	-3	-2	-1	0	1	2	3	4	5
In % of responses	8.3	8.9	19.6	13.1	21.4	17.9	6.5	3.6	0	0	0,6

3.6. Outsourcing of MRP Management Functions

The issue of actual and potential outsourcing of MRP management functions turned out to be most complicated for the respondents, which becomes evident in the lower number of the received responses compared to the other questions – between 120 and 130. What is more, the received scores mark the lowest average levels of the studied indicators compared to the other components of the analysis (see Figure 3). An explanation of this finding could be partly sought in the fact not all respondents had a clear idea of the very process of outsourcing, nor how the quality of the services coming from outsourcing could be measured or what the specific meaning of efficiency of portfolio management, assets management and facilities management is.

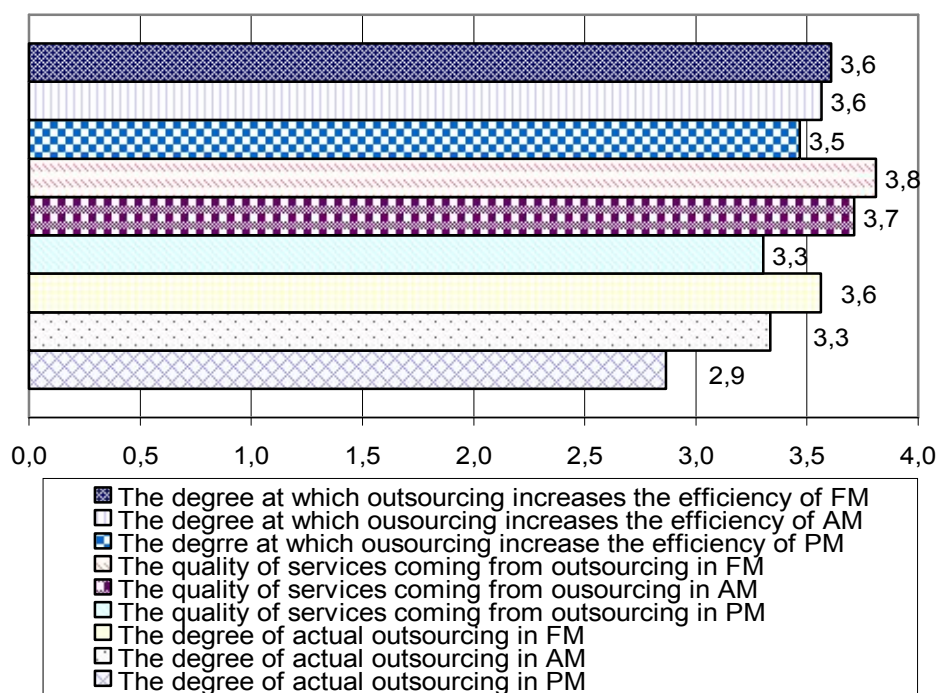


Figure 3. Outsourcing in PM, AM and FM

The degree of actual outsourcing in the portfolio management (PM), which concerns strategic decisions about the whole MRP portfolio, received the lowest grade of 2.9. As for the *quality of the services, coming from outsourcing in portfolio management and the degree at which outsourcing increases the efficiency*

of portfolio management; these indicators were given higher grades ranging between 3.3 and 3.5. As for the outsourcing in assets management (AM), which relates to the implementation of such decisions on each piece of property, in this case once again the actual outsourcing receives the lowest grade (3.3), while increasing the efficiency of AM receives a higher grade (3.6), and the quality of the services coming from outsourcing has received the highest grade (3.7). With regard to outsourcing in facilities management (FM), which concerns the daily management of MRP, actual outsourcing and its role for increasing the efficiency of FM have scored equal grades (of 3.6), whereas the quality of services gets 3.8 which is the maximal grade for the indicators related to outsourcing.

3.7. MRP Inventory

Over 95% of the participants in the survey point out that the municipalities they represent have MRP inventory (see Table 8). Most of them – 33.3%, are in the form of hard copies (HC), 22% of them are digital, and 9.3% are linked with GIS. Some 16% of the respondents have pointed out that their municipalities use both digital and hard copy versions of the inventories, while 11.3% use at once a hard copy form and a form which is linked with GIS. In 4.7% of the three major forms of inventory are being used simultaneously.

Table 8. MRP inventory

Existence of MRP inventory	Yes							No
	95.2%							4.8%
Form of inventory	D	HC	GIS	D и HC	D и GIS	HC и GIS	D, HC и GIS	
	22%	33.3%	9.3%	16%	3.3%	11.3%	4.7%	
Information registered	Ph	Fin	Func.	Ph, Fin	Ph, Func.	Fin, Func	Ph, Fin, Func	
	56.8%	9.7%	0%	20%	5.8%	1.9%	5.8%	
Frequency of updating	Regularly		Occasionally		Rarely		Never	
	78.7%		18.1%		1.9%		1.3%	
Is there important information missing?	Yes				No			
	13.9%				86.1%			
Are there important properties that are not registered	Yes				No			
	10.4%				89.6%			
Does it include all types of MPR?	Yes				No			
	85.3%				14.7%			

In 58.6% of the cases the information provided in the inventory concerns the physical features of MRP. In 20% of the cases where the respondents have provided answers to this question, part of the information concerns physical features, whereas another part concerns financial data. According to 9.7% MRP inventories are focused mainly on financial indicators, whereas according to 5.3% they include at once physical, financial and functional data. The frequency of the updating of the inventories is normally very high – according to 78.7% of the respondents, the information is regularly updated, while 18.1% of the respondents think that the information is updated occasionally. The share of those who have pointed out that the information is updated rarely or is not updated at all is negligible and stands at 3.2%. It is a commonly held view that the registers usually do not lack relevant information and that the share of real property which is not included in the register is insignificant.

3.8. Interdependence between Different Units of the Municipalities

As for the degree of interdependence between different MRP related units of the municipalities, it is described as average (see Figure 4). The indicator which measures to what an extent the MRP management department has direct access to the financial data stands at 5.5, which comes to show that the respective departments have established good channels communication. At the same time the degree to which other municipal departments have direct access to MRP related financial data is assessed as lower, which shows that the financial information is provided as a priority to the MRP department, which is more a user of the information provided by other departments, and in particular the finance departments, and less as a source of such information. The fact that the degree to which other municipal departments have access to other MRP data also stands at 5.5 indicates that the MRP department is not only a user, but also an important source of information related to real property. The highest value in figure 4 belongs to the indicator awareness of elected officials for the possibilities for better management of MRP, which, together with the rest, could be considered as a condition for the effective management of municipal property.

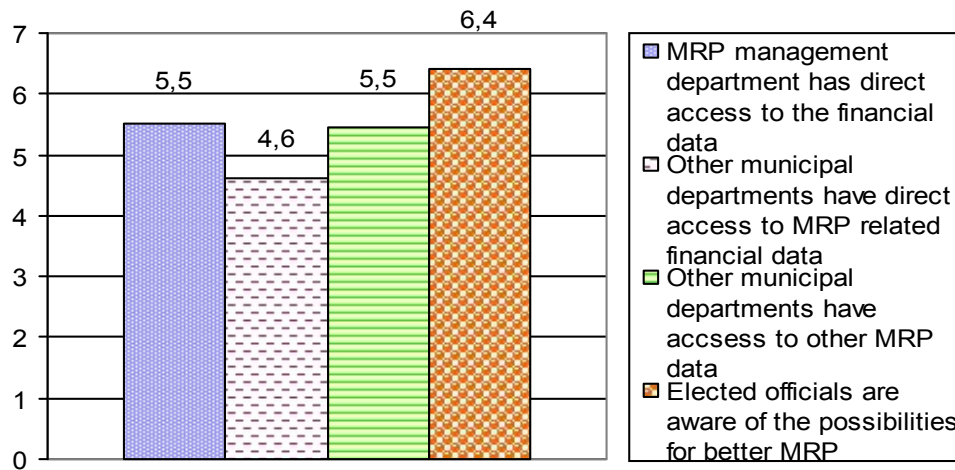


Figure 4. Interdependence between different MRP related units

3.9. Focus of the Attention of Elected Decision Makers

The data of the surveys show that the attention of the elected decision makers is addressed mostly to the portfolio of MRP (65.7% of the respondents) rather than to individual objects (34.3%). Even though in the online versions of the questionnaires the two questions were formulated as alternative variants and the two questions could not possibly get a positive answer at once, during the face to face interviews it became clear that a big part of the respondents thinks that the focus should be put both the portfolio and on the individual properties.

4. Conclusions

Based on the above analysis, the following specific issues concerning the efficiency of use and management of MRP emerge: a) negative trends in the economic conditions in the municipalities, and downturns of both housing market and commercial property market; b) exploitation of the MRP ranks barely third among different sources of funding, despite of the priority given to the adoption of MRP management plan and the municipal strategy with regard to the MRP actions; c) MRP is deemed as insufficient both in quantitative and in qualitative terms, and its potential is not fully used; d) insufficient number of employees in MRP related units and high responsibilities overlapping between different units in case of absence of a special one; e) actual MRP rent is usually lower than the market rents;

f) most of MRP inventories are focused mainly on physical features of the property and do not pay enough attention to financial data.

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Creative Industry a Pattern for Growth in Bucharest Ilfov Region

Ana Cristina Adumitroaei¹, Simona Curpan²

Abstract: Creative industries comprise the creation, production, marketing and distribution of products and services resulting from human creativity. The European cultural and creative industries (CCI) represent a significant set of industries. Social, cultural and technological changes have helped fuel our thirst and demand for cultural products, new forms of entertainment, distraction, and inspiration creative and cultural industries manufacturing and production activities are the most regionally concentrated, and consumer oriented activities such as retail the least regionally concentrated. In this paper, we consider that the creative and cultural cannot be seen simply as cyclically dependent service functions to the rest of the economy. In Bucharest Ilfov region the cultural and creative industries is a model of economic development.

Keywords: creative industry; economic development; marketing

JEL Classification: O1

Creative Industries in European Union

The European cultural and creative industries (CCI) represent a significant set of industries. CCIs are by nature inter-disciplinary, they combine culture on one hand and economy on the other. Arts and culture are often described as the core in a system where the cultural and creative industries surround the core and the wider economy surrounds the cultural and creative industries.

Social, cultural and technological changes have helped fuel our thirst and demand for cultural products, new forms of entertainment, distraction, and inspiration. Driven by these changes entirely new industries have emerged (e.g. computer games, web design), older cultural industries have gone from being the preserve of the elite to mass market global industries (e.g. books, high fashion, designer goods), and traditional consumer industries have tried to redesign and repackage

¹ The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, Corresponding author: anacristina.adumitroaei@adrbi.ro.

² The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, e-mail: simona.curpan@adrbi.ro.

what they have always done to suit consumers' insatiable desire for culture and creativity.

Europe's creative and cultural industries are global leaders and competitive exporters in a wide range of fields. They are the heart of creating Europe's culture and identity, and central to promoting Europe's identity around the world. Moreover they are an aggregate group of industries that in 2009 employed a total of 6,576,558 persons or 2.71% of the European labor market. Employment and competitiveness in the creative and cultural industries is not directly related to labor market size or population and cannot be considered a simple by-product of human habitation. Creative and culture activities are knowledge driven industries that are drawn to specialized labor markets and to clusters.

At European level, the framework for cultural statistics identified (Power, 2010) eight domains (artistic and monumental heritage, archives, libraries, books and press, visual arts, architecture, performing arts, audio and audiovisual media/multimedia) and six functions (preservation, creation, production, dissemination, trade/sales and education) that constitute the "cultural sector" from a statistical point of view. The challenge in many sectors is that CCIs have to cover the costs of "going digital" (digitization of content, skills development and update of staff qualifications and complex issues concerning adequate digital rights management etc.) while also investing in and testing new business models which generate a "payback" only after some time.

Keeping business going under a traditional business model while managing the transition to new business models still under development could be difficult for many creative enterprises.

As in all other sectors of society, the research and development aspect of creativity and creation needs to become stronger. If Europe wants to stay at the cutting-edge, further interactions between different artistic and creative disciplines, (sub)sectors, economic fields and points in the production chain are needed. A more intensive, systematic, and wide-ranging collaboration between the arts, academic and scientific institutions should be promoted, as well as private-public initiatives to support artist-led experimentation

The production processes of the CCIs are subject to constant adaptation and innovation, making it essential to exchange information, build on intangible assets and attract talent to refresh the process. These characteristics derive from the very nature of cultural products.

Creative and Cultural Industries in Romania

According to the National Development Plan for the Cultural Sector 2007-2013, the cultural industries are defined as those activities of production and reproduction, as well as large scale distribution, of symbolic goods. They tend to occupy an increasing role in the economic, social and intellectual life of communities and in the continuous reshaping of behaviour. These industries consist of activities of production and public communication of symbolic goods, whose economic value derives primarily from their cultural value. The sector includes both “classical” cultural industries (audio-video production, radio, film, editing), “new” industries (design, multimedia, architecture, gaming), as well as traditional arts (visual arts, handicraft, shows, written culture).

Currently, there is a shift towards the more recent concept of cultural and creative sector. This concept was used in a new initiative: *Public Policy Proposal for the stimulation and the support of Creativity in Culture*. The main aim of this proposal is the development of the economic dimension of culture by providing a financial framework, appropriate fiscal and social regularity bodies in the cultural and creative industries, especially SMEs, including the independent cultural sector (self-employed, creative and independent artists).

In 2011, the Centre for Research and Consultancy on Culture completed the second edition of the study *The Contribution of Copyright-based Industries to the Romanian Economy*. The study is based on the WIPO copyright model, in which the creative industries are divided into CORE-copyright industries, partial copyright industries, interdependent copyright industries and non-dedicated copyright industries. The contribution of creative industries to the gross domestic product (GDP), labour force, international trade and investment, reflect their growing importance for the Romanian economy. The contribution of these industries to the national economy registered a significant evolution: from 3.75% in 2002 to 5.95% in 2009. Moreover, in 2008 the creative represented 7.24% of the Romanian economy. This figure is comparable to the contribution of real estate transaction, 7.08% and even higher than that of the tourist industry 1.34% and restaurants 1.50%. The negative trend exhibited in 2009 by the creative industries is deeper than that of the national economy, which shows that compared with other economical domains this sector is more sensitive to external factors.

The CORE-copyright industries involved around 31 000 firms, accounting for 4.5% of the Romanian firms. Over a seven-year period from 2002 to 2008, the number of firms in the CORE copyright industries grew rapidly, with a rate of 26% per year. Turning now to the different domains, on average, the number of firms increases each year, reaching the highest level in 2008. However, this growth had ended the following year, when there was a wide degree of variation with individual categories experiencing decreases between 2% and 40%. Amongst the

categories with the highest decrease, the recordings reproduction stands out; after a decrease of 4% in 2008, the number of firms that were actively engaged in this area continued its negative trend. The same descendent trend was visible in book publishing (from 1 523 firms in 2008 to 1 047 firms in 2009). In 2009, advertising and software and new media were two areas that exhibited a positive trend; the number of firms operating in programme editing grew by 40%. (<http://www.culturadata.ro/>)

In 2009, there were 141 736 employees in the creative industries, representing 4.48% of the active labour force. The number of creative workers in Romania has grown considerably during the last decade. The same study indicates that from 2002 to 2008 the employment in the creative industries increased by 65%. However, this trend has shown a decrease in 2009, when 142 000 workers were employed in the creative industries. In 2009, the greatest volume of creative workers was absorbed by software and new media – 36 465 employees (26% from the total number of creative workers), book editing/ publishing – 24 100 employees (17% from the total number of creative workers), advertising – 15 066 employees (11% from the total number of creative workers), performing arts – 2 310 employees (2% from the total number of creative workers), music industry – 540 employees (0.5% from the total number of creative workers).

Table 1. The number of employees in the creative industries, 2002-2009

	2002	2003	2004	2005	2006	2007	2008	2009
CORE copyright industries	44 019	76 115	89 613	101 801	91 451	99 773	121 299	99 073
Partial copyright industries	30 044	37 738	36 701	32 257	30 183	31 509	26 877	21 520
Interdependent copyright industries	17 733	17 203	14 683	24 864	13 940	13 224	14 055	11 129
Non-dedicated copyright industries	11 821	15 524	16 000	18 528	8 777	8 601	8 825	10 015
Copyright industries	103 617	147 045	156 521	180 450	144 352	153 107	171 056	141 736

Source: Centre for Research and Consultancy on Culture, The Contribution of Copyright-based Industries to the Romanian Economy, 2011.

The main challenges to small and medium sized culture industry firms in Romania were underlined in a recent study realized in 2009 by the Centre for Research and Consultancy on Culture named *The Economic Crisis' Effects on Cultural Operators*. The results of the research pointed out that, in the first half of 2009, the most notable decline concerning funding sources was related to sponsorship, public

funding, self funding, scholarships and grants. Also, most businesses (78%) indicated a decline in their turnover rate, between January 2009 and July 2009, compared to the same period in 2008. One of the biggest challenges is related to growth in company expenses caused by an increase in the exchange rate: as many expenses (rent, copyright, translations, artists' payments, etc.) are equated in foreign currency (Romania tries to align with European Union's monetary policy and Romanian companies are trying to avoid financial losses caused by exchange rate differences). Among the investment activities included in the research, the most notable decline has been encountered in the purchase of technical devices (73%) and investment in professional training (66%). The economic crisis affected the companies in the cultural field in terms of the number of distributed products and the number of returns. There has been a lower level of demand in the market and 44% of the respondents stated that the number of returns from distributors has increased. (<http://www.culturadata.ro/>)

Bucharest –Ilfov Region and CCIs

The restructuring process accompanied by de-industrialization has resulted in the emergence of many brownfields and in an increase in unemployment. In this situation the creativity and the rate of new firm formation in the creativity industries are considered a solution for regional economic growth. Flexibility at the workplace and the fact of bringing together more persons coming from different activity fields in a creative business lead to increased diversity and the necessary premises for creating new and original products and services. Practically, the way of working is completely different from the one to be found in traditional companies and organizations, because people with different background, education and skills are employed. Briefly, this sector presents diversity for people, practices and markets.

In the study “The economic importance of creative industries – a territorial perspective” - GEA 2011 the Bucharest Ilfov region is on the first place in some fields of activity:

Year 2009

CAEN code	Activity	Number of firms	Number of employers	Turnover RON
5829	Software production	449	5.969	636.612.740
5911	Motion picture, video and television programme production	933	3.404	726.111.168
6020	Programing and broadcasting activities	87	4.348	1.307.683.909

6201	Software client oriented production	1.355	11.543	2.169.778.051
6202	Consultancy for computer programming	1.091	4.715	1.629.992.090
6209	Related activities for information technology	536	3.662	1.311.144.017
7111	Architectural activities	1.476	4.707	696.301.650
7311	Advertising activities	2.837	11.144	4.549.903.897
7312	Services for media representation	319	2.005	996.759.138
9103	the operation of museums of all kinds, the operation of historical sites and other touristic sites	19	905	500.268.214

In creative industries, Bucharest is on top of the districts as economic development with 12955 firms, 78338 employers and 18.409.548.827 Ron turnover – date from year 2009

Conclusion

This sector creates new types of markets and practices, new attitudes and consumer behaviours. Lifelong learning, creativity, autonomy and innovation are only some of the advantages of the activities performed within the creative industries. In the Bucharest Ilfov region are more than 15.000¹ firms in creative industries and may be a model for regional development ,

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¹ GEA – The economic significance of creative industries - a territorial perspectives, 2011.

The Management of Environmental Resources and its Regional Implications

Claudia Elena Paicu¹, Diana Andreia Hristache², Nilghiu Ismail³

Abstract: The management of environmental resources at regional level is closely related to social, economic and community's activities. Community's activities should be led taking into account the environmental sustainability. Preserving and improving environment's quality is one of the main national objectives in nowadays Romania. Under these circumstances the main purpose of our research is to highlight the major aspects of this debate. Therefore, the study of social and economic activities impact on the environment is a major issue that modern society has to face today. As a consequence there is necessary a well balanced management for the environment resources in accordance with certain rules and terms, not only at local level, but also at regional and national level.

Keywords: regional development; environmental sustainability; environment's quality

JEL Classification: F64; O1; Q01

Introduction

Nowadays, the environment's deterioration is a major issue and its effects could be seen at local, regional and global level.

The economic growth in excess in one hand, and on the other side the underdeveloped regions bring new issues to debate in the third millenium. As a consequence, the management of the environment's resources, in accordance with the legal framework is a main priority and it requires the development of sustainable management plans, focused on three areas: economic, social and ecological. For each of these three domains it is necessary to establish some well defined objectives that include the sustainable ecological activity.

¹ Senior Lecturer, PhD, Academy of Economic Studies, Romania, Address: 6 Piața Romana Bucharest 010374, Romania, Tel.: +4 021 319 1900, Corresponding author: claudiapaicu@yahoo.com.

² Associate Professor, PhD, Academy of Economic Studies, Romania, Address: 6 Piața Romana Bucharest 010374, Romania, Tel.: +4 021 319 1900, e-mail: dianahristache@yahoo.com.

³ Senior Lecturer, PhD, Academy of Economic Studies, Romania, Address: 6 Piața Romana Bucharest 010374, Romania, Tel.: +4 021 319 1900, e-mail: nil_ism@yahoo.com.

The need to study the compendium on the development and conservation of the environment issues caused our orientation towards the start of a series of specific research. According to our analysis, the conclusion that emerges is the need to ensure a multidisciplinary approach to the problems posed by the environment, especially in terms of sustainability both locally and especially at regional level. (Hristache et al., 2010). Only in this way the economic and social objectives, specific to each human communities, must be achieved.

The Regional Development from the Perspective of Environmental Sustainability. Case Study: Romania

The impact study regarding the regional sustainable development of Romania, from the perspective of environmental sustainability, points out some unfavorable aspects.

First, the protection of the environment, in the context of sustainable development includes several landmarks such as: combating pollution phenomena, inherent to some human activities; prevention of possible environmental damage; European standards regarding the environment's protection should be adapted, assimilated and applied. There also should be included: international projects for Danube and Black Sea membership countries; biodiversity and wetlands' protection; projects regarding activities of monitoring water quality and forests, global ecological phenomenon effects; solving acute ecological issues, such as: reduction and recovery of waste, green agriculture, promoting green technologies, sustainable transformation of human settlements (The National Plan for Development 2007-2013).

In consequence, the activation of environmental sustainability principle in Romania's area, in our opinion, requires for a connection between this principle and the social and economic objectives at national, regional and local level. We highlight and take into account the communication component – moreover, we consider that this principle must be developed according to the communication component built both at institutional regional level, and at community level. (Fig.1).

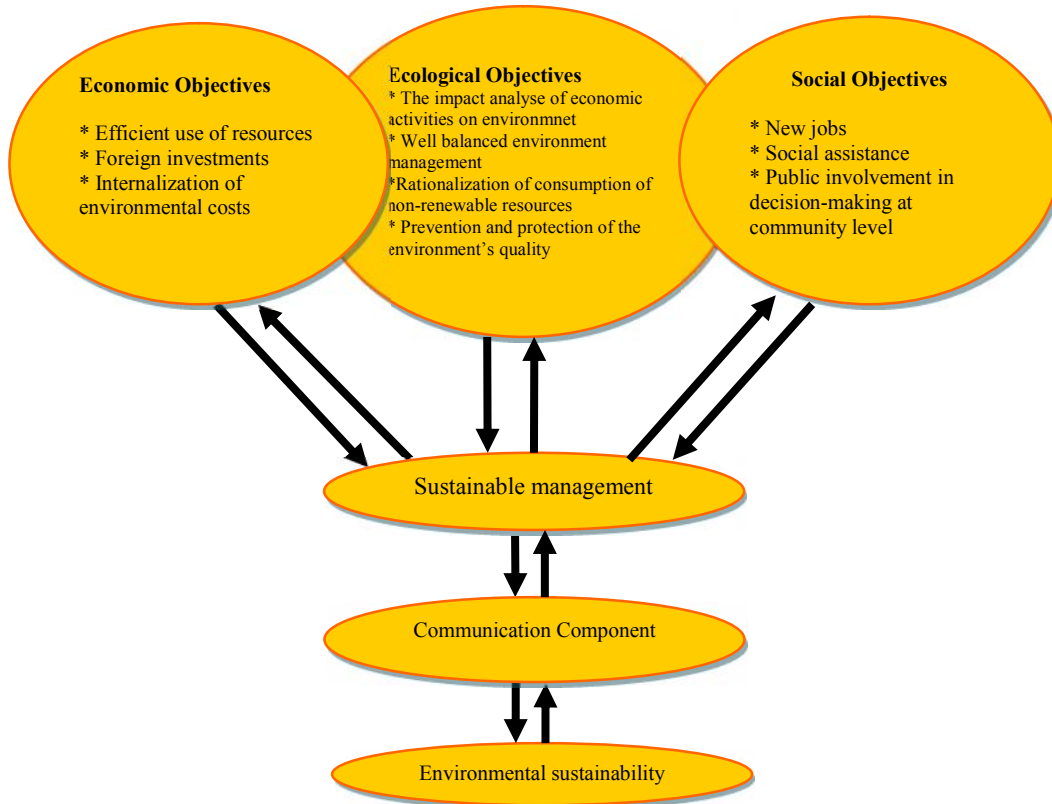


Figure 1. Environmental sustainability and its image

The major side of communicational component at Romanian regional and local area is considered to be more important, as it generates the necessary feed-back for the activation of sustainable management, under the circumstances of Romanian policies of environment, policies that have as main objectives: ensuring a clean environment for the health of the inhabitants of the country, stopping the vicious circle of poverty and environmental damage, ensuring innovative regenerative growth for the benefit of present and future generations and the harmonization of specific environmental legislation with that of the European Union, with an large emphasis on the bilateral relationship between *environmental protection and sustainable development*. (The National Plan for Development 2007-2013).

In Romania, one of the unfavorable aspects is given by the difference between European and Romania standard environmental indicators, but this aspect could be removed by more foreign investments in Romania. One of the most important positive aspect of foreign investments in Romania leads to the ecological rebuilding, which is so much necessary in our country.

In the bilateral relationship between economic and environmental activity, *industry* has the leading role. Industry is the main branch of the Romanian economy, but in the same time is also the major activity which generates pollution.

In 1991, industry was 43.3% from GDP, in 1992 it was 44.7% from GDP and in 1994 it represented 32.3% from GDP (Negrei, 2004). In the 2010 there is mentioned an industrial increase in GDP represented by an increase from 23% in 2008 to 26.4% in 2010 (Dachin, 2012).

But this branch causes also negative effects on all categories of environmental factors: air pollution, soil pollution, forest damage, waste management. There are lots of causes for these situations: old technologies or less productive raw material; high energy consumption; from technological processes result large quantities of waste; air pollution is not controlled and monitored; huge quantities of fugitive emissions; lack of an environmental management system; low productivity; too much employees; lack of agreement with the third parts for maintenance services (Register of environmental pollutants in activities covered by the IPPC Directive, 2003).

Air pollution has by far the most negative effects, as air is perhaps the most important environmental factor. Air is essential for life; airless human body can survive not more than a few minutes, while without water human body can live few days and without food even few weeks. The amount of air that the human body needs for a period of 24 hours is equivalent to 12 to 14 m³, while the need for water is 2-3 liters and only one kilo for foods (Fauci & colab., 2003).

Even since 1992 there were alarm signals regarding the air pollution. So, the ending conclusions of the United Nations Conference for Environment and Development from 1992 that was held in Rio de Janeiro, underlined the fact that the air pollution is the most critical problem which affects the future of human being, as each ecosystem is closely bound to the earth atmosphere composition. In accordance with the World Health Organization, by their action air pollution could be classified such as: irritant pollutants, fibrosis pollutants, allergy pollutants, asphyxiating pollutants, toxic pollutants and carcinogenic pollutants. For these categories there are national emission edges, which regulate the maximum of the allowed amount.

In Romania, the quality standards for surrounding were first established in 1973, revised in 1987 and today there is in use Law no.104/15.06.2011 concerning ambient air quality published by The Official Monitor of Romania, Part I, no. 452, 28 June 2011. The purpose of the law is to protect human health and the environment as a whole. Also, the Ministry of Environment and Forests delivers the necessary information and details regarding the maximum limit of air pollution, daily and for a short period of time.

However the air quality in many areas do not fit with the established limits, and the consequences could be seen in the surroundings of human settlements, poor state of green lands, illness linked to pollution and high rate of mortality. In Romania we can talk about air pollution especially on regional and local area, with industrial platforms situated in the neighborhood of big towns. Pollutant emission of specific economic activities alters the environment and the air quality, giving rise to chain effects: greenhouse effect, acid rain, deterioration of soil, flora and fauna, and at the same time people are exposed to serious dangerous illness, which sometime could be irreversible.

Pollution degree of the atmosphere and air quality in Romania varies in accordance with the level of economic growth of the urban area. Database from 1991 shows that 9% from the settlements in Romania were negative influenced by a low quality of air; all these human settlements belong to well developed industrial areas. There could be mentioned: for non-ferrous metallurgy settlements such as Copșa Mică, Baia Mare and Zlatna with more than 50% lead emissions; for steel industry settlements such as Hunedoara, Galați, Reșița and Călărași with more than 50% emissions of dust suspensions, sediments and carbon dioxide; chemical and petrochemical industry with pollution in human settlements such as Făgăraș, Borzești, Săvinești and Onești with sulfur dioxide, hydrochloric acid and nitric monoxide; electric power industry: electric power plants that run on fuel, coal, oil and natural gas in industrial settlements such as Rovinari, Turceni, Valea Jiului and Bucharest with high quantities of carbon dioxide, sulfur dioxide, carbon monoxide, soot, oxides of nitrogen and particulate sediments.

Studies made in these areas by series of Health research Institutes highlight serious negative effects of pollution over population's health of those who are living in these areas. For example, in Copșa Mică the exposure to extremely high lead emission had a great impact over inhabitants health and in special on children: more than 40% of pupils had disorders of lung functions (much lower than normal), more than 50% of pupils were under weight and height and in general there can be noted an increasing rate of respiratory diseases in the whole population living in these areas. In Zlatna, on 40% of examined children there were significant nervous shortcomings. Also in areas such as Năvodari and Râmnicu Vâlcea there should be underlined an increase of respiratory diseases and an increasing rate of mortality caused by these diseases.

The main polluting substances, depending on the frequency of exceeding the maximum concentration allowed level for the *period 1990 - 1994* were: dust suspension – up to 100% , lead – up to 100%, ammonia - up to 100%, sulfur acid – up to 58%, sulfur dioxide – up to 47%. These effects were corroborated by other phenomena: the area of agricultural land affected by various factors of pollution amounted to 6.3% of the country's agricultural area and forest area affected by pollution caused by drying was 7.3% of the total forests, in the year 1992. As a

result of these imbalances produced by economic and social activity in Romania we could mention the extinction of 8 species of wild animals and 17 species of wild flora (Negrei, 2004).

Thus, we can observe that air pollution may act directly on the population, causing some health problems, but may also have indirect effects on the population, through the influence of other environmental factors, with subsequent effects on communities.

For the *period 1994 - 2004* the balance of collected data generates the following statistic table. For ammonia, in three most polluted cities in the country - Râureni, Săvinești and Târgu Mureș – there has been a sharp reduction in frequency of exceedance (Săvinești, from 11% in 1996 to 0% in 2003 and Râureni from 9% in 1996 to 1.76% in 2003). In three of the most polluted cities in the country, Arad, Baia Mare Copsa Mica for particulate matter, there was a decrease in the frequency of overflow - Baia Mare, from 28.6% in 1997 to 0% in 2003 - but there was a significant increase from 1997 to 2003 in Arad. (National Plan for Development 2007-2013). It is noted that nationally, particulate matter and sediment are the main pollutants.

In the year *2010*, at national level the limit of air pollution emission, which regulate the allowed amount of air pollution had the following values (Fig.2.)

<i>SulfureDioxide (thousand tones/year)</i>	<i>NitrogenOxides (thousand tones/year)</i>	<i>Ammonia (thousand tones/year)</i>	<i>VolatileOrganicCompounds (thousand tones/year)</i>
918	437	210	523

Figure 2 The national air pollution emission limits for 2010

Source: Database from Ministry of Environment and Forests on-line:
http://mmediu.ro/legislatie/controlul_poluarii.htm

The level of air pollution of these particles is still at an increased level and in many monitored regions the accepted level exceeds the maximum permissible concentrations (figures are given during 24 hours and during an year). The figures underline the fact that we need to focus on regional development and on the implementation of the environmental sustainability.

Unlike the above areas, for Bucharest, the data collected by the National Environmental Protection Agency recorded positive values. Thereby in March the general air quality index that includes in its composition sulfur dioxide (SO₂), nitrogen dioxide (NO₂), ozone (O₃), carbon monoxide (CO) was at a very good level. (National Environmental Protection Agency)

Nowadays, in Romania there are 142 continuous monitoring stations for air quality, equipped with automatic measurement of key atmospheric pollutants. Monitored pollutants, measurement methods, accepted limits of emissions, alert and information thresholds and criteria for location of monitoring points are agreed in accordance with the national framework for Atmosphere Protection and comply with the requirements of European regulations. (National Environmental Protection Agency)

Thus, air pollution represents the presence in the atmosphere of foreign elements of the natural composition of the air, which by their nature, by the concentration and the time they are acting on the body can be harmful, causing health problems in people exposed. Sources of air pollution can be divided into two groups: natural and artificial sources.

Natural sources include soil erosion process (resulting particles entrained by air currents in the atmosphere), plants and animals (pollution pollen, hair, feathers), volcanic eruptions (throw particles, gas and smoke into the atmosphere - persistence long), cosmic dust and more.

Artificial sources are resulting from socio-economic activity and represent a true source of air pollution. In this category are included also various industrial processes: non-ferrous metal industry, chemical industry, steel industry, building materials, etc.

In accordance with the previous underlined database concerning the harmful action of atmospheric pollutants on human health, it is necessary to develop measures to prevent and control air pollution which should include two categories of rules regarding pollution prevention: health measures and socio-economic restructuring measures, in conjunction with the environmental quality.

The medical measures are measures that consist in establishing maximum permissible limits or concentrations of air pollutants (maximum concentration which is not injurious to the body). These barriers are established in relation with each pollutant indicator and should be controlled by the authorities which are charged with the pollution prevention of the environment.

The socio-economic restructuring measures, in conjunction with the environmental quality, should be applied by specialists with the purpose to precisely achieve maximum admissible concentrations without exceeding them. We set out in this category: developing industrial buildings outside the human settlements, on industrial platforms; establish on the calculation base of certain distances required between industrial enterprises and houses depending on pollution; using less polluting fuels or their treatment to remove impurities; ensuring a more complete combustion to decrease pollution's level; installing industrial equipment with containment or to neutralize pollutants; regulating combustion to vans by reducing exhaust pollutants; restructuring through qualitative changes; removing technology

with high obsolescence and physical, both in relation to the possibilities of exploitation of resources and compared to the volume of pollutant emissions, etc.

As regarding the expenses related to environmental activities, from data provided by the National Institute of Statistics, expenditures for environmental protection at the national level showed an upward trend, but the investment percentage in environment in GDP is still very low compared with that of countries of European Union.

Conclusions

Lately we are witnessing an increasingly promoting process of the environmental concept, more intensive, regarded as a component of the development of human society. This approach is a fact universally understood and accepted.

The idea of community development and economic development without resource depletion by moving beyond the limit of affordability and regeneration of ecosystems has led to the concept of sustainable development or sustainable management (Bran, 2002). In conclusion, we can state that in order to properly perform an analysis of the relationship between the socio-economic structures and ecological balance there should be considered at least three criteria: resource consumption, which is reflected in pressure on the fund and natural capital stocks; the volume of pollutant emission, which is reflected in air quality; business efficiency, which is reflected in the financing capacity of environmental costs. (Negrei, 2004)

It is therefore essential the need for coordination of the efforts not only regionally but also internationally, in order to find a legislative framework and develop an action plan for environmental protection, on standards imposed by activating the principle of ecological sustainability. Engaging the civil society in this way is a step worthy of being highlighted, but only with the condition that the relationship between the state and civil society will be held by active communicational platform where the citizen is regarded as an active and strict partner towards the issues of community he is part of.

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Initiative and Innovation in Tourism, Discussion on their Applicability in the Context of Sustainable Tourism in Delta Destinations

Gabriela Nicoleta Diaconescu¹

Abstract: In the economic field, especially in tourism, initiative and innovation are effective ways to finding new approaches to various problems occurring with time or unforeseen, which leads to greater adaptation to ever-changing environment of economic life and resistance to *shocks*, experience having a decisive role. In terms of sustainable tourism not any initiative even if it is an innovative one is appropriate, it is the sector where actions must be thought out long-term and to exist concerns in achieving sustainability in all four branches simultaneously (economic, social, environmental and cultural). In order to achieve sustainable development in the true sense it is not enough to only meet the needs to one of them. Therefore, the challenge lies in finding optimal solutions for each branch separately, but also for making their relationship become sustainable. The need to continually adapt and monitoring the results to improve them, have a primary importance. The paper aims at analyzing in terms of advantages and disadvantages of new tourism forms implementation in a fragile environment as delta, which needs special attention in that it can't be operated at high tourism level, such as mass tourism.

Keywords: innovation; sustainable development; sustainable tourism; tourism model; ecotourism

JEL Classification: O13; O21; Q26; Q57

1. Introduction

Innovation is a concept used so often that it has become common in business language and not only is often applied superficially, what now is recognized as innovative may lose this value in the future by the appearance of new technical developments along with the information progress. So this concept has a continuing, and constant redefinition, fully dynamic, in constant motion. Innovation has been the effect of the desire to change the world, to offer new opportunities, develop or construct other solutions to ensure mankind's evolution. From a point on a map to a complex whole complicated and elaborate process these differences influenced the results and have revolutionized the way of thinking and looking at the world around us.

¹ PhD Candidate, The Bucharest Academy of Economic Studies, Romania, Address: 14 Nicolae Balcescu Street, Bascov, Arges, Romania, Tel.: +40752 667 064, Corresponding author: gabriela132@rocketmail.com.

Definition of innovation is emerging along with other terms used in dynamic adaptation and change, such as imagination, creativity and initiative, three essential components that lead to innovative results. There are differences of meaning between the three dimensions, although part of the same umbrella semantics. Imagination is the idea, the visual image that a person experiences in mind, which may be expressed or not. Imagination is the first element of the innovation process without which there wouldn't be other, having a higher role than experience or knowledge, therefore Albert Einstein (2009) noted that Imagination is more important than knowledge. For knowledge is limited, whereas imagination embraces the entire world, stimulating progress, giving birth to evolution. It is, strictly speaking, a real factor in scientific research. Instead expressive creativity is imagination outdoors, communicated it in one form or another. Also in literature Robinson¹ and Aronica (2009) defined creativity as *the process of having original ideas that have value*. Without initiative we can't begin to assess the quality of an idea because it does not officially exist for a system, so the initiative has a primary role, it takes creativity to a higher level, gives it power and impetus creativity needs to contribute to improving system value or the discovery of completely new solutions - innovative. Thus, innovation is the initiative that propels creativity in areas or activities where it has the potential to be valuable. Innovative in terms of tourism receives new values, helping to better integrate it in this context. Innovation in business is closely related to challenge current ways to solve and address the situation by reinvention thinking, searching for new angles through which to look on an issue. Moreover, the detachment of the previous operating mode provides the appropriate framework for the delivery of different and creative ideas. But to achieve the desired results is not sufficient to find a new model, it must be supported by the company skills in order to be implemented effectively to meet business needs.

After a careful study of the overall innovation within organizations it can be shade the existence of a variety of innovative ways, requiring classifications, such as:

- *classic process innovations (where the production process is altered);*
 - *information handling innovations (where new forms of knowledge management are adopted);*
 - *management innovations (where the way in which a business is managed is changed);*
 - *institutional innovations (where the structure of the organisation is altered).*
- (Tashkov et. al, 2011, apud Hjalager,1997).

¹ Ken Robinson is an english author, speaker, and international advisor on education in the arts to government, non-profits, education, and arts bodies. He was Director of The Arts in Schools Project (1985–1989), Professor of Arts Education at the University of Warwick (1989–2001), and was knighted in 2003 for services to education.

(Source: [http://en.wikipedia.org/wiki/Ken_Robinson_\(educationalist\)](http://en.wikipedia.org/wiki/Ken_Robinson_(educationalist)))

Another classification that deserves brought to the forefront it is given by innovation in tourism model of Abernathy and Clark (fig. 1), which classifies innovations based on novelty ideas and dynamic relationships between companies. Thus, they proposed four types of innovations (Hjalager, 2002):

- *Regular innovations;*
- *Niche innovations;*
- *Revolutionary innovations;*
- *Architectural innovations.*

Given this classification representation as shown in Figure 1, it can be said that these types of innovations are generally valid for all sectors in which a company operates. Analysing structural is noted that the mildest changes occur in the case of regular innovations and the most tangible changes are in the category of architectural innovation. This idea is supported by activities in each form of innovation.

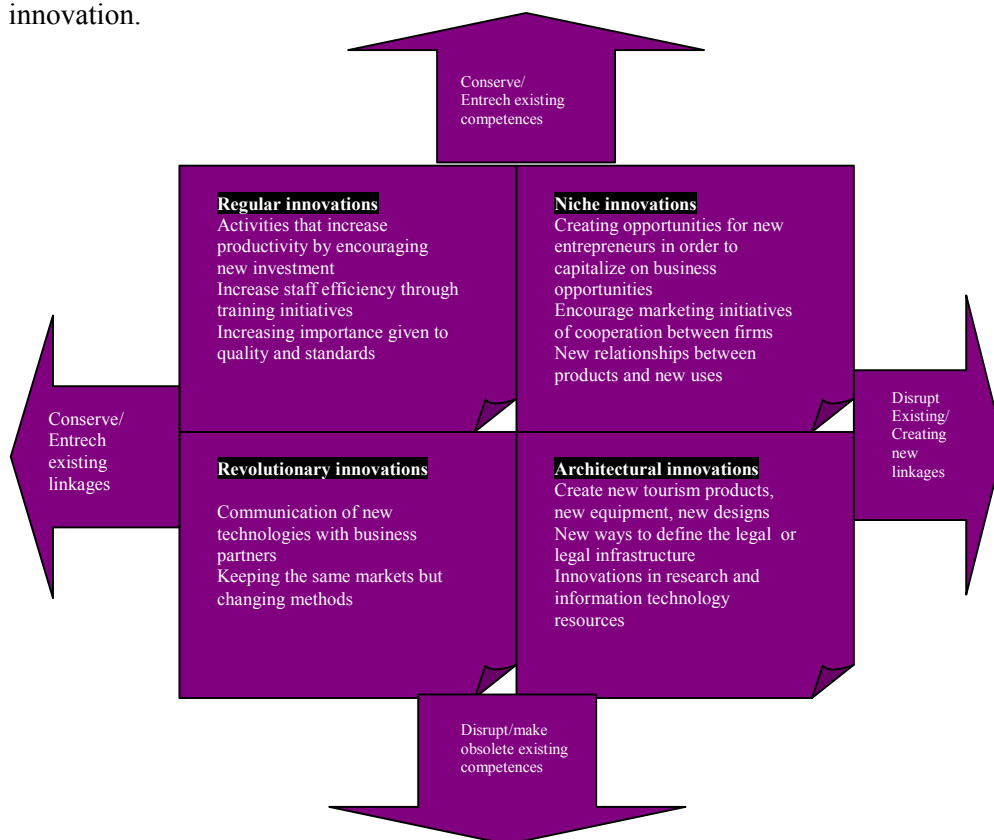


Figure 1. The Abernathy and Clark model tourism perspective

Source: Author - adapted form (Anne-Mette Hjalager, 2002)

Innovations at the lowest level (regular innovations) have an internal nature, here we talk about investment in the company through innovations in technology; re-planning activities; training of staff in the company, which is very important in tourism - hospitality, courtesy and professionalism of employees can make the difference between an acceptable package tour and an outstanding one; extend to other markets and/or acquiring a higher certifications depending on the quality of services provided. In the niche innovation can be shape-related initiatives seeking opportunities and accept the challenges that these involve by strengthening professional relationships with other companies in complementary fields that brings new types of customers, different ways of thinking of the final product and establish innovative relationships between products with which customer needs are met at a high level. Regarding the segment of revolutionary innovation, the emphasis is on gaining skills to improve the achievement of objectives in several companies by providing means (eg technology, electronics) to revolutionize ways of conducting and results of the activities organized by changing the operating mode, leading to the initiation of training courses for executives and management. In tourism that can be translated through the adoption of specific methods to facilitate communication between the tour operator unit and potential tourist, for example e-booking, virtual tourism. The most radical innovation is one that can redefine the concept of tourism, architectural innovations produce profound changes, being invented tourism products completely different from the previous ones with new forms of tourism, attracting different and unsatisfied tourists with current tourism offer, looking for something new, a unique experience, an adventure (eg arctic ice hotels).

Also, the model of Abernathy and Clark presents some interesting inter-relationship between the above forms of initiative. If we highlight the horizontal nature of relationships between companies, from left to right is necessary to dissolve existing or create new ones, due to the evolving nature of innovation, and in the opposite direction, from right to left relations become conservative or needs improvement of already formed links. In terms of vertical, retained the same side evolutionary, such as past skills cancellation occurs from top to bottom or acquire their old character along with vertical development, bottom-up knowledge are maintained or recovered. In other words, if we denote the weakest innovations with “-” and stronger with “+”, from - to + both the relationships between companies and novelty skills have a dynamic much more accelerated, producing deeper changes and thus the possibility of more accentuated innovations.

2. Independence and Cooperation in Tourism Innovation

Independence and cooperation are two terms found in contrast if we consider a general context, but in this paper, thinking about the valences that innovation has, we can accept that together add value to the innovation. Independence gives creativity, new ideas uninfluenced by previous findings, and cooperation facilitates the link between creativity and experience to implement a sustainable development program. Both are vital and must be in balance to create the conditions required to reshape tourism.

Taking a natural insight to the main purpose of this article is necessary to define concept of sustainable development. In the Brundtland Report in 1987 (Tilbury et al, 2002) is conveyed the idea that this is development that meets the demands of society today but also allows future generations to benefit from the same rights to achieve its objectives. Sustainable development in tourism has led to another concept - sustainable tourism that combines sustainable qualities with tourism goals, aiming to ensure a bidirectional connection: sustainable tourism - sustainable development and sustainable development - sustainable tourism both factors influence each other and reinforce. Ecotourism is a form of tourism that is under the umbrella of sustainable tourism, where tourists' education is a priority, which separates it from the rest of the types of sustainable tourism. Geographically, this kind of tourism is practiced successfully in protected areas, natural reservation, in fragile environments, being the most delicate form of tourism.

Delta is the youngest land mostly located in Romania, in the northwest of Black Sea, characterized by a specific individuality both in Europe and worldwide. Seen as vast territory that can provide a rich tourist, attracts through its uniqueness, being recognized and appreciated for qualities such as (Diaconescu, 2012):

- The unique delta in the world that has been declared entirely a Biosphere Reservation in 1990 (DDBR) through integration into the international network of biosphere reservations through the Man and Biosphere Programme - MAB UNESCO as part of the UNESCO Cultural and Natural Heritage;
- Declaration within the Ramsar Convention as a wetland of international importance, especially for waterbirds habitat;
- Obtaining the European Diploma for Protected Areas provided by the Council of Europe in 2000, updated in 2005;
- Is ranked third in the world for biodiversity, living on its territory over 5000 species of plants and animals I and II ranked are Barrier Reef in Australia and, respectively, Galapagos Archipelago _ Ecuador. According to the National Institute Danube Delta there are 284 unique species in Romania and 39 are unique scientifically;

- Recognition received for the largest area of reedbeds in the world - 1750 km square.

Given the obvious ecotourism initiatives in the world, most of them have steadily improved environmental laws, campaigning for the rights of local communities close collaboration between all stakeholders (local communities, local government, government, tour operators, and so on), urgency measures to reduce risks of natural hazards, policies of infrastructure, biodiversity protection, the conservation and promotion of culture, the delimitation of protected areas, etc.

In carrying out this paper I stopped to talk about these innovative initiatives, less known in the practical specialized.

- 3D Corporate Tourism

This type of tourism has a three-dimensional character, the three main pillar are Discover, Develop and Design. Being a niche tourism needs a small segment of tourists, giving them a unique and interesting experience. People engaged in scientific fields such as biology, engineering, materials science, nanotechnology are brought together for cooperation and exchange of creative ideas, innovative based on nature's designs, the main purpose is to find solutions to various problems by searching for answers in nature. Participants come from different countries, giving diversity in the way of thinking and a heterogeneous network of people that creates solutions and most varied opinions. The project team participates in various sessions, following a program of free talks and creative ways to find new approaches (eg. brainstorming).

First, nature is viewed from the angle of functionality, how it works in relation to human needs. In the second stage natural solutions are transposed in technical structures made by the team. The last stage is the period when the models created are adapting again seeking to find out the way of functioning system of natural elements.

With these data, we can think that this model may also apply to tourism in the Danube Delta. Knowing that sustainable situation in the delta is far from being accomplished, a meeting between experts in various fields, create the appropriate trigger for constructive discussions that finalize with concrete solutions.

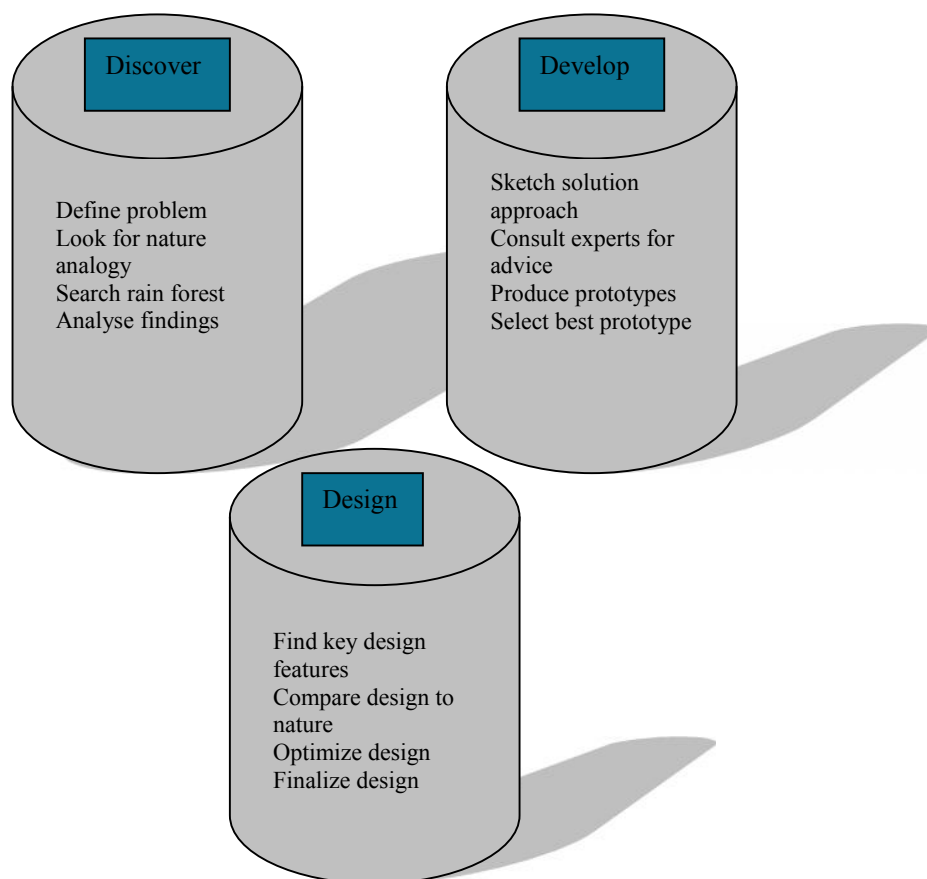


Figure 2. The three main pillars of the 3D Corporate Tourism

Source: (Gebeshuber & Burhanuddin, 2011)

Benefits can be numerous - inspiration by sharing experience that comes with the sense of sustainable development, listening nature and raising awareness, gaining a high level of environmental education. Disadvantages are given by limiting equipment brought into the area, difficult access with necessary study equipment on small channels.

- Screen Tourism

Being called film and television tourism, this type of tourism promotion quickly gained ground among the ways to make known certain tourist destinations, attracting more and more tourists excited about romantic places, beautiful and exotic landscapes, culture of specific areas where the video was taken, and the impressive story of the film, making possible an emotional connection with the destination. Future tourist has the opportunity to receive a fraction of what it would

mean a holiday there, wanting to see more, so that when he arrive to visit those places, he is already informed of sightseeing he could see.

Typology of tourism's screen is varied depending on how tourism is valued by film viewing experience (Țuclea, Nistoreanu, 2011), adapted from Busby & Klug, 2001:

- Film-induced tourism - as part of a larger holiday – the tourist visit a film location or take part in a video tour without having previous knowledge about the destination.
- Film-induced tourism – as a main purpose of a special interest - the location and holiday booking is made as a result of its image in film.
- Film-induced tourism – as strength of the holiday – the beauty of natural landscapes, historical sites, and actors can serve as points of maximum interest.
- Film-induced tourism –as a place where it is assumed that the shooting took place- the filming sites are visited, even if the film presents a different reality.
- Film-induced tourism - as part of a romantic holiday - tourists visit places shown in movies as special, warm, full of love
- Film-induced tourism - as a reason to escape - tourists want to temporarily escape from the reality of everyday life.

For destinations where tourism is weighted by the principles of environmental and nature conservation (Danube Delta), this form of television induced tourism is not a good choice for several reasons: exposure is very high, leading to an increase tourists; risk of misunderstanding the special character of these destinations; rising prices; environmental aggression by strong noise and habitat change to better serve the needs of the film, creating clusters of people and agitation, altered culture by entering different values and sudden loss of local communities identity; the risk that tourists may be disappointed by increasing expectations of tourist destination.

- **Slow Travel**

Slow travel arose from the need to truly know visited tourist destination, choosing to spend more time discovering the less commercial places for tourists, but part of the unique character of places and of their untold story, helping tourists to reach a high level of understanding of the tourist experience. The goal is not to see as many sights within a limited time, but to explore an area in close proximity giving patience to absorb the atmosphere played by it, which is not possible by conventional tourist trip. There is a difference between visiting a place and living in an environment; in this kind of tourism, those who choose this form of holiday want to live there, to see how people live, to gain an authentic experience.

Nistoreanu, Dorobantu & Tuclea (2011), aproach the matter of slow-travel tourism principles:

- The trip is seen more as a goal than a way to achieve the purpose of an agenda, journey itself is the only motivation for the one who initiates it;
- Sites should have an authentic character, picturesque, revealing the unspoiled natural and cultural values they are looking for;
- Away from the city agitation and life lived in speed, bring a change of pace, which is beneficial physically and mentally;
- It is a spiritual journey.

Slow travel can be an ideal option to explore the land of the Delta, being present advantages both for the traveler and environment existing there. Giving time and patience to this trip, the land is more difficult to access and retain the opportunity to preserve and recover after tourist exploitation, accessing areas being made gradually over several days in adjacent areas. It is also suitable for wildlife lovers, who know how to respect and protect nature, having the culture of ecotourism. Enable local people to contribute to enriching travel experience by providing accommodation, which integrates the traveler in the uniqueness of landscape. It is a noninvasive actively involvement in the life of this area.

Thus, independence is positive to break the usual patterns and thinking outside the box, but sometimes the simplest solutions are the most innovative, especially those addressing the needs of communities and land exactly suited to what they actually want. For example a simple irrigation device can make a difference in terms of productivity in agriculture, increasing production with a minimum of land area exploitation. Also, the initiative to organise craft and workshops contribute to preserving the traditions and create a better living standards for inhabitants. Traditional occupations stimulation is performed in the Danube Delta through canotca project, which is a boat easier than the traditional model through which tourists can reach quietly to diferent areas on its waters, not disturbing the ecosystems living there.

3. Conclusions

Initiative and innovation within sustainable development are part of a more complex system. I believe that sustainable dimension is revealed as a *human side*, sensitive, requiring inner changes reflected in the lifestyle, in the values that guide us so that we can embrace sustainable development in all forms. And this is actually a personal development, based on education that determines *awareness*, and awareness touches people in turn, leading to a high spiritual development, without selfish exploitation, to offer before you receive is a basic principle in sustainable development also.

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Tourism and Cultural Heritage: Sector Priorities of Regional Development Policy within Bucharest-Ilfov Region

Claudia Ionescu¹, Simona Curpan², Ana Cristina Adumitroaei³

Abstract: The sustainable development gets a great importance in the context of Romania integration in the EU and globalization, a context in which the intersection of the economic, social environmental but also cultural and recreational sector is more and more complex. Having in mind this complex context, in this paper, we present a personal point of view regarding the potential for growth in tourism of Bucharest-Ilfov region, due to vast range of tourist offer (cultural, business, recreational). The Bucharest-Ilfov region has a great tourism potential: the attraction capacity of the Bucharest urban centre is enriched by the environmental and cultural value of the areas and sites surrounding the capital city. This combination of urban, business, cultural and environmental resources is a powerful basis for developing the tourism sector in the region. The tourism sector must be a priority of the regional development policy, because of the importance of the tourism contribution to growth and job creation so the infrastructure improvement is therefore a necessity for tourism development. In line with the above, the main goal of this paper is to demonstrate the necessity of increasing the economic importance of the tourism sector within the regional economy.

Keywords: regional development; region; tourism infrastructure

JEL Classification: O1

Bucharest-Ilfov Region

Bucharest-Ilfov is the capital region of Romania. It is formed by the capital city Bucharest and the surrounding county Ilfov. Region Bucharest – Ilfov represents the eighth development region of Romania, a special region, as it is the smaller (1821 sq km), but also the most developed from the economical point of view.

This region is placed as an enclave within the South – Muntenia development region, but at the same time in this region is situated also the Capital of the country,

¹ Senior Lecturer, The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, Corresponding author: adrbinvest@yahoo.com.

² The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, e-mail: simona.curpan@adrbi.ro.

³ The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, e-mail: anacristina.adumitroaei@adrbi.ro.

the biggest Romanian urban agglomeration. The Capital gives to the region a superior economical force, a higher GDP, and a social and professional structure with a higher standard. Foreign investors are interested in the advantages offered by the Capital to a country that represents one of the largest markets in Central and Eastern Europe (almost 20 million citizens).

The region's geographical position has favored the development of a complex communications network, region being crossed by the Bucharest – Pitesti highway, by 8 national roads and by 4 main train lines.

Also this region lies at the joint of important European transport corridors: Corridor 4 (Berlin, Praga, Budapest, Arad, Bucharest, Constanta, Istanbul, Salonique), Corridor 9 (Helsinki, Moscow, Kiev, Odessa, Bucharest, Constanta), corridor 7 for navigation (Constanta, Basarabi, Danube, Main, Rhin).

There must be also reminded the Capital's tourist potential, where there can be visited numerous museums, old churches, vestiges from the Old Court, but also Ilfov County's tourist potential (Mogosoiaia, Snagov lake, Cernica Monastery). Bucharest was the first city to introduce gas lighting, it had phone connections before 1900, the railway connection between Bucharest and Giurgiu departing from Filarete Station was the fastest in Europe.

Known as the Little Paris during the interwar period, Bucharest still has a relevant historical and cultural heritage, which has hardly survived to the destructive urban policy of the eighties, when approx. 450 hectares of the built city centre were demolished. The Romanian capital city is still the most important historical and cultural centre of the country and has a high potential for business and cultural tourism. Both cultural and business tourism contribute to growing flows of tourists, as demonstrated by the low seasonal fluctuations. The accommodation capacity in the region has increased. Incoming tourism in the Bucharest-Ilfov region increased mainly due to the increase of foreign tourists attracted by increasing opportunities relating to business and culture. The overall contribution of the tourism sector to job creation and GDP formation is in the rise and its further increase shall be supported by marketing oriented information and promotion.

The niche of "urban tourism" is a very important one and the project of Bucharest Historical Centre shall contribute to increase the economic contribution of the tourism sector to the regional economy.

"However, despite the fact that Bucharest can offer a great variety of "out of seasons" tourism attractions, ranging from cultural targets (such as museums, art exhibitions, historical buildings) to entertainment events (such as theatre shows, music festivals, international fairs, sport events) and recreational places (green areas, swimming pools and lakes), its touristic potential is not fully valorized. The most important factors hampering Bucharest from being again the Eastern

European “Little Paris” are the inappropriate management of its cultural and historical heritage and the low level of specialization of touristic services.

On the other hand, the Ilfov County, though not so well known as the capital city, does have a high tourism potential, thanks to the combination of monasteries, historical buildings, forests, lakes and a still untouched rural environment, that characterizes its non urbanized landscape. Issues for developing tourism in Ilfov are: a still low level of accessibility (difficult access to Snagov Island); the inappropriate management of natural resources (wild deforestation, no water treatment plants in the region, no waste collection in the rural areas) and, same as for Bucharest, the low level of specialization of touristic services.”¹

Infrastructure improvement is therefore a necessity, well beyond the requirements of tourism development.

Tourism Sector SWOT Analysis for Bucharest-Ilfov Region²

“Strengths:

- Good accessibility by flight in comparison with other European capital cities.
- Growing trend of incoming tourism in Romania, within international increasing trends for urban tourism.
- Large number of quality hotels in Bucharest (five-four stars, but also good three stars).
- A large supply of tourist attractions in Bucharest and Ilfov (monuments, events-including business events, quality hotels, restaurants, banks etc.). Romexpo is the largest exhibition centre of Romania.
- Sustained foreign direct investment in the last years in the hotel & restaurant sector, a trend that is expected to continue for some years ahead.
- The capital is the most important cultural centre of the country (universities, theatres, monuments, museums etc.).
- Concentration of travel agencies in Bucharest.
- Bucharest close to Danube (Giurgiu at less than 50 km distance from downtown), country-side and mountains

Weaknesses:

- Low accessibility by road/railway in comparison with other European capital cities.
- Low weight of tourism in the total of the employed population
- Limited tourism promotion.

¹ Bucharest-Ilfov Regional Development Plan, Regional Strategic Reference Framework 2007-2013.

² Bucharest-Ilfov Regional Development Plan Regional Strategic Reference Framework 2007-2013.

- Limited tourism information (green phone lines, info centres, history panels outside monuments etc.).

Opportunities

- Job creation;
- e-booking growing trends;
- potential to promote Buchares-Ilfov through the web;

Threats

- Neglecting regional cultural patrimony.
- Centralized promotion of Romania neglecting Bucharest as a tourist destination.
- Low prices and attractiveness of tourism destinations outside Romania, at car travel distance (Greece, Turkey).
- Low degree of cooperation between regular line air travel operators and travel agencies.

In line with the above, the main goal for a tourism strategy is to increase the economic importance of the tourism sector within the regional economy, by fostering large job creation and higher GDP and value added formation. This goal is articulated into the following main objectives:

- Increase the contribution of the tourism sector to job creation and the formation of regional GDP.
- Promote Bucharest-Ilfov as a new brand, thus also raising the image of Bucharest as European capital.

The achievement of the above objectives requires a coordinate set of actions that, on the one side, help developing a competitive tourist offer in order to stimulate new quality demand of touristic services, that is attracting more visitors to Bucharest-Ilfov; on the other side, improve soft and hard infrastructure in order to improve the supply of tourism products.

- “Promote equal opportunities and gender policies, enhancing women’s competencies in tourism services.
- Promote the information society through the use of e-communication methods and technologies in order to promote the region’s tourist packages (not only e-booking, but also virtual museums), thus increasing the rate of hotels occupancy.
- Make operational public-private regional partnerships, with a mandate to focus on new touristic products and promote regional tourism.
- Establishing and promoting quality standards for the touristic products and services, including via studies and research on tourist satisfaction.

Organize appropriate promotion of the most appropriate touristic sites and events, including audiovisuals, publications, leaflets, maps of the city and its surroundings, publications, sponsorship of events, marketing actions, etc.

- Promote the sustainable development of tourism, by protecting natural resources, reuse and renew of the historical architectural heritage both in urban and rural areas.
- Establishment and/or reconstruction of buildings such as visitor centres, exhibition sites, multi-functional halls, sites for training, conferences and business consulting services, tourist information points, community centers, infrastructure increasing tourist comfort.

Develop tourism infrastructure at tourism sites, such as parking lots (where appropriate), rest areas for visitors, including hygiene facilities (restrooms), tourist information devices and boards in the vicinity of the attractions, facilities for easier access of disabled.”¹

The regional development policy is a policy of solidarity, meaning a policy for people, its purpose being to create working places, to increase the competitiveness level, and to support the countries from the less developed regions. One of the instruments for implementation of this policy is Regional Operational Programme, which has as the main objective the balanced development of all the regions of the country, by making best use of the regional and local development potential, focusing on the urban growth poles, improving regional and local transport infrastructure, as well as social infrastructure, supporting the development of regional and local business environment, also by sustainable development and tourism promotion, with a view to transforming these regions, especially those which are less developed, into areas more attractive for investments, tourism and housing.

The Regional Operational Programme 2007-2013 is co-financed by the European Regional Development Fund (ERDF). The Regio global objective consists in supporting and promoting the economic and social sustainable local development of the Romanian Regions, according to their specific needs, by improving business environment and infrastructural conditions as basis for growth, in order to make the Romanian Regions, especially the ones lagging behind, more attractive places to invest in and work. Regio will contribute to support and promote of sustainable economic and social development of the tourism potential of the region.

The Priority Axis 5 Regio regards **The Sustainable development and promotion of tourism** aims mainly to sustainably value and promote the cultural patrimony and the natural resources with tourism potential, as well as to improve the quality of the accommodation and leisure tourism infrastructure with the view to increase

¹ Bucharest-Ilfov Regional Development Plan, Regional Strategic Reference Framework 2007-2013.

the attractiveness of the regions, the development of local economies and the creation of new jobs.

The key area of intervention 5.1 is **“Sustainable restoration and valuing of the cultural heritage, as well as establishing/modernizing the related infrastructures”**.

The objectives of this area¹ are:

- Increasing the importance of tourism and culture as factors stimulating economic growth within the regions, observing, at the same time, the principles of sustainable development and environmental protection;
- Extending the tourism season;
- Increasing the number of tourists by valuing the local and regional cultural tourism potential on the national and international tourism market.

The categories of eligible beneficiaries are:

- Local and central public administration authorities;
- Religious institutions organized as legal entities of public utility;
- Non-governmental organizations.

The eligible informative activities within the project are:

- Restoration, protection and preservation of heritage buildings, of their interior paintings, frescoes, exterior murals;
- Restoration/creation of access routes (pedestrian and roads) to the rehabilitated sites within their area of protection;
- New works and equipment meant to ensure inside and outside lighting, safety lighting as well as decorative lighting;
- Restoration and remodeling of facades;
- Landscape setting up facilities for highlighting the restored heritage tourism attraction;
- Interior equipping (installations and equipment ensuring air-conditioning, fire safety, burglary prevention conditions);
- Modernization of utilities related to the heritage site (electricity, water supply, sewerage);
- Equipment for the presentation and protection of the tangible and intangible cultural heritage;

¹ The Applicant's Guide 5.1. Key area of intervention ” Sustainable restoration and valuing of the cultural heritage, as well as establishing/modernizing the related infrastructures.

- Establishing protection areas by delimiting and surrounding the heritage site (there where the case may be);
- Construction of utility annexes (parking sites, restrooms, advertisements and signs);
- Establishing/marketing tourism routes/cultural itineraries to the rehabilitated tourism sites;
- Building / rehabilitating / setting up the access path to the rehabilitated tourism sites.

Approximate financial allocation for this area of intervention of the Bucharest-Ilfov region is of 20.85 million Euros.

There are 6 projects in implementation in Bucharest for sustainable restoration and valuing of the cultural heritage: 4 are the projects of Citu Hall of Bucharest Municipality (Triumphal arch, Mina Minovici Museum, Astronomical Observatory and Cesianu House), the restoration of Sofia Church and restoration of the Patriarchal Palace. More details about these projects can be consulted on the website dedicated to Regio www.regioadrbi.ro section Projects.

Another key intervention area for tourism is 5.2”**Creating, developing and modernizing the specific infrastructures for the sustainable capitalization of natural resources with touristic potential** “.

The objectives¹ of 5.2 key area of intervention are:

- Capitalizing natural resources for tourism;
- Diversifying the touristic services;
- Improving the quality of accommodation services;
- Creating / expanding the leisure tourism structures in order to increase the number of tourists and the length of stay.

The categories of eligible beneficiaries are:

For the public tourism infrastructure (that does not full under state aid)

- Authorities of the local public administration;
- Partnerships between the authorities of the local public administration;
- Intercommunity Development Agencies.

For the public/private tourism infrastructure (that falls under state aid)

- Authorities of the local public administration;

¹ The Applicant’s Guide 5.2 key intervention area ”Creating, developing and modernizing the specific infrastructures for the sustainable capitalization of natural resources with touristic potential”.

- Partnerships between the authorities of the local public administration;
- Intercommunity Development Agencies;
- SMEs in the field of tourism and/or related activities;
- Partnerships between the authorities of the local public administration and the NGOs in the field tourism and/or related activities.

The indicative eligible activities within the project can be:

For public tourism infrastructure (that does not fall under state aid)

- Setting up natural touristic objectives with touristic potential;
- Capitalizing the potential of the mountain tourism;
- Developing the balneal tourism.

For the public-private tourism infrastructure (that falls under state aid)

- Developing balneal tourism;
- Creating, rehabilitating and expanding the recreational infrastructure, related utilities included.

The financial allocation for this area of intervention in the Bucharest-Ilfov region is of 20.47 million Euros.

For 5.2 key area of intervention there are 4 projects in implementation in Bucharest, the beneficiaries are 3 small and medium enterprises from Bucharest and City Hall of Bucharest Municipality and the projects are regarding the extension of accommodation capacity of a hotel and the creation of two entertainment parks. More details about these projects can be consulted on the website dedicated to Regio www.regioadrbi.ro section Projects.

The Municipality of Bucharest, together with Sectoral Administrations, has identified a number of area-based projects, the largest one being the —Bucharest historic centre renaissance project, or the Green Bucharest project, consisting in the establishment of new green areas within the urban area, as well as a Green Belt around the city are intended to target the protection and improvement of the Bucharest urban environment.

The finalization of these projects represents a great challenge from the point of view of the urban and regional governance, as it requires involvement and consensus of the population, as well as cooperation and communication between all public institutions with inherent responsibilities.

Final Remarks

Investing not only in regional innovation and internationalization, education and employment, but also in tourism, culture and regional marketing, is needed to improve the structure and performance of the economic activity in the region.

The great tourism potential of the Bucharest-Ilfov region based on the combination of urban, business, cultural and environmental resources represents a powerful basis for the social and economical development of the region.

However, a coherent integrated strategy is necessary in order to recover the present gaps of the tourism sector in order that the EU objective foster tourism's competitiveness and sustainability, to be in compliance with national objective, the promotion of Romanian tourism potential and with regional objectives: increasing the economic importance of the tourism sector within the regional economy, by fostering large job creation and higher GDP and value added formation and promoting Bucharest-Ilfov as a new brand, raising in this way the image of Bucharest as European capital.

Building regional identity and image, laying at the basis of local proud and community cohesion, are one of the elements of territorial attractiveness. The role of the administration is to preserve the cultural heritage and at the same time, to build on it with a vision towards modernity and the future.

A good regional tourism strategy must build on Bucharest historic role, of image, symbolic and geopolitical value, promoting it as a renovated European capital, located at the edge of the continent, as Eastern Europe gate, traditionally open to multicultural influences.

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Infrastructure Investments: Need for a Higher Territorial Cohesion in Bucharest-Ilfov Region

Claudia Ionescu¹, Simona Curpan²

Abstract: This paper is going to present the current situation and some predictions regarding the development of Bucharest Ilfov region infrastructure, the most developed Romanian regions from economical point of view. The cohesion policy investments must be closely aligned to the objectives of Europe 2020 (there should be a balanced approach to investment, a right balance between different types of investments). For this reason, the development opportunities through infrastructure investments using the EU funds is one of the main priority in order to increase Bucharest-Ilfov attractiveness, accessibility and mobility across the region. The paper will present the regional development trends and the present regional policy implementation practice and first results regarding the infrastructure investments financed through EU funds in order to increase the capital city functions as an engine for development.

Keywords: territorial cohesion; region; regional infrastructure analysis

JEL Classification: R5; R11

The Cohesion Policy

European cohesion policy, strong focused on social, economic and environmental development, is an expression of Europe's commitment to solidarity. In this context, a strong European Union needs policies that facilitate integration and that ensure everyone can benefit from integration. Funding from cohesion policy has brought benefits to millions of EU citizens, not only by creating jobs and fostering the right conditions for growth, but also by investing in infrastructure modernization, environmental improvements, support to business, and in people's skills, education and training.

All these substantial funds still available under the current Cohesion Policy are reasons for Regional Policy stakeholders to act without delay, invest more in

¹ Senior Lecturer, The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, Corresponding author: adrbinvest@yahoo.com.

² The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, e-mail: simona.curpan@adrbi.ro.

sustainable growth, and use funds more effectively. Investments for urban transport, sustainable energy, urban and rural regeneration, climate change adaptation and eco-innovation in SME's are financed through Cohesion Policy 2007-2013 allocations in order to contribute to sustainable growth. Regional Policy has consistently co-financed also the provision of environmental infrastructure for water and waste management helping regions meet the stringent framework set out in EU directives. This has also been an opportunity to facilitate improvements in competitiveness while preserving their environment and creating jobs.

The main issues of this topic are: the strengths of each territory to contribute to the sustainable and balanced development of the EU, a better connect of territories where people are able to live wherever they want, with access to public services, efficient transport, energy networks and broadband internet. Since 1986, the objective of cohesion policy has been to strengthen economic and social cohesion. The Lisbon Treaty and the EU's new high-level strategy introduce a third dimension: territorial cohesion. People should be able to live wherever they want, with access to public services, efficient transport, reliable energy networks and broadband internet throughout the territory.

The cohesion policy improves territorial cohesion in future: by promoting approach to integrated development of territories as spaces where citizens live their lives, by encouraging cooperation between territories to strengthen European integration, funds for cohesion policy account for 30 per cent of the EU's budget, which clearly reflects the importance of the matter that's why is important though that in the future, funds should support sustainable projects, instead of only being spent. Sustainable projects are important to build economically sustainable communities, this is the future for a strong cohesion policy. In all the EU development regions must be developed projects with EU financial assistance that support communities to become more economically sustainable.

So the regions must have an essential role to play in the success of Europe 2020, for the creation of a stable and prosperous future for European citizens. It is very important to be proposed a close partnership contract between the Commission, the Member States and the regions to better define development and investment priorities on the basis of the reform programmes. It is a crucial building block for creating consensus over a common vision among the stakeholders that drive the strategy and programme implementation for a better governance in the next period after 2013.

The financial crisis has revealed structural weaknesses in many countries and regions in Europe regarding their level of economic and social development. It will be essential to find the right strategies to exit from the crisis in order to ensure that the full benefits of economic integration are recaptured. This is the mission of European Cohesion Policy and the goals of this policy are regarding the changing

social, economic and environmental new context. The new context presents opportunities to implement structural reforms, identify new sources of growth and design development strategies. Member states and regions are essential actors in providing structural responses to these challenges.

The economic and financial crisis has underlined the need for a policy that invests in the competitiveness of all regions as well as continuing to support development. So, the cohesion policy will continue to play an important role as a pillar of European integration. The most important role will be to promote harmonious development which will be more relevant than ever in the post crisis period. In particular, cohesion policy can help by: supporting the development of regions through investments through the European Regional Development Fund; improving employment opportunities and fighting social exclusion through the European Social Fund and improving environmental sustainability through the Cohesion Fund.

Regions represent resources that could be contributed to achieve EU growth. To achieve their full potential they need EU support to create the conditions for growth, to favor the full potential of SMEs and the development of transport infrastructure, ICT, environment, energy, human capital, education and research. The preparation of the next generation of programmes will provide the opportunity to increase the effectiveness and the quality of delivery of cohesion policy in order to increase its focus on results and impact in all EU regions.

An example is **Bucharest-Ilfov region**, one of the EU regions, a special region, as it is the smaller (1821 sq km) from all eight development regions of Romania, but also the most developed from the economical point of view. Bucharest-Ilfov is the capital region of Romania. It is formed by the capital city Bucharest and the surrounding county Ilfov. The Capital Bucharest gives to the Bucharest-Ilfov region a superior economical force, a higher GDP, and a social and professional structure with a higher standard. The Bucharest Region is undoubtedly the main administrative, financial, cultural, educational and research centre of Romania.

Through its activity for more than 12 years in the field of regional development policy, **Bucharest-Ilfov Regional Development Agency (BIRDA)** is the principal actor which contributes to the implementation of cohesion policy in Bucharest-Ilfov region. BIRDA proposes itself to contribute to reach BIRDA's objective, to transform Bucharest – Ilfov region in a European level region, with a competitive economy on the unique European market.

BIRDA must continue to pay attention to develop its capacity of building regional strategy development adapted to specific Bucharest-Ilfov regional context in order to improve the investments financed through EU Structural funds. One of these funds, The European Regional Development Fund –ERDF finances **Regio-Regional Operational Programme**, one of the Romanian Operational

Programme, agreed with the EU, and an important tool for implementing the national strategy and policies for Regional Development.

Regio supports and promotes a sustainable balanced economic and social development of the Romanian regions by improving business environment and infrastructure for economic growth. This means Regio aims to diminish the gaps in economic and social development between more and less developed regions of the country. One of the main important objectives of this programme is the improving the regional and local transportation infrastructure. The key area of intervention 2.1 of Regio focuses on **the rehabilitation and modernization of the county roads, urban streets as well as on the construction/rehabilitation of the beltways with county road status.**

The objectives¹ of the key area 2.1 are:

- Connecting the county roads to the national road and to the TEN (Trans-European transportation) network;
- Urban streets rehabilitation and modernization;
- Building and modernizing the beltways.

The categories of **eligible beneficiaries** are:

- Local public administration authorities;
- Intra-Community Development Associations established in accordance with the provisions of Law 215 of 2001, with its subsequent amendments;
- Partnerships between the authorities of the local public administration.

The eligible **informative activities** within the project are:

- Rehabilitation and modernization of the county road network;
- Rehabilitation and modernization of the urban streets (category 1, 2 and 3);
- Construction/rehabilitation/modernization of beltways with county road status;
- Construction/modernization/rehabilitation of bridges and small bridges;
- Construction/modernization/rehabilitation of roadways and walkways;
- Land release and management;
- Diverge of water, electricity, gas and sewerage, phone networks;
- Facilities for the environmental protection;

¹ The Applicant's Guide 2.1 key area of intervention of Regio "Rehabilitation and modernization of county roads, urban streets -construction / rehabilitation of beltways included".

- Modernizing and extending the existing utility networks in the road structure (water, electricity, gas and sewerage, phones).

The approximate financial allocation for this key intervention area for Bucharest-Ilfov Region is of 77.68 million Euros during 2007-2013.

As concrete results until now, regarding this key intervention area, in Bucharest-Ilfov region we have 16 projects for rehabilitation of the Ilfov county roads and of urban streets from Chitila, Magurele and Bucharest. The full list of the projects can be consulted online on the site of ADRBI dedicated to Regio in Bucharest-Ilfov region www.regioadrbi.ro at the section Projects.

The changes in Europe due to the economic crisis over the past time have presented great challenges to the sustainability of the Union's current economic model. There is still a great responsibility for Romania as a state member and also for the eight Romanian development regions, including Bucharest-Ilfov region to illustrate its maturity and capabilities in developing and implementation of cohesion policy and to provide a strong regional development strategies.

The Bucharest-Ilfov Regional Development Plan BI RDP is a working tool for all stakeholders from the private and public sector concerned with socio-economic development of our region, at both national, regional and local level. "Its purpose is to provide a solid background to our regional development strategy, that stimulate a public debate on the strategic vision, the objectives and the development options and priorities for our region, so that regional priorities are confirmed, and programming proposals may turn into ready-to-market projects."¹

Improving accessibility and mobility is an utmost regional priority of BIRD. The Bucharest region needs to ensure efficient transport infrastructure linkages to the Pan European Transport Corridors. Bucharest is an important railway centre. Improving accessibility and inter-operability may lead to reduce dependence on road transport, and increase multi-modality and interoperability for both transport of passengers and goods. Improving mobility within the region and with neighbouring regions is needed for reducing travel time, as well as traffic congestion, associated noise and road accidents. Investment in this priority is coherent with both the Lisbon strategy and with sectoral EU and national policies. The impact shall be reduced costs, higher quality of environment and an overall increase of regional attractiveness. This priority is consistent with the other regional priorities. Quality of the environment could be improved by reducing dependence on road transport, thus reducing traffic and cars emissions. Decreasing travel time may provide new job opportunities. Finally, higher attractiveness is a pre-condition for sustained investment in economic activities, and is also essential for improving regional image.

¹ Bucharest-Ilfov Regional Development Plan, Regional Strategic Reference Framework 2007-2013.

Accessibility and Mobility SWOT Analysis for Bucharest-Ilfov Region ¹

“Strengths

The most important road-railways-air transport node of Romania, at the heart of the two planned Pan-European Transport Corridors 4 and 9, with good accessibility by air and multi-modal transport. Bucharest-Ilfov region has the highest density of railways per 1000 km² of territory, amounting to 188,4 km/km², meaning more than four times the national average (46,5 km/km²). Bucharest has two airports: Henri Coanda-Otopeni the largest international airport of Romania with a growing flow of passengers and Bucharest-Baneasa Aurel Vlaicu airport. Both airports shall be connected to the city metro network.

High speed connection to Corridor 7 (Danube), to both Constanta and Giurgiu.

Increasing road safety.

Weaknesses

Low accessibility by road and railway.

Traffic congestion of the urban area

Low modernisation degree of roads. Insufficient road and bus connections within Bucharest-Ilfov and between the region and neighbouring regions.

Opportunities

Increased accessibility and attractiveness following large flow of investment on major transport infrastructure already planned in region

Transport storage (warehouse and cargo) and tourism are growing sectors within the region

Threats

Traffic congestion increasing urban pollution and associated diseases.

Raising production and distribution costs.”

The capital region has a peripheral location within Europe. The concentration of the population in the peripheral neighborhoods and the growth of residential areas within and nearby Bucharest contribute to increase of deficiencies in public transport, water supply, sewerage, heating network, waste management and, in general, the all range of municipal services. Territorial unbalances relating to transport infrastructure and public utilities, whilst reducing territorial cohesion and accessibility, endanger the development of an efficient and functional metropolitan area in the Bucharest region. Bucharest is affected by severe traffic problems, for

¹ Bucharest-Ilfov Regional Development Plan Regional Strategic Reference Framework 2007-2013.

two main reasons: the spectacular growth of vehicles circulating in the city, estimated at daily 1,500,000, was not matched by a consistent development of the road network; the incompleteness of the ring road around the city implies that traffic from south to north and/or east-west is to cross the city centre. The situation is aggravated by lack of parking sites at the city access gates. The pressure created by the increase in car circulation requires two sets of measures: on the one side, an increase in the road network capacity, on the other side investment in the extension of the public transportation system.

In line with the above, the main goal of transport strategy is to improve accessibility of, and mobility across, our region. This goal is articulated into the following three main objectives:

- Moving safely and efficiently a growing number of peoples and volumes of goods.
- Reduce travel distances with both neighboring regions and the EU.
- Reduce the share of road transport on total transport supply, thus reducing, inter alia, traffic congestion.

The achievement of the above three objectives shall increase regional competitiveness, in that:

“1. Within a context of growing international demand for transport and storage, more efficient management of passengers and goods shall reduce consumption of non-renewable energy, therefore reducing costs as well as environmental pressure; it can also improve the attractiveness of the region as investment location and tourism destination.

2. The modernization of transport infrastructure is also intended to increase transport safety, especially road safety, thus again reducing economic and social costs associated to road accidents.

3. Better infra and inter-regional connections, including by public transport, by reinforcing exchanges between the urban area of Bucharest and the bordering counties, thus contributing to achieve the objective of territorial cohesion.”¹

Final Remarks

The problems associated to accessibility, mobility and the environment are of vital importance for the eco-sustainable development of the region and the welfare of the population. This is why regional public investment shall mainly concentrate on transport and environmental infrastructure. **Improving accessibility and mobility**

¹ Bucharest-Ilfov Regional Development Plan, Regional Strategic Reference Framework 2007-2013.

it is important to access to basic services, jobs and goods for local development of the Bucharest-Ilfov region. The availability, as well as the needs, varies enormously. This priority of improving accessibility and mobility is consistent with the other regional priorities. Quality of the environment could be improved by reducing dependence on road transport, thus reducing traffic, car emissions and travel costs, negative impacts on human health. Decreasing travel time may provide new job opportunities for residents in neighboring regions. Finally, higher attractiveness is a pre-condition for sustained investment in economic activities, and is also essential for improving the regional image.

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Clusters - Territorial Networks. Where to?

Luiza Nicoleta Radu¹

Abstract: Globalization has led to an increased international trade relations between organizations spatially separated. This determined a greater spatial differentiation influenced by local and regional competition production systems. Territoriality has been considered as the main cause for the development of active areas, explaining also the success of certain local systems of production that became competitive on a global scale. The new school of regional competitiveness promoted by Porter (2003) identifies the cluster industry as a source of competitive advantages, supporting the identification and cluster setting – up as an objective of the public policy. In the last few years, clusters became an important basis for the new policies promoted at the level of the European Union. The challenges established through the Lisbon Strategy, respectively “to make the Europe the most competitive and dynamic based knowledge economy”, determinate a new approach of the economic policy in order to increase competitiveness. For the regional economy, the cluster has the aim to develop new strategies focused on the economic sectors of the regional development, by taking into account sectoral advantages. However, in terms of economic activities promoted at regional level, the spatial development is an essential component for increasing EU competitiveness in terms of economic globalization trends, regional networks being considered the most advanced form of cluster in the economic sector.

Keywords: regional policy; cluster; regional competitiveness

JEL Classification: R58

1. Recent Approaches for the Policies Implementation

The national states territories are administered through territorial governance, policies being implemented by highlighting the distribution of roles and responsibilities between different levels of government (supranational, national and sub-national). The territorial governance of European Union represents a particular challenge due to the impact of regional policies on territorial development. EU policies have a double impact on territorial development, namely: direct impact by providing information and measuring subsidies and problems of development and indirect effects by stimulating new economic activity (internal market, infrastructure links), by introducing new territorial concepts (sustainable development), by creating new administrative relationships (EU regions, INTERREG), reshaping new maps (especially in border areas), or providing

¹ PhD, in the field of regional policy, Councilor, Ministry of Regional Development and Tourism, Romania, Address: 17 Apolodor Str., North Side, Sector 5, Bucharest, Romania, Corresponding author: luiza.radu@mdrt.ro.

information or territorial statistics (ESPON) that can influence political decisions. European regions have a huge territorial potential for sustainable growth and job creation, through the tangible resources territorially organized such as social capital, institutional requirements, community development and entrepreneurial capacity.

The mobilization of various territorial potential requires a new understanding of territory and private sector cooperation. Territorial influence of EU Cohesion Policy and other policies (e.g. rural, environmental, transport) should be recognized at all levels. This means that EU policies should take into account local, regional and national policies, as well as the development potential through a more coherent approach to territorial development. In addition, regional and local development strategies should focus on European needs, and better use of the opportunities offered.

Recent approaches of the cohesion policy highlights the importance of geographical aspects (“geography matters”). This means that a special meaning is given to territorial cohesion, which refers to the history, culture and institutional situation of the Member State. In this way, there can better exploit the opportunities offered by Europe's territorial diversity and development approaches of these areas. Thus, regional policies should have a stronger territorial dimension not only directing investment to areas that are emerging as development engines, but also to areas and towns with serious social and economic problems that tend to decouple from the development economic.

Currently, even if there is no universally accepted definition of the term territorial cohesion, there can be identified several approaches to this concept. First, the international literature defines territorial cohesion as a polycentric and endogenous development in order to achieve more competitiveness and innovation clusters in Europe. Secondly, territorial cohesion can be seen as a model of balanced development, in order to reduce socio-economic disparities and avoiding imbalances. Thirdly, it is expressed in terms of accessibility, such as equal access to facilities, services and knowledge. It can also be defined as a network, emphasizing physical and interactive connections between different communication centers and their connection with surrounding areas. Thus, although the definition of territorial cohesion is still in debate at European level, there are some elements characterizing the phenomena, such as the balanced development of the territory, territorial disparities and valorizing the territorial potential.

In this context, the clusters can be seen as the most appropriate tool for implementing the new European approach to competitiveness and territoriality.

Clusters – Territorial Networks - Concepts

According to the international literature, clusters are a group of companies or institutions located in a specific geographic region, connected by interdependencies in order to provide a group of products or services (Porter, 1996). Maskell and Lorenzen (2004) considers that each cluster represents a model of market organization where private companies strengthen relations between them and the outside world, where particular institutions are acting, implementing workforce strategies by using local externalities in order to pursue technologic activities that serve different target groups. A cluster can be defined as a group of firms, related to economic actors and institutions that are located nearby and have reached a sufficient level to develop specialized services (expertise, resources, suppliers and competent staff).

United Nations Industrial Development Organization (UNIDO 1999) considers cluster as being a sectoral and geographical concentration of companies that gains from the agglomeration of specialization vendors, availability of raw materials and components production and local labor market. They are supported by public and private networks that promote collective learning and innovation diffusion. However, the cluster is a form of spatial concentration of interconnected companies, institutions and organizations that have the same development goals, cooperate and compete in some areas (Market Economy Research Institute, Poland, 2005).

According to Ketels (2004) clusters are groups of companies and institutions co-located in a geographical region, having interdependence relationship and providing a specific set of products and / or services. For Rosenfeld (1997) cluster is a group of companies capable of producing synergy effects based on geographical proximity and interdependence, even if the employment rate is not quite significant. However, the economic clusters are not simply a group of industries, but institutions with diverse support a higher level of competitiveness due to the links between them (Feser, 1998). Cooke and Huggins (2002) considers clusters as geographic concentration of firms that develop horizontal and vertical connections, implies the presence of business support infrastructure and of a common vision of growth, based on competition and cooperation in a determinate market area.

Clusters are organized around a specific sector of the economy (automotive, textile, tourism) within a territory that not necessarily coincides with a major urban area. Cluster feature is that all organizations contribute to the development of that territory, acting as an organized network that includes businesses, educational forms (not only at the university level but also at the pre-university, technical, education and vocational training) research institutes, and other specialized business services (support services market / export, transport, storage, information,

banking, advertising, lobbying, etc.). Moreover, clusters are, by their very nature, “net export zones” because it exports the production of goods and services to customers and consumers from other areas.

As regards the networks, the general definition applicable in different areas of management describes it as a process in which several participants or groups of participants are working together for a common goal, having a common vision. As a rule, this process is not based on formal contracts, but on trust, partnership and believes that all stakeholders will have benefits. (Sprenger, 2001). Moreover, the specialized literature highlights that networks are not only specific spatial structure, but that they make available functions which improves efficiency through spatial interactions. According to Batten (1994), and Reggiani and Nijkamp's (1996) network can be defined as a socio - temporal complex. Thus, the network is a spatial-economic or socio-economic characterized by a evolutionary processes governed by multiple players, organizations of interrelated subsystems. (Reggiani, Nijkamp, Sabel, 2001).

Tijssen (1998) defines network as an evolutionary system of mutual dependency based on relationships between resources, the systemic nature being the results of interactions, processes and procedures. However, Fischer (2006) considers network a distinct form of organization among firms that work together on the market by having horizontal and vertical relationships. Activities within such a network involve creation, combination, transformation, absorption and exploitation based on formal and informal relationships. According to Fischer (2006) network resources are represented by different types of capabilities, skills and assets that can be divided into tangible resources (codified knowledge) and intangible resources (know-how, experience and personal contacts). The international literature also pays attention to regional networks that define local cooperation links between firms (usually small and medium enterprises), banks, institutes of higher education and research, consultancy centers, chambers of commerce and industry, associations of producers, local government and other interested social groups (Maillat, 1990; Cappellini, 1998; Sprenger, 2001).

Clusters or territorial networks cannot be created by authorities, being a result of economic activities on the market. Thus, they have to take into consideration the policies promoted by government. The authorities intervene in support of this process by regulating the operation of networks, the mutual relations established and other factors that directly or indirectly affect their activity.

At European level, the literature begins to notice “changes” that have occurred due to the implementation of regional policy. Networking, clustering is no longer just the attribute of firms acting in the economic environment. Globalization, competition for location and regional development policy determinate the setting-

up of regional networks thus encouraging the mobilization of resources and the regional potential.

At European level, regardless of how it is formed - under the pressure of globalization and intense economic exchanges - networks tend to evolve towards supra-territorial attracting international competitors. The globalization process increases the importance of the regions as business locations and transforms the product competition in a location one. In this way, regional and local partners are forced to improve regional economic culture and promote regional competitive advantages.

International literature identifies different forms of territorial networks: regional clusters, regional environmental centers of excellence, regional initiatives on labor and environment, initiatives of Agenda 21. Also, business networks, and the public or other institutions are integrated components of the system of "regional networks".

As defined, regional cluster initiatives is a regional accumulation of companies acting in the production and services, research, education and other training institutions, offering complementary services such as to enable cooperation within the network. (Sprenger, 2001)

In the literature (Reggiani, Nijkamp, Tijssen, Sprenger, Fischer, Cappellini, Maillat) networks are defined as the specific spatial structures which have cooperative ties that contribute to achieving common goals. Networked relations are characterized by precise steering that identifies the control or dependency relations of a node compared to another. This implies a hierarchical relationship within the network. Each node has a specific function, which depends not only on relations with another node, but the position of the node within the network. Relations within a network are normally connected to other networks. Also, existing relationships in a given network depends on previous relationships in the network due to cumulative process of learning and dependencies. It can be considered that, unlike the neoclassical model based on the balance - imbalance concept, the network model has an evolutionary approach that allows establishing relationships between the network structure in a given period of time and the structure of that network and others in a complementary previous period of time (Cappellini, 2000).

The territorial network approach takes into account, in addition to the spatial dimension, the temporal dimension because a network structure is continuously changing by establishing new relationships, modifying or finishing the existing ones. However establish a new relationship or changing the existing one is influenced by the distance between interacting actors, cumulative learning process and characteristics of other actors of the network. Thus, there can be considered that the iterative approach of direct or indirect links between two participants of the

network (two nodes) depends on the distance between them or between them and other actors; the distance is influenced by the gradual search of each actor of nearest level or integration or cooperation form.

The network model reveals that the distance plays an important role in explaining the different effects of globalization on regional economic development. Rallet, Torre (1998) and Bellet (1993) address the issue of distances under different aspects, namely geographic proximity, organizational and institutional. Thus, in the literature, geographical proximity takes into consideration the links between organizations in terms of physical distance by applying geographical barriers and effects of transport and telecommunications infrastructure. Organizational proximity refers to the links in terms of production organization and relies on logical organization of assets and similarity between the actors belonging to the same organization.

Evolution towards Territorial Networks

The regional dispersal of industries in Europe influenced the evolution of clusters. Thus, unlike the U.S. economy, there is not a high degree of geographical concentration of economic activities in the European industry. The high concentration occurs in those industries with a small growth rate and production concentrated in a few locations. Concentration rate decreases in those industries with a higher growth rate that decided to outsource activities to new locations. Specialized business services are developed for the benefit of companies, so that the small businesses have access to services they would not be able to obtain (economies of scale); collaboration among competitors is encouraged in order to support the cluster, thereby creating economies of agglomeration where these territorial proximity plays an important role. Support for cluster is often supplied by subsidizing the production and availability of specialized business as well as by promoting networking activities that best contributes to identify specialized business services that are most useful to cluster.

These concepts have led to the definition of a regional network model based on the concept of integration and characterized by the ability to establish direct links between the industrial / economic areas, territory and the local administration. This territorial network model implies more formalized of relations between firms (Cappellini, 2002).

One of the features highlighted in the international literature is specialization and complementary of the firms within a network. Also, there is a sectoral diversification of the local economy and greater complementarity between the different activity sectors. Moreover, the territorial network allows an extension of geographical area in which firms operate, promoting complementarity between

regional territorial organization and firms economic relations. There are also needed rules for establishing the organizational structure, the legal status, responsibilities and duties of the partners, types of relations between them.

In this context, the international literature (Howells, 1996; Langendijk, 1999) shows that the nature of regional policy has fundamentally changed; the innovative and learning processes having a higher weight. This is due to the challenges from national level (multi-level governance, uncontrolled urban development, consultation on policies and strategic documents) and international one (climate change, demographic and migration phenomena, energy efficiency, food crisis). Regional organizations are more than implementing bodies of central policies; they have the ability to formulate initiatives, to find resources and to institutionally adapt to the external environment changes. Thus, the regional organizations have the opportunity to develop their own policy implementation mechanisms, mostly based on cooperative relationships with local partners, thus resulting in the creation of networks for regional policy.

In practice, for the implementation of regional policy are created regional networks based on partnership. European Commission support for the implementation of this principle has led to a strong involvement of sub-national level, regional and local authorities' becoming very active. Studies conducted by the European Commission, such as "Partnership in the 2000-2006 programming period", "Partnership for Implementing the Structural Funds", highlights the increasing importance of partnership principle, due to the fact that it can help improve the design, monitoring and evaluation of programs, ensuring greater accountability of different actors on the management of Community assistance.

However, in terms of economic activities implemented at regional level the spatial development is an essential component of the EU approach of increasing competitiveness, the regional networks being the most advanced form of cluster in the economic area.

The national, regional, local policies for developing an economic modern system should take into account three factors of competitiveness, namely the speed of change and adaptation of innovation, forms of networks between local actors, interregional and international importance of the local economy (Orsenigo, 2000). However, new forms of economic integration of firms justify the transition from an approach based on economic concepts of concentration and specialization to one based on the concepts of territorial integration and intersectoral approach promoted by networks. It becomes necessary to adopt a systematic approach at regional level by creating local connections in highly specialized areas, promote intersectoral cooperation and diversifying local production. In this way the development of a region is not limited to a single production system development, but the result of their cooperation at regional level.

Cluster Evolution in Romania

According to the study conducted by the European Cluster Observatory, by considering the cluster size, degree of specialization and employment in the region, industries that are capable of clustering in Rumania are apparel industry, agriculture and zoo-techniques and the footwear.

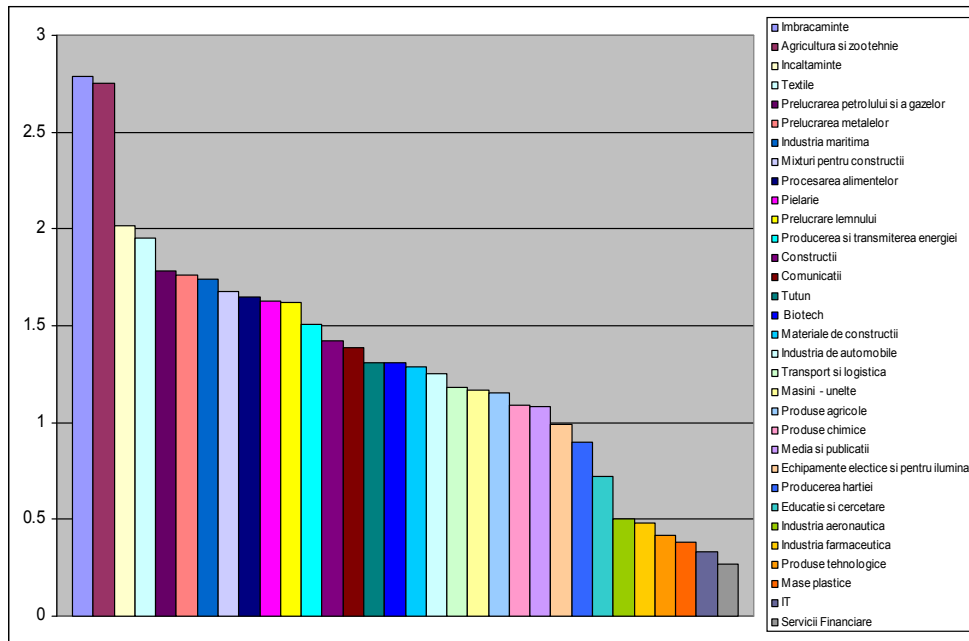


Figure 1. Cluster classification in Romania

Source: Personal data, European Cluster Observatory on industrial competitiveness areas in Romania, 2011

Also, according to data provided by the European Cluster Observatory on employment rate of the cluster, the degree of specialization and categorization of the number of “stars”, the most of the clusters that are holding the top position activates in the industry of clothing and footwear, according to the table below. It also notes the existence of a cluster in the processing of oil in South Muntenia, explicable by the presence of refineries operating in these regions.

Table 1. Top - 15 clusters based on employment, degree of specialization and category

Cluster	Region	Occupied population	Specialization rate	Category
Clothing	North-East	53 835	6.64	3
Textiles	North-East	45 786	5.61	3
Clothing	Centre	42 396	5.65	3
Clothing	South-East	41 401	5.65	3
Clothing	North-Vest	40 798	5.51	3
Clothing	South - Muntenia	38 710	4.61	3
Textiles	Centre	38 378	5.08	3
Communications	West	36 431	14.10	3
Oil and gas	South - Muntenia	36 383	20.61	3
Metalworking	South-East	36 040	2.25	3
Cars	South - Muntenia	32 935	2.71	3
Building structures	North-West	30 919	3.21	3
Footwear	North-West	28 200	15.67	3
Textiles	South - Muntenia	25 884	3.06	3
Building structures	South - Muntenia	23 113	2.12	3

Source: European Cluster Observatory

However, the European statistics regarding the top Romanian regions according to the classification of clusters by the number of “stars” and the employment of categorized clusters reveal that Central Region has the largest number of clusters, followed by the South Muntenia and West Region, according to the table below. Last place is occupied by the Bucharest - Ilfov, while in Romania this region has the highest reported growth in GDP per capita.

Table 2. Top Regions by taking into consideration the total number of “stars” and the share of employment in categorized clusters

Region	total number of “stars”	Share of employment in categorized clusters
Centre	27	71.25%
South - Muntenia	26	71.43%
West	22	62.53%
North-West	19	63.06%
South-East	17	77.59%
North-East	17	60.47%
South-West Oltenia	15	50.75%
Bucharest - Ilfov	15	54.92%

Source: European Cluster Observatory

Currently, Romania aims to strengthen the competitiveness of innovative local / regional clusters by supporting the innovation throughout the value chain, finding new market niches outside the Community, improving the managerial skills and capacity of the cluster enterprises to adapt to environmental requirements and energy efficiency. Moreover, it is intended to stimulate the firms collaboration in supply chains / clusters and to facilitate the transfer of knowledge and sharing best practices with other European countries.

As regards the creation and development of regional networks in Romania that will be stimulated by establishing at administrative level the general rules for the implementation of policy, as a precondition for the economic actors to find flexible integration modalities on the market in the established legal framework. (Constantin, 2002)

Strengthening cooperation at policy level between Member States of the European Union is, in fact, the main objective of the European Cluster Alliance. The new European challenge is to promote better ways to develop globally competitive clusters. This requires policy-oriented clusters, and practical tools to support this.

In Romania there are major industrial clusters, but these cannot be considered clusters due to the lack of horizontally or vertically collaboration. For now, there is only weak collaboration between the main actors of a cluster. Furthermore the economic development is not yet appropriate to the specific requirements of the cluster concept. In Romania there could be two types of clusters: “natural clusters” being created based on local and regional development, but which are not explicitly supported by specific policies and “public clusters”, created as a result of public support in accordance with European Union legislation.

National, regional and local economic development of a modern system should take into account three factors of competitiveness, namely the speed of change and adaptation of innovation, the networks between local actors, interregional and international importance of the local economy (Orsenigo, 2000). However, new forms of economic integration firms justify the transition from an approach based on economic concepts of concentration and specialization to one based on the concepts of territorial integration and intersectoral approach promoted by networks. Becomes necessary to adopt a systematic approach at regional level by creating local connections in highly specialized areas, promote intersectoral cooperation and diversifying local production. In this way the development of a region is not limited to a single production system development, but the result of their cooperation at regional level.

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Comparative Study of Sustainable Development Indicators in CEE Countries (2000 – 2010)

Mara Ursache¹

Abstract: Environment is the basic factor to continue human survival and long-term prosperity of mankind is unthinkable if we are not able to ensure that future generations can enjoy the full benefits of nature. At the same time, development is needed to tackle poverty in developing countries and to empower people everywhere to live in a civilized manner in a more favorable environment. The aim of this article is to examine if the sustainable development indicators (*greenhouse gas emissions, resource productivity and people at risk of poverty or social exclusion*) have an impact on the economic growth and if there are significant discrepancies between countries in 2010 compared to the base year of analysis (2000), using this indicators. The analysis focuses particularly on the countries situated in Central and Eastern Europe (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia). Based on the result obtained, the author shall try to trace, in the conclusion, a few guiding lines which could be of strategic importance for stimulating action and awareness that environmental protection and economic development must be contemporary concerns.

Keywords: CEE countries; environment; economic growth

JEL Classification: O52; O57; Q56; R11

1. Sustainable Development – A Jigsaw Puzzle

Human development has reached a cross path. What should be considered is related to the need to sustain life, in conditions which favor this issue long term. Unfortunately, current economic trends require more economic than environmental rules, more social than economic or more ecological than social. These trends are harmful, the future development of society needing a balance to consider on the same level of importance the three dimensions of human development: social, economic and environmental.

In recent years, the world has become increasingly aware of the complex relationship between environment and economy and the need to integrate them, which means reliance on the premises of a deep and lasting sustainable

¹ Centre for European Studies, Alexandru Ioan Cuza University of Iasi, Romania, Address: 11 Carol I 11 Blvd, Iasi, Romania, Tel.: +4 0232 201 030, Corresponding author: maraursache@yahoo.com.

development. The last two decades have witnessed both in developed and in the developing countries, environmental policies designed to work with economic and trade policies.

The concept of sustainable development is characterized by fluidity, as shown by many of its interpretations. From the appearance of the first formulations of this concept until now, its content has seen continuous improvement by adding new coordinates, theoretical, methodological and practical valence, which are reflected in its many definitions. Common to these definitions is their interpretation in a global vision, which highlights the complex and dynamic interrelationships between economy, ecology and social-human. In the economic and environmental literature, sustainability was considered an essential coordinate for development policies.

The 1960s and the 1970s were marked by an intensification of concern about pollution. They were also marked by an awareness that environmental problems arise within the context of a complex interrelationship between humankind, the global resource base and the social and physical environment (Turner 1988).

The initial definition of sustainable development was provided by the World Commission on Environment in 1987 with the publication of the Brundtland Report entitled "Our Common Future", pleading for reconciliation between economy and environment. Sustainable development is seen as the kind of development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Environmental quality and economic development have come to be seen as interdependent and mutually reinforcing. Brundtland argued that sustainable development requires the promotion of values that encourage consumption patterns that are within the bounds of the ecologically possible and to which all can reasonably aspire.

Allen Robert (1980) sees the sustainability as a use of species and ecosystems at the levels and manners allowing them to renew themselves for any practical scope [...] the development providing the satisfaction of human needs on long-term and improving the quality of life. R. Goodland and G. Ledec (1987) give the following definition: the sustainable development is a model of structural and social economic transformations which optimizes the economic and social benefits available at present, without putting in danger the probable potential for obtaining of similar benefits into the future [...] the sustainable development involves the use of renewable natural resources so that these should not be exhausted or degraded or not to be reduced their utility for the future generations [...] involves, as well, the exhausting of non-renewable sources of energy at a rate ensuring a high probability for the transition towards renewable sources of energy.

J.K. Lynam and R.W. Herdt (1989) define the sustainability as the capacity of a system to maintain its output at a level equally or higher than its historical average.

In accordance with David Pearce, the criteria of sustainability asks for necessary conditions for the equal access to basic resources, which must be valid for each generation, which means: a set of constraints, establishing that the rates of consume for the resources not to be higher than the rates of their natural regeneration; the use of environment as a place for storage of wastes, so that the rates of waste production not to exceed the rates of (natural) assimilation by the corresponding ecosystems. In the conception of executive manager of United Nations environment program, M.K. Tolba (1987), sustainable development envisages a support for the very poor ones, since they do not have any other option but to destroy of their environment; the idea of a certain development, in the framework of constraints imposed by the development of natural resources; the idea of development of cost efficiency, which uses various economic criteria from the traditional approaches, which means that the development must not damage the environment, nor to reduce the long-term productivity; important problems related to health control, corresponding technologies, food security, clean waters and shelters for everybody. Putting 'development' and 'sustainability' together, 'sustainable development' becomes a form of societal change that, in addition to traditional development objectives, has the objective or constraint of maintaining ecological sustainability (Lele 1991).

In the conception of Thomas Sterner (1994) the sustainability is presented as a union of three dimensions - economic, social and ecologic. The economic attached to the ecologic influences the process of economic development by affecting the natural resources and the biodiversity; the social attached to the ecologic assure a rational use of the natural resources, a preservation of biodiversity, a respect for the nature through culture and education. The latest modern approach, presents the concept of sustainable development relying on four pillars: economic growth, social development, environmental protection, cultural diversity (Comşa 2011).

Consequently the various definitions in terms of sustainability are addressed in the vision of reconciliation between economics and the environment, supporting human progress, not only in some places and for some years, but for the whole planet and a sustainable future as far as possible.

2. The General Concept of Implementing a 'Green' Environment in CEE

After the Second World War, most countries in Central and Eastern Europe (CEE) came under the Soviet sphere of influence. Following its example, CEE countries began intensive programs based on heavy industry, particularly those producing chemicals and metals. The success of socialism was measured in the number of tons of steel produced and not on maintaining environmental quality. Furthermore, large scale collectivization and mechanization of farmland led to drastically

increased use of polluting pesticides and fertilizers, along with a drastic decrease of biodiversity.

Reduced productivity and poor environmental conditions have also slowed progress in establishing economic reforms. Concerns about the lack of environmental infrastructure, accountability for past damage to the environment and the high cost of correcting these shortcomings have discouraged foreign investors to do business in these countries. The fall of communism in the late 1980s not only reshaped relations within the continent, due to the rapid growth of globalization, but has provided fascinating insights on the potential and limitations of the major restructuring of society.

Globalization has intensified relations between nations, increased trade flows of goods and services. Every country, regardless of size or geographical location felt the need to participate in the global economic cycle. At the same time, the probability of an impact, positive or negative, of a country's business environment on another country's environment (economic, social, cultural,) increased. In the last twenty-five years we have witnessed some of the most profound political, social and economic changes in Europe's history. But the way of CEE countries to a market economy was not easy, since it started with serious obstacles due to environmental problems inherited from the planned economy system, which was a burden to society and hindered privatization process. Transformation involved great sacrifices, accompanied by economic depression, which led to a massive drop in GDP and declining living standards, namely in the first half of the 1990s. CEE countries were pushed to introduce market reforms to remove inefficient industries and modernize long-neglected infrastructure.

For many people, these changes have meant the destruction of a way of life based on security, predictability and low risk. However, the prospect of EU membership, which provided the impetus for change, offered a reward for losing the 'comfortable' standard of living previously provided by the communist state. Also social sensitivity towards environmental issues has grown progressively. Environmental movements have played an active role in the transformation, becoming a major factor in terms of political changes.

3. Analysis on CEE Countries Regarding Sustainable Development

In this article we made a comparative analysis of the Central and Eastern European countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia). Using the sustainable development indicators (*greenhouse gas emissions, resource productivity and people at risk of poverty or social exclusion*), we tried to establish if these indicators influence economic

growth and whether there are significant discrepancies between these countries, carrying out a parallel between 2010 and the base year of analysis - 2000.

According to Eurostat the greenhouse gas emissions indicator presents emissions of greenhouse gases by main source categories. A major source category is defined as an emission source category with significant influence on the inventory of greenhouse gas emissions from a particular country in terms of absolute level of emissions. Various greenhouse gases are weighted by global warming potential, and the results are expressed in CO₂ equivalents.

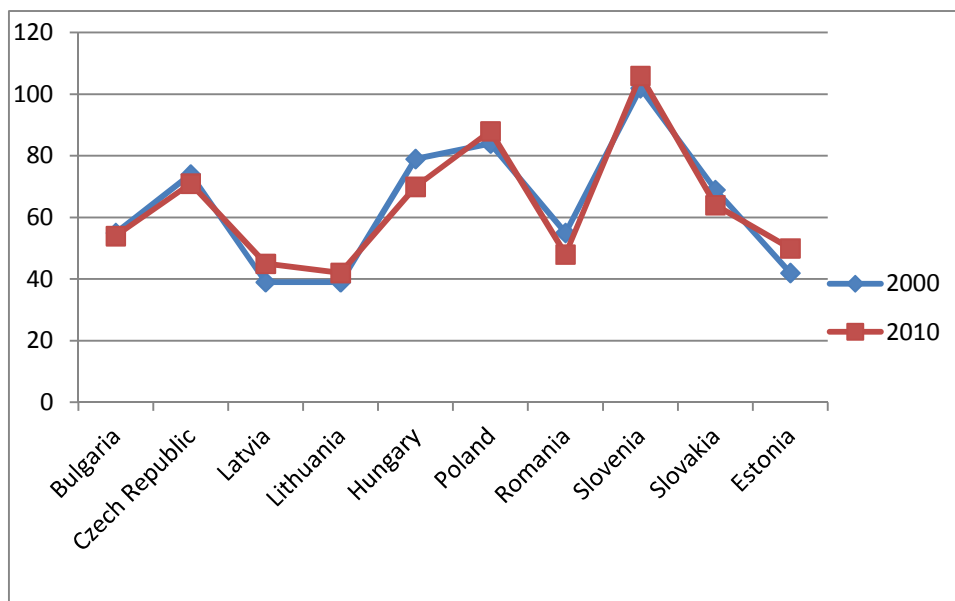


Figure 1. Greenhouse gas emissions

Source: Eurostat

Economic growth and environmental quality relate according to the environmental Kuznets curve theory. This theory exposes the fact that environmental quality indicators tend to deteriorate up to a certain level once per capita income increases, but then a shift occurs and the relationship is reversed - the indicators of environmental quality improve as the level of income per capita increases.

From the figure we notice that among the CEE countries, during the analyzed period, only Romania and Hungary have reduced their greenhouse gas emissions, although not in a significant proportion. Economies are likely to remain stuck at a certain level without managing to reach the point at which pollution begins to diminish.

As a result of structural changes in the economy, it is likely that pollution will worsen slower in time, but it is not likely to diminish in absolute terms, even if the

income level increases. Greenhouse gas emissions and energy consumption did not get to record a downward trend even in the richest nations.

Another indicator that can describe sustainability refers to the effective use of resources available in a particular country. We present in the chart below, the situation in this respect in the CEE countries.

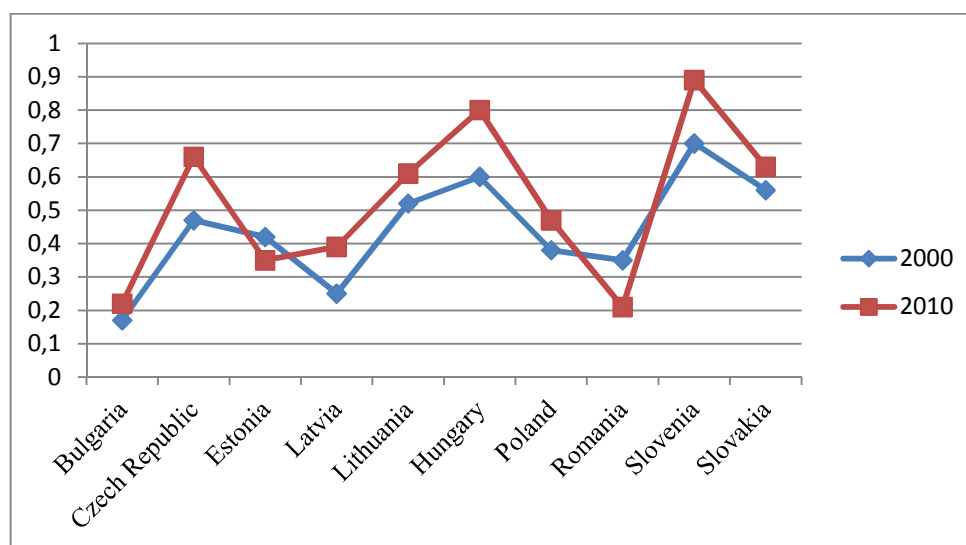


Figure 2. Resource productivity

Source: Eurostat

The resource productivity indicator is obtained by dividing the GDP to domestic material consumption (DMC). This indicator is relevant in two ways. The first, refers to the technological level, the intensity with which raw materials are transformed and are given value. The second, targets sustainable development, conservation and effective management of the available resources of a country and environmental protection in terms of economic growth.

DMC measures the amount of raw materials used by an economy and annually extracted from the national territory plus imports in physical expression minus exports in physical expression. However, we note that it is about the apparent consumption and not the final consumption, which may include non-disclosure flows of import and export of raw materials.

Table 1. Modification 2010/2000

Bulgaria	+ 30 %
Czech Republic	+ 40 %
Estonia	- 17 %
Hungary	+ 33 %
Latvia	+ 56 %
Lithuania	+ 17 %
Poland	+ 24 %
Romania	- 40 %
Slovakia	+ 13 %
Slovenia	+ 27 %

Source: Eurostat calculation

From the calculation presented above, it appears that Romania records the lowest value, aspect which reveals a weak point of maximum importance, namely the negative trend in the use of raw materials available in Romania.

Apart from Romania, only Estonia is still in the territory of negative evolutions, but it is far from the 40% rebound in our country. Moreover, starting its economic performance from a level situated at half of Romania's performance, Bulgaria passed Romania, improving performance by 30%. At the opposite pole we find Latvia, with an impressive increase in resource efficiency (56%) which brings it to the first position, and the Czech Republic, with an advance of 40%.

Progress is a natural purpose of each national economy. The achievement of social progress is based on a decisive factor, which is the efficiency of use of natural, human and financial resources that the considered economy is dependent on. An intensive economic growth, a goal to be touched by any modern society, creating an advanced economy and a high degree of welfare for the population can be achieved only through the effort of human factor to use in a productive way each unit of natural, human and financial resource.

Moreover, the direct relationship between economic development in developing countries and the levels of environmental degradation became increasingly obvious. Overwhelming poverty and increasing population increases the problem of environmental management. Health and economic welfare of people living in poverty depend on a range of environmental resources: fresh water for drinking, sanitation and agriculture, fisheries and fertile soil for food production, forest

various products of forest and marine ecosystems. Above all, the diversity of nature: its aesthetic, nutritional and pharmacological variety - greatly enriches people's physical and spiritual experience. But when natural resources are not used properly or when the air, soil and water are polluted, poor and economically vulnerable people are those who suffer the most.

To complement the things stated before, in table 3 we present the situation of people at risk of poverty or social exclusion in the CEE countries.

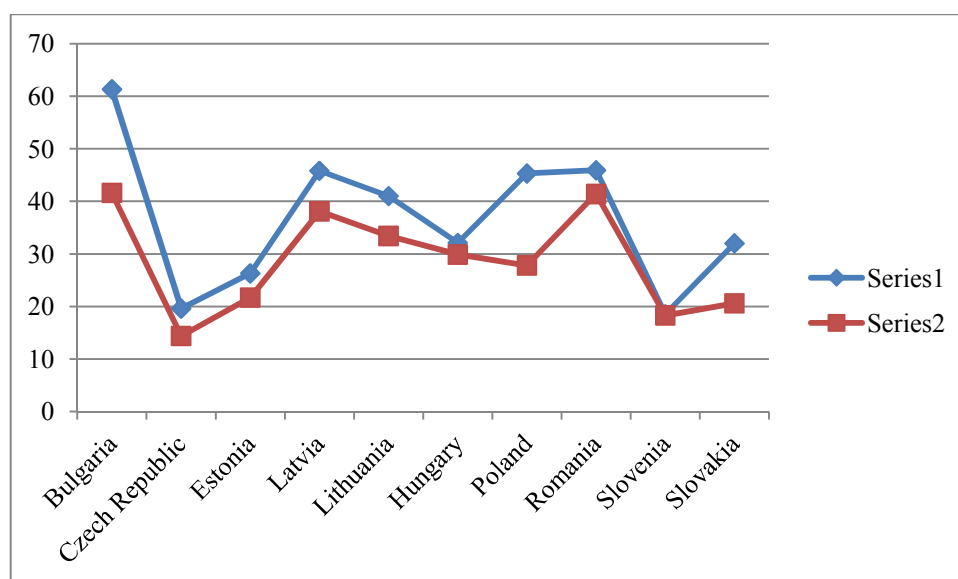


Figure 3. People at risk of poverty or social exclusion

Source: Eurostat

The Europe 2020 strategy promotes social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and social exclusion. This indicator corresponds to the sum of persons who are: at risk of poverty or severely materially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equalized disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equalized disposable income.

For developed countries, the issue of improving life quality, reducing poverty, depollution, etc. is one of transformation, adaptation and modernization. Also changing the trend of economic growth to a sustainable one in these countries is supported by political and technological will and resources. Chances of success are very high.

For underdeveloped countries the problem arises in completely different terms, related not to modernization but to a drama stage. If, at times, the issue is not about life quality but about survival, it is understandable what order of priority has sustainable development within these countries policies.

In 2004, eight countries in Central and Eastern Europe - Poland, Czech Republic, Slovakia, Estonia, Latvia, Lithuania, and Slovenia - joined the European Union. They were followed three years later by Bulgaria and Romania. An immediate consequence of their membership was that foreign direct investment increased sharply, as investors positioned themselves to take advantage of the cheaper labor and the bigger and more stable internal market offered by the progressive unification of Europe. The U.E. membership also created for most of the CEE economies accessibility to globalization. While most of the economies are growing, and some are becoming players in the global economy, poverty and unemployment are still widespread. The central and eastern region has still lower cost labor than Western Europe and due to the global financial crisis is facing growing debts, inflation, increasing prices for food and energy, political instability etc.

Bulgaria is the poorest member of the European Union and slowly recovering from a deep recession. Its economy is shrinking and investors are fleeing. It has a very poor infrastructure: no highway connections to border countries to enable trade, outdated railways, aging water networks, severe water shortages, many villages with no electricity, and very little connectivity to the Internet. In Romania, 3% of the population live on a little over \$1/day. Romania had the fastest economic growth rate in the EU until its economic bubble burst in 2008. Now it is facing rising unemployment and social unrest against painful spending cuts and tax rises. It has a very poor infrastructure as well and the level of corruption is very high.

4. Conclusions

Accepting the principle of sustainable development involves combining cultural, economic and environmental elements. Sustainability considers that economic progress must be fully integrated to the environment. Sustainable development is the only way to reconcile the so-called conflict between the two elements considered so far incompatible: economic growth and the conservation of natural resources. Sustainable growth means promoting a more resource efficient, greener and more competitive economy.

Economic development and environmental protection must be contemporary concerns! The complex relationship between the two is of crucial importance to human welfare, for a intelligent sustainable development in a globalized world.

A vital condition for implementing a successful sustainable development policy consists of accurate information, access to that pertinent information, and training and educating all in the spirit of durability.

Currently corporations and governments around the world have realized that environmental protection is an economic opportunity. Basically, to choose between saving the environment and saving the economy is like choosing between prosperity and decline!

Understanding the state of the environment in all its dimensions in the countries of Eastern and Central Europe is crucial. Appreciating the way that these countries arrived at this state is essential to arriving at sound solutions. Although there are significant historic environmental liabilities to be overcome and some technical approaches need to be modified, the biggest challenge is in implementation of environmental legislation in an effective way. The strengthening of institutions and encouraging responsive, flexible yet robust regulatory bodies at a local and national level is a key to increases in environmental performance.

The EU's Europe 2020 strategy has set sustainable growth as one of its three priorities with the aim of supporting a shift towards a resource-efficient and low-carbon economy.

One obvious solution to environmental ills is to close polluting industries, clean-up damaged areas, mandate emission control devices on autos, trucks, and buses (introduction of cleaner, more efficient vehicles is an essential element in creating sustainable transport systems and is central to climate change mitigation efforts) and improve health care facilities.

Policy makers should pay attention to resource allocation and efficiency of any of their use, stimulating economic environment, and social progress. Resource productivity is a way of expressing performance and economic efficiency. A competitive economy is an economy capable of generating economic growth, high efficiency and long term. Given that currently the environment as a whole, is regarded as an economic resource, CEE countries must take into consideration implementing a healthy and successful industrial, technological, economic and social policy for green growth.

In the battle against poverty CEE countries should ensure economic, social, and territorial cohesion by helping the poor and socially excluded and enabling them to play an active part in society.

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Innovative Clusters in Times of Economic Crisis. Case Study Romania

Carmen Beatrice Păuna¹

Abstract: The small and medium-sized enterprises (SMEs) are deeply affected by the current economic crisis, especially due to decrease in demand and much harder access to financing sources. Most of the small and medium-sized companies (over 90% of them) face major difficulties due to decrease in orders and diminution of their financial resources. Other impacts of the financial crisis identified at work within the SMEs environment are the decline in exports, the lower investments and, not least, the psychological effect of the market hindrances. In order to alleviate and/or fight back the impacts of the crisis, programs and measures are envisaged, including certain solutions, both at governmental, as well at local and company level, destined to support the development and efficiency of the viable SMEs. The financing solutions for the SMEs may be oriented also to a modern type of industrial activities organization namely clusters and clusters networks. The concept of cluster has gained a lot of popularity in the past few years, policy-makers, practitioners and scientists having equally referred to it. A lot of policies have been initiated and implemented in Europe in the past few years with the purpose of stepping up the activity of the current clusters and of providing favorable conditions for the creation of new ones, especially innovative clusters. The paper intends to present the records registered in this field by Romania on regional level, and the challenges faced by the Romanian firms under the circumstances of the financial crisis and the lack of institutional framework and of clusters governance tools.

Keywords: knowledge-based economy; cluster; SME; competitiveness; regional development

JEL Classification: O25, R38, R58

In order to alleviate and/or fight back the impacts of the crisis, programs and measures are envisaged, including certain solutions, both at governmental, as well at local and company level, destined to support the development and efficiency of the viable SMEs.

The financing solutions for the SMEs may be grouped by three types of sources:

1) **Bank loans**, which provide the SMEs with the possibility to expand their activities faster, by simplifying the required documents and diminishing the time for responses.

¹ Senior researcher, Institute for Economic Forecasting –Romanian Academy, Address: Calea 13 Septembrie no.13, District 5, Bucharest, Romania, Corresponding author: pauna_carmen@ipe.ro.

2) **Guarantee funds.** The guaranteeing services are available to the companies which pursue obtaining a bank loan to implement a project, for which the applicant submits a well-founded business plan but cannot provide the material guarantees.

3) **Financing programs.** Most of the financing of such kind is provided for by other countries and international funding institutions. The system of public, external non-reimbursable financing is one of the components of the wider mechanisms of inter-country collaboration.

Given the importance of specific programs which are implemented in the EU Member States with the goal to overcome the economic crisis, we will be referring in the following to the possibilities to improve the financial absorption capability for the most active participation of Romania to the supply of European Funded Programs and Projects. After EU accession, Romania is bound to adapt to the rules of the European Union cohesion policy, while at the same time having to develop its own national concept regarding the economic and social cohesion policy. Due to the economic problems, in the first years after accession cohesion in Romania is likely to be achieved especially on the basis of the Cohesion and Structural Funds.

In the view of the European Union, the cohesion policy will continue to be a significant funds transfer mechanism for the Member States with a significant number of less developed regions, which will have a priority status within the Structural Funds.

At the same time, EC maintains its attachment towards three basic principles regarding the financing of the European programs:

- efficient fund management, on the basis of the Member States' capabilities;
- result-conditioned transfers;
- the Member State's administrative, financial and economic absorption capability.

The absorption capability is the extent to which a Member State is able to spend effectively and efficiently the financial resources allotted from the European funds. In this case, on the one hand is to be distinguished the *absorption capability of the institutional system* created by the respective state to manage such funds and, on the other hand, the *absorption capability of the beneficiaries of such funds*. One may consider that there are two distinct categories of absorption capability: one regarding the *supply (of funds)* and another regarding the *demand*.

The absorption capability of the applicant for projects financed through European funds is determined by three main factors:

- *The macroeconomic absorption capability* – defined and measured in ratio to the Gross Domestic Product. For the interval 2007-2013, it is provided that the

annual amount of which benefits a Member State from the Structural and Cohesion Funds must not exceed 4% of the GDP. Linked to the macroeconomic capability is the *necessity to increase the budget spending due to the EU accession*. In this respect, Romania must ensure since 2007 budget spending by at least 2% of the GDP higher than previously, strictly determined by the obligations assumed in the context of European integration.

Also linked to the macroeconomic absorption capability is the capability to absorb the macroeconomic effects generated by the *additional expenditures incurred*.

- *The administrative absorption capability* - refers to the capability of the central and local authorities to prepare plans, projects and programmes in due time, to select the best ones, to organize an effective partnership framework, to comply with the administrative and reporting obligations, as well as to finance and supervise the implementation process.
- *The financial absorption capability* – represents the capability of the central and local authorities to co-finance programs and projects funded through European funds, to plan and guarantee these domestic contributions in multi-annual budgets and to collect them from the different partners involved in a project or program.

The co-financing capability

A basic principle of the cohesion policy is *co-financing*, according to which the Member States must contribute financially, thus completing the non-reimbursable EU assistance. The funds allotted through co-financing are the responsibility of the EU assistance beneficiaries, which bear a part of the costs of elaboration and implementation of the proposed projects.

The co-financing level may be determined by certain factors, whose identification and analysis might lead to the increase in the financial absorption capability: *the co-financing effort at project and operational program levels* and *the co-financing capability of Romania*.

The co-financing effort at project level is determined for each beneficiary and computed in three distinct steps;

- 1) *elimination of non-eligible expenditures*, namely those that cannot be covered through the structural instruments. For the “Convergence” Objective, it is the responsibility of each Member State to establish its own system of eligible expenditures, only certain non-eligibility provisions existing for each fund (ERDF, ESF, CF).
- 2) *subtraction of private expenditures* from the total eligible expenditures. The expenditures for a project covered by private beneficiaries depend on the contracting agreement between the public and the private parties. In the case that a

project does not affect to any extent the public budget there is the possibility of co-financing the EU funds only from private sources, by maintaining the compulsory ratio of public co-financing for the level of the respective OP.

3) *application of the co-financing ratio.*

For each Operational Program, a maximum co-financing ratio from the part of the EU is set. Certain priorities, projects or measures may be 100% financed through EU assistance, under the circumstances of maintaining a balance among the different priorities for the whole OP and of complying with the maximum co-financing ratio agreed by the European Commission.

The co-financing effort at program level is determined on a national basis, starting from the predominating beneficiaries in the respective Operational Program, and taking into account the following three basic elements:

1) *Allotment of the European Funds for each Operational Program (OP)* – it is established by each Member State in collaboration with the European Commission considering the *total EU transfers, financial prioritization of the OP and other EU rules.*

The *transfers* allotted to Romania within the cohesion policy negotiated for the financial perspective 2007-2013 amount to 19.3 billion Euros.

From the total transfers, Romania must allot:

- 1/3 – to the Cohesion Fund, from which the SOP Transport and SOP Environment will be financed;
- 2/3 – to the European Regional Development Fund and the Social European Fund. These funds will be divided by the European Commission between the “*Convergence*” *Objective* and the “*European Territorial Cooperation*” *Objective*, following that the allotments for these objectives are not to be transferred between them.

From the funds available for “*Convergence*”, Romania may decide since the very beginning to create a *national performance reserve* (in order to increase the performances of the Structural and Regional Operational Programs – 3% of the total for this objective) and a *national auxiliary reserve* (1% of the annual contribution of the structural funds) to be used in the case of unpredictable regional/sector crises concerning the economic and social restructuring or the consequences of the commercial openness. From the funds allotted for “*European Territorial Cooperation*” an amount that represents the transfer towards the financing instruments of the trans-border cooperation at the EU external borders is first subtracted. The rest of funds are divided according to three axes: trans-border cooperation (35.6%), trans-national cooperation (47.7%) and inter-regional cooperation (4.6%).

The funds for this objective are further divided to more Structural Operational Programs. For example, an allotment of funds for operational programs might be sketched as follows:

Table 1

Financial Allotment 2007-2013	“Convergence” Objective							“European Territorial Cooperation” Objective*
	SOP Competitiveness	SOP Human Resources	SOP Transport	SOP Development of Administrative Capability	SOP Regional	SOP Technical Assistance		
%	13	18	25	23	1	25	1	3

* There are several operational programs.

The EU transfers are accompanied by the public national co-financing of Romania, whose size is established as according to the additionality principle.

2) *Estimation of the national public expenditures and of the co-financing ratios of the Operational Programs*

The co-financing effort is determined by applying the co-financing ratios to the whole public spending for operational programs, determined by summation of the public EU spending and the national co-financing spending.

The ratios of contributions for each operational program are established by the Romanian authorities in charge (and afterwards submitted for the approval to the European Commission) on the basis of several criteria:

- seriousness of specific problems, especially of economic, social and territorial nature;
- importance of each priority axis, both for the European Commission priorities as they are established in the EU community strategic rules and for the national and regional priorities;
- environment protection and improvement, especially by applying the precautionary principle, the preventing action principle and the “polluter pays” principle;
- ratio of private financing mobilization, especially within the public-private partnerships;
- inclusion of inter-regional cooperation within the “Convergence” Objective.

The maximum contribution ratios provided by the regulation are:

- for the “Convergence” Objective: 85% of the public expenditures co-financed by the Cohesion Fund, 75% of the public expenditures co-financed by EFRD and ESF, which may increase up to maximum 80% in exceptional cases and with adequate justification;

- for the “European Territorial Cooperation” Objective: 75% of the public expenditures.

The minimum co-financing ratio for each axis is 20% of the public contribution. Within these limits, the co-financing ratios are modulated as according to certain criteria:

- the ratios are higher in the disadvantaged areas, and in the poor areas where difficulties regarding the way of public co-financing are foreseen;
- the ratios might be diminished when applying the “polluter pays” principle and the incomes estimated to be generated by the project.

The co-financing of the expenditures resulted from the implementation of the cohesion policy is ensured by the Romanian Government. The responsibility of authorities, both at technical and political level, is to identify the co-financing difficulties that the beneficiaries might encounter and to enforce the necessary measures to solve such cases.

After accession, the cohesion policy in Romania is achieved mainly on the basis of the Structural and Cohesion Funds. Consequently, a highly important and real stake appears as obvious, namely that Romania is able to absorb as much as possible from the EU community funds that are or will be allotted to it.

The identification of the expenditures co-financing difficulties in order to implement the cohesion policy (which is the responsibility of the central authorities) means to reach two major objectives:

- finding solutions to ensure the necessary level for *public co-financing*;
- creating the necessary conditions to *attract private capital investments*.

a) Public co-financing

Public co-financing may be done from the state budget, by the county and local authorities and other public associations or institutions. If their budget incomes are in insufficient amount, such institutions may engage loans on the domestic market (from the commercial banks) and/or on the foreign markets (from European Bank of Investments).

The state budget must ensure on an annual basis the *co-financing necessary amount*, at least for the “Infrastructure – Transport” Structural Operational Program of whose beneficiaries are mainly central public entities. Although the co-financing effort from the state budget is a large one, the highest pressure will rest upon the local public authorities (county councils, local councils, mayor offices), because they are the main beneficiaries of two Operational Programs: SOP Environment and SOP Regional. The experience of pre-accession funds allotment revealed that the local public authorities have encountered major difficulties in

ensuring the necessary co-financing. Such difficulties are determined, on the one hand, by the level of the *fiscal autonomy that conditions the volume of the local authorities' incomes*, and on the another hand, *the borrowing capability is legally restricted*, under the circumstances of limited state guarantees.

In such a context, the local public authorities reveal specific features that might turn them into the main weak factor in the co-financing process that will be carried on over the post-accession period. In order to avoid such a “juncture”, it is necessary *to define clearly the responsibilities concerning the management of structural funds at the level of the local public authorities and to promote an efficient management from the part of the central administration*.

The European regulations require that the local administrations have access to adequate financial resources in order to fulfill their pending obligations, against the background of increasing the financial autonomy.

Although the fiscal autonomy of the local administrations has increased significantly in the last years, the transfer of responsibilities among different administrative levels was influenced by several factors:

- lack of administrative capability of *income collecting* at the level of communes;
- unreliability of the system of *transfers among the public administration levels*;
- preservation of the central administration's prerogatives to change the incomes allotted to different levels of public administration, so that the *volume of the income sources becomes unpredictable*;
- *allotment of the available funds is performed by negotiation*, on the basis of political or personal agreements, and *not according to clearly specified criteria*.

The unbalanced distribution of resources by criteria that do not take into account real necessities and are not founded in *coherent projects of local development is a source of the significant disparities within the local communities of Romania*. At such a level, a vicious circle may be emphasized: *low capability to collect incomes → insufficient local budget → adapting at institutional level the behavior dominant at population level → locality with low community participation, lacking development projects*. The share at county level of the communes and towns captive inside such a vicious circle is a *determining factor for the disparities among counties in what regards fund accession on a project basis*.

To all these adds up a *significant deficit of administrative capabilities to implement and manage development projects, especially when such projects include community development*. In such circumstances *the support and expertise from county level are welcome*, in order to *achieve feasible projects for the economic and social development of the local communities*.

In their turn, most of the county authorities encounter certain *difficulties in the process of accessing and managing the structural funds that have to be eliminated by adequate measures*:

- *human resources deficit*, expressed by insufficient staff, low training in this domain, precarious logistics, lack of wage motivation;
- *material resources deficit* (lack of funds for co-financing the development projects);
- *unsatisfactorily level of the working and information procedures* regarding the programs and financing opportunities for the development projects.

A special effort and an adequate resource allotment must be directed towards *strengthening the role and capabilities of the regional institutions*. The key of an economic and social regional development is the *regional partnership*. The cohesion instruments may be efficiently implemented only if there are *strong regional partners through whom the necessary connections between the local authorities and the regional structures* are achieved. For instance, the Regional Development Agencies that are intermediary organizations would have an increased role in *implementing the regional programs if the transfer of funds from the local authorities and complete transfer of responsibilities in such an area* is properly regulated.

As regards the partnerships, the European Commission recommends *establishment of partnership structures especially dedicated to regional policy and the use of structural instruments at regional level, by including the local and regional authorities, of the economic and social partners and of other significant organizations*.

b) Attracting private capital investments

Considering the significant co-financing effort and the pressure upon public expenditures, it is required that *the structural and cohesion funds are used as an incentive to attract the private investment and financing sources*. The main beneficiaries of such a pursuit will be the SMEs, by *participation of the private capital* within the “Competitiveness” Structural Operation Program.

Co-financing from the part of the SMEs is one of the most difficult issues of the absorption capability in this sector. First of all, the structural funds do not any longer allow allotment of non-reimbursable funds as advance payments but only as *reimbursements*. *Such a regulations forces the SMEs to contribute with their own (or attracted) funds in order to cover all the expenditures concerning the proposed development project*.

Secondly, the SMEs must *cover also from their own resources the non-eligible expenditures for the elaborated project (including VAT), which might negatively influence their co-financing capability.*

Thirdly, *the private financing institutions are generally reluctant to lend to the SMEs considering that a high risk is still existing, and the conditions imposed by banks for the SMEs financing are still tough.* That is why the public intervention in order to improve SMEs access to financing might be considered as a correction to an eventual market failure. In this respect, the “Competitiveness” SOP also provides for development of certain guarantee and venture capital funds as dedicated instruments to the SMEs.

The private investments may be found in other Structural Operational Programs as well, especially under the shape of the public-private partnership (PPP). Such schemes are agreements between the actors in the public sector and in the private sector, respectively, in order to achieve a project or to deliver certain services that are traditionally delivered by the public sector. Both the public and the private parties share investments, risks, benefits and responsibilities stemming from the implementation of the PPP projects. The most common PPP categories are:

- *Planning – Building – Operating* of a certain facility, which is financed by the public sector and remains in its ownership along the duration of the project, but the private sector bears the planning, building and operating risks;
- *Planning – Building – Operating – Financing.* The four stages of a facility are performed by the private sector for a certain period, then returned to the public sector; the private investors own the facility during such a period, bear the planning, building and operating risks and recover costs from public subsidies;
- *Concessioning.* It is similar to the previous partnership agreement, but the public sector recover its costs from the user fees.

The private capital investments in structural operational programs depend on the degree of implication of the authorities from a central level. For the post-accession period special opportunities are created with the aim to use the technical assistance of the cohesion policy to plan partnerships between the public and the private sector.

The financing solutions for the SMEs may be oriented also to a **modern type of industrial activities organization** namely **clusters** and clusters networks, especially through applying to different EU collaborative projects which are implemented because of specific programs.

The concept of cluster has gained a lot of popularity in the past few years, policy-makers, practitioners and scientists having equally referred to it. A lot of policies have been initiated and implemented in Europe in the past few years with the

purpose of stepping up the activity of the current clusters and of providing favorable conditions for the creation of new ones, especially innovative clusters.

In the last years there were elaborated in the framework of Romanian industrial policy especially with the goal of economic recovery and in compliance with the european trend, the following *major documents*:

- Industrial Policy document and the related Action Plan (2010-2013) with a specific chapter on cluster policies;
- National Program for increasing the competitiveness of industrial products (activities dedicated to clusters);
- Regional Development Strategies focused on clusters and networking;
- Project INOVCLUSTER launched by the Ministry of Economy Trade and Business(2008-2010);
- Collaboration with GTZ from Germany for the «Romanian Cluster Mapping » (2010);
- Clustinova project and trans-borders cooperation projects;
- Exchange of best practices with Hungary, Croatia, Poland, Turkey, Sweden, France, Germany, Slovenia, Italy-Ministry of Economic Development and IPI-Institute for Industrial promotion, Serbia, Macedonia etc.

But the most efficient of all them seems to the author, the Guide for the implementation in Romania of the innovative cluster concept, under the guidance of the MINISTRY OF ECONOMY, TRADE AND BUSINESS General Directorate for Industrial Policy and Competitiveness (Leucuta Christina). This guide offers a methodological and a pragmatic basis for those who wish to apply at an industrial scale the new concepts in the development of innovative clusters. Some of the main chapters of it are:

- Concepts, main actors, conditions and benefits;
- Situation at the European and international levels;
- Innovative clusters in EU (France, Germany, Sweden);
- Situation in Romania (Regional SWOT analyses, regional potential for clusters, initiatives, Interministerial Working Group, INCLUD Project-Industrial Cluster Development, INOV Cluster project, Romanian Cluster Mapping);
- Possibilities of financing (private and public funds, European funds, bilateral cooperation etc);
- Main stages in setting up a cluster and registering in the European Cluster Observatory;
- Conclusions and recommendations.

As a special case of promoting innovative clusters, was the recent project, Adriatic Danubian Clustering (ADC), conducted in the period 2009-2012. The project

“Adriatic Danubian Clustering” (ADC) - (www.adcproject.eu) was financed from European funds and via the Transnational Cooperation Program for South-East Europe (SEE) 2007-2013. The project was coordinated by the Italian Region of Veneto, well-known for its experience in the field of entrepreneurial activities. The other partner countries in the project were: Bulgaria, Italy (with four regions: Veneto, Friuli Venice Giulia, Emilia Romagna and Molise), Slovenia, Hungary, Croatia, Serbia, Montenegro and Bosnia-Herzegovina.

The ADC project is an excellent example of mobilizing public support for entrepreneurial cooperation in the strategic productive sectors of South East Europe. After deep investigations during the ADC project, based on the on the results of the national context and swot analyses, with the support of stakeholders and opinion leaders, as well as based on the discussions with representatives of the existing or in progress national clusters within Regional Focus Groups, Sectoral Working Groups and national Forums which have taken place during the project implementation, were identified four strategic sectors of common interest for all the project partners and agreed by the countries’ representatives in the project for transnational clusters’ development: the sector of Agrofood (processing, preservation and packaging of food products and related technologies), the sector of Modern Housing (building and modernization of living dwellings), the sector of Logistics and the Sector of Mechatronics.

There are still some other potential economic sectors for cooperation to be identified further. The identification of the four strategic sectors is a first step to overcome the current situation which is characterized by the lack of an exchange of information among the countries in South-East Europe on their potential for entrepreneurial cooperation, which can facilitate trade exchanges, specialization, access to innovation, joint initiatives on the global markets, in order to build a regional economic identity of the Adriatic-Danube area as an integrated productive system of high competitiveness and strengthening its capacity of attracting foreign investors. Regarding the innovative clusters one of the most recent cluster mapping exercise in Romania shows the situation of the Romanian clusters according to the following map.

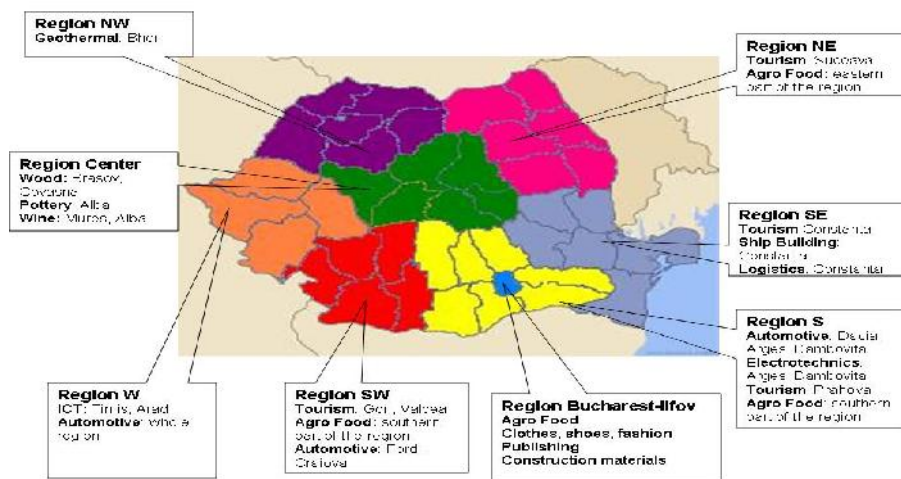


Figure 1. Romanian innovative clusters

Source: Guth, M (2010), ZENIT GmbH, Daniel Cosnita, Inno Consult – Clusters and Potential Clusters in Romania

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Comparison between the Juridical Regime of the Debt Instruments: Bill of Exchange, Promissory Note and Cheque

Silvia Cristea¹

Abstract: The bill of exchange, the promissory note and the cheque are debt instruments regulated by the bill of exchange law. The debt instruments are differentiated from other instruments used in civil and commercial relations by the inclusion of the debt in the instrument, hence the name of debt instrument. The main features of the debt instruments are: formal, literal and autonomous nature. The debt instruments are **formal** in the sense that the creation, the existence, the circulation and the exercise and the use of the patrimonial rights included depend on the existence of the elements included in the instrument. Moreover, the high rigorous nature of the debt instruments is reflected by the obligation to meet some requirements regarding the form (the bill of exchange, the promissory note and the cheque imply some compulsory requirements in order to be valid). The debt instruments are **literal**, in the sense that the existence and the coverage of the patrimonial rights are established through the wording included in the instrument; thus, the juridical relation that caused the issuing of the debt instrument no longer influences the right deriving from the instrument (whether a sales-purchase agreement, or a loan or a debt opening); no possibility for the debt instrument to be interpreted or completed with other documents. The **autonomous** nature of the debt instruments can be seen, on the one hand, in relation to the fundamental juridical relation that caused it, and in this case, we shall consider that the individual who issued the instrument has an obligation which is not under the existing fundamental relation but exclusively under the instrument which the individual signed; on the other hand, each new signatory has an autonomous juridical position and acquires a new, original right, not a **transferred** right. The autonomy of the debt instruments explains the principle according to which the holder of the instrument exercises one's own right and exceptions cannot be opposed to him, namely the protection measures that could be opposed to the previous holders (principle of non-opposability of exceptions).

Keywords: bill of exchange; cheque; promissory note; drawee

JEL Classification: K29

1. The Bill of Exchange

Terminologically speaking, the term of bill of exchange comes from the Latin "cambium", which was a version of the "*permutatio*" agreement, designated for the exchange of money for money, by which the people of the Antique Ages that had a

¹ Senior Lecturer, PhD, Law Department, Academy of Economic Studies, Romania, Address: 6 Piața Romana Bucharest 010374, Romania, Tel.: +4 021 319 1900, Corresponding author: silvia_drept@yahoo.com.

currency wanted to exchange that currency for another currency (today's „currency exchange" phrase).¹

1.1. The Bill of Exchange – Payment Instrument

At a stage where the commercial activity suffered because of the rudimentary nature of communications, of the lack of security in transportation and of the variety of payment instruments, the bill of exchange had a new evolution.

A trader from country A, as a result of business done in country B, could entail debts to the traders in country B (for instance, sales of merchandise that the buyer undertook to pay on a date that was after the delivery of the merchandise). Once back in country B for other business, it wouldn't have been possible for that trader to undertake to pay one's own debts by using the debt he had to the buyer for whom the deadline of payment had not come to pay one's own liabilities by using the debt he had from the buyer whose due date has not come (corresponding, in the bill of exchange law, to the **fundamental relation** based on which the bill of exchange is issued)?

The mechanism that makes possible the link between debts and liabilities is the following: the trader from country A (called **drawer**) instead of paying in the currency of country B, one's own liabilities to a personal creditor from the country B (called **beneficiary**, and the juridical relation between the beneficiary and the drawer is called **provided value**) invites the buyer-debtor of the payment of the price (called **drawee**) to pay in his place.

The juridical operation shall have the following form: the trader in country A (called drawer) issues (draws) a bill of exchange (writing) which, after being given to a person called the beneficiary, gives the right to the latter to receive an amount of money from the drawee on the date mentioned in the instrument. (*Practical Handbook of exchange law*, 1996, p. 12)

This is today's bill of exchange.

The advantages of the juridical operation presented are impressive:

- The drawer no longer needs to exchange currency because the drawee paid the beneficiary in the same currency, of country B;
- The drawer no longer needs to transport the currency needed for the payment from one country to another;
- The beneficiary was supposed to be paid by a trader (drawee) on the same territory, so he could turn to national courts to enforce payment.

¹ For the function of the bill of exchange in the currency exchange, see (*Manual practice de drept cambial/ Practical Handbook of exchange law*, 1996, p. 12)

- Still, some **inconvenient** remains that could not be avoided upon that date, namely:
- What happened if the drawee refused to pay;
- Why wouldn't be possible for the beneficiary, before the deadline, to give the bill of exchange to other persons who are his own creditors, thus paying one's debts without cash payment.
- To ensure the payment of the drawee, the beneficiary was supposed to have the same rights like the transmitter-drawer.

There are two aspects to analyse to understand the importance of the circulation of the bill of exchange:

- 1) On the one hand, the transmission of the bill of exchange implies existence of a period a time that should be long enough between the moment when the bill of exchange is drawn and its deadline (this issue shall be dealt with in section 1.2.);
- 2) On the other hand, what should be the most appropriate juridical technique to transmit the bill of exchange. This issue was solved by the procedure of transfer of debt, an institution existing in the civil law which however needs some corrections before being taking over in the commercial law.

1.2. The Bill of Exchange – Credit Instrument

Because the payment is effected at a later date, the bill of exchange is a credit instrument.

In the case mentioned at the beginning of section 1.1. of this chapter, the sales-purchase agreement between the drawer-seller and the drawee-buyer, the latter, a debtor for the payment of the price of the merchandise, shall have enough time to re-sell the merchandise, receive the price and pay the debt upon the due date of the bill of exchange.

Regarding the beneficiary (in capacity of a holder of a debt from the drawer) and holder of the instrument, he shall either wait for the instrument to become eligible (to reach maturity upon the due date), or transmit the bill of exchange to a banker who can re-discount it.

The bill of exchange is the advantage to represent the debt, while the possession of the instrument gives the holder the guarantee of the payment; so the discount and re-discount operations for the bills of exchange are frequent in the banking practices.

1.3. Features of the Bill of Exchange

In order to reinforce the juridical statute of the holder of the instrument, the law consecrated the commercial, highly rigorous, literal, autonomous and abstract character of the bill of exchange obligation. These are only effects or manifestations of the formalism required for the validity of the instrument (in section 1.4. we shall see the 8 requirements for compulsory form, while the existence of the fundamental relation – corresponding to the *provision* in the French law is not compulsory for the validity of the bill of exchange in the Romanian law); the requirements regarding the form often prevail over the requirements regarding the contents.¹

The obligation shall be **commercial** irrespective of the fundamental relation that caused the signatory to undertake the obligation of the bill of exchange, so even if he is not a trader; it shall have a high level of **rigour** of execution, in the sense that a grace deadline shall be excluded (postponing of the due date shall be forbidden; if the payment deadline is, for instance, 01.10.2001, it shall not be extended), the refusal of acceptance or of payment of the debtor (we mentioned above that the drawee shall undertake a bill of exchange only by acceptance of the bill of exchange) shall be acknowledged in a solemn manner (notification of the fact that the drawee has not affected the payment), and the exercise of regress (when the drawee-acceptant, direct debtor, does not affect the payment, the indirect debtors shall become compelled to effect the payment: the drawer, his avalists, the previous endorsers of their avalists, and the action towards them is called action in regress) and it is done through a simplified procedure.

- **The literal character** lies in the existence and the extension of the obligation are established only through the elements included in the instrument.

To note that the capacity of the signatory implies the will to undertake the obligation of the bill of exchange (by signing the instrument as: drawee-acceptant, beneficiary, endorser, endorsee or avalist).

The literal character is obvious if we mention the following example: the endorsee-mandatory has, under a paid mandate agreement, a debt against the beneficiary-mandator tantamount to 10 million lei, while the bill of exchange bears the amount of 9 million lei; the answer to the question: what is the amount to pay to the endorsee, and we must understand that, although the direct relations mandator-mandatory entail a higher debt (10 million lei), according to the bill of exchange relations, the only amount to be claimed shall be 9 million lei. **What is written in the bill of exchange shall prevail** and it can be known by any signatory (not the extra-bill of exchange juridical relations among the signatories; in our case, not 10

¹ For details see (Galasescu-Pyk, 1939, pp. 163-181)

million lei, but 9 million lei, the amount owed by the drawee to the drawer when the bill of exchange was drawn).

- At the same time, the bill of exchange obligation is **autonomous**, namely the bill of exchange obligation of each signatory has an autonomous juridic status; its validity cannot be affected by the nullity or the vices of the obligations of other signatories.
- The bill of exchange is **abstract**, in the sense that it is independent from the fundamental relation that generated it.

The bill of exchange is therefore a **complete** instrument. If one of the elements considered as fundamental is missing, the bill of exchange obligation cannot be saved by other documents, even if the bill of exchange instrument refers to these documents.

By adopting a **formal definition**, we shall consider the **bill of exchange** as the instrument that, when given by the drawee to the beneficiary, it gives the latter, or to the person who ordered it, the right to request payment, on a certain date, of a certain amount of money, according to Vivante, it is “a formal and complete credit instrument, that includes the obligation to pay, without compensation, an amount of money, on the due date and at the location mentioned in the instrument”.

1.4. Compulsory Elements

- The bill of exchange, as a written document by which a person, called drawer or issuer, requests another person, called drawee, to pay an amount of money to a third person called beneficiary upon a due date, or when ordered by this person, includes the following compulsory elements¹:

The name of bill of exchange; the unconditional order of payment for a certain amount; the name of the drawee;

The due date; the place to effect the payment; the name of the beneficiary; the issuing date and place; signature of the drawer.

Law no 58/1934 regarding the bill of exchange and the promissory note stipulates that, the absence of one of the above mentioned elements shall cause such a document lose the character of a bill of exchange and shall be, however, considered to be a document under private signature that reflects a common law obligation.

On the other hand, Law no 58/1934 stipulates that the absence of some compulsory clauses shall be compensated by norms introduced in this respect. For instance, if

¹ For the analysis of the compulsory elements, see (Galasescu-Pyk, 1939, pp. 233-423; Ionescu, Demetrescu, Georgescu 1934, pp. 119-228; Cristoforeanu, 1936, pp. 94-158; Capatina & Stefanescu, 1987, pp. 83-84)

the due date is not stipulated, the instrument shall be considered to be payable “at sight”, **if the payment location is missing**, the payment shall be considered to be effected at the location stipulated next to the name of the drawee, and **if the issuing place is missing**, we can assume that it was issued at the location indicated next to the name of the drawer.

a) Existence of a document

There can be no verbal bill of exchange obligation. All bill of exchange declarations shall be complete, accurate and shall derive from the instrument as, according to a classical saying: “*quod non est in cambio non est in mundo*”.

Non-compliance with this requirement results in only one consequence: lack of validity of the bill of exchange.

Usually the bill of exchange obligations are undertaken on standard forms that can be bought on the market, accompanied by a legal stamp.

b) The name of bill of exchange

Among the compulsory elements stipulated in the Law no 58/1934, the first is the name of bill of exchange which should be retrieved “*expresis verbis*” in the instrument and must be expressed in the language used to fill in the instrument. This rigour is justified by the warning given to the issuer of a bill of exchange about the consequences that this instrument may have.

In the Romanian bill of exchange law, the name of “bill of exchange” (**cambie**) cannot be replaced with other names like “**trată**” or “**poliță**”, used in the law field.

The framework norms of the National Bank of Romania stipulate that the lack of the name of bill of exchange entails nullity and the name of bill of exchange shall not be written on the margin, or on the diagonal or at the bottom of the instrument but it shall be written above the signature of the drawer.

c) The unconditional order of payment for an established amount of money

The second compulsory element is to stipulate in the instrument an unconditioned order addressed by the drawer to the drawee to pay an established amount of money. This condition includes 2 correlative elements: the payment order and the established amount.

Regarding the first, its unconditional character lies in the fact that the payment order cannot be subject to a compensation, cannot be subordinated to suspensive or resolutive conditions and cannot include clauses or conditions in an improper sense that would restrict the bill of exchange obligation or would make it depend on the contents of another document or on the juridical relation existing between the drawer and the drawee, between the drawer and the beneficiary or between other signatories of the bill of exchange. This interpretation is based on the fact that the

will to undertake a bill of exchange obligation is expressed by the payment order; if it were affected by a condition or reserve, it could not be considered as a manifestation of will in this respect, and on the other hand, since the conditions of the payment are not known, the circulation value of the instrument may be affected.

The wording used is the imperative “Effect the payment” or any other synonymous phrase, such as “Please effect the payment.”

The amount to pay shall be established and expressed in cash. This ensures the circulation of the bill of exchange because, thus, the holder of the instrument can know what he is owed upon the due date and the debtor can be certain about the coverage of his obligation.

d) Specifying the drawee

A drawee can be any subject of law, either physical or legal person. Specifying the drawee does not entail the payment obligation for him; only the acceptance of the drawee entails the payment obligation.

To identify the drawee, we need not write the full name (surname and name), the Romanian bill of exchange law requires only the surname. The name is not needed and it can be indicated only by initials or abbreviated. An orthographic mistake in the surname cannot entail the nullity of the instrument as long as the surname is written in such a way as to allow identification of the person designated as a drawee.

e) Specifying the due date

According to the Law no 58/1934, the due date can be formulated in four different manners:

1. due date at sight (upon submittal, upon request);

This entitles the beneficiary to reclaim the payment on the date when he wants to have it effected. He may request it, in principle, on the day when the instrument is issued but no later than 1 year since this date.

2. due date after some time after at sight;

This compels the holder to submit the bill of exchange to the debtor whenever it suits him and the due term starts from that moment on.

3. due date after some time since the issuing date;

If the issuing country and the payment country have different calendars, the due date shall be established from the day corresponding to the issuing date according to the calendar of the place of payment.

4. due date on a specific date;

The due date shall be considered as established according to the calendar of the place of payment, if different from the calendar of the issuing country.

Irrespective of the manner, the due date of the bill of exchange shall be precise and unconditional, and shall not include alternative or successive terms but one term for the entire amount. The bill of exchange that does not have such a due date shall be considered as null.

f) Specifying the place of the payment

The bill of exchange shall specify the place of the payment. The place shall be either the place indicated in the bill of exchange as the place of the payment or the place stipulated next to the name of the drawee. The drawee may want that the payment be effected at the domicile of a third person from the same town or from another town. Thus, according to the Law no 58/1934, if the bill of exchange does not stipulate that the payment shall be effected by the drawee at the domicile of the third person, we can assume that it shall be effected by the third party. These are domiciliated bills of exchange and the paying party shall be the domiciliary third party.

Usually, the drawer indicates the place of payment and the domiciliary third party upon the issuing of the bill of exchange. If he mentions only the place of payment, other than the domicile of the drawee, he can indicate the person who shall effect the payment at the place indicated by the drawer. If this element is missing, we can assume that he undertakes to effect the payment himself at the place indicated. When the bill of exchange is payable at the domicile of the drawee, he can indicate, upon acceptance, an address in the town where the payment shall be effected.

If the place of the payment indicated in the bill of exchange is different from the domicile of the drawee, the bill of exchange shall be submitted upon acceptance at that place.

g) Specifying the name of the beneficiary

It is compulsory to include in the bill of exchange the name of the beneficiary who is the first legal holder of the bill of exchange.

The drawer shall be entitled to designate himself as beneficiary in the contents of the instrument, as well as other, beneficiaries, in turn. To note that the beneficiary shall be either the person entitled to request, in one's own name or through mandatary, the amount owed, or the subject of law upon whose request the payment shall be effected.

Any bill of exchange, therefore, except for the blank one, shall be submitted as an instrument having the beneficiary clearly indicated.

h) Specifying the issuing date and place

Specifying the issuing **date** is useful for several reasons:

- to calculate the due dates of the bills of exchange that are due after a certain term, at sight;
- to establish if the drawer was or not able to undertake the bill of exchange obligation;
- to check if the basic form requirements were met at the moment when the instrument was issued by applying the “*tempus regit actum*” principle.

The date shall be expressed in a non-equivocal way, shall be certain and possible.

The date written on the bill of exchange shall be considered as certain and opposable to all. If contested, the proof of the real date can be done through any evidence by the interested debtor.

Unlike the lack of the date which entails the nullity of the instrument, the lack of the place is compensated by the law. When both the date and the place are missing from the bill of exchange, the bill of exchange is null.

Especially in the case of international bills of exchange, specifying the place is useful to check if, depending on the place, all requirements regarding form under the local legislation were met, in compliance with the private international law: “*locus regit actum*”.

Regarding the stamps on the bill of exchange, the date on the stamp does not compensate the absence of the issuing date, and the stamp with the address compensates the absence of the issuing place.

i) Signature of the drawer

The last compulsory element is the signature of the drawer. Law no 58/1934 has not established the elements of a signature and leaves it to national legislators.

The signature shall be **autograph**, as a distinctive sign of the signing party and graphic expression of the will to undertake the bill of exchange obligation.

The lack of the signature can be invoked by any interested party as an objective exception.

Printed, lithographic, stamped or sealed signatures shall not be accepted as they entail the nullity of the bill of exchange.

1.5. Transmission of the bill of exchange through endorsement

The endorsement is a juridical act by which the holder of the bill of exchange, called endorser, transmits to another person, called endorsee, all the rights arising from the instrument.

The endorsement shall be mentioned **on the back of the bill of exchange** (hence, the term of “andosare” in Romanian in which the element “dos” means “back”) or on a separate document called allonge by using the phrase “Please pay to ...” or “Please pay upon the request of ...”. This phrase shall be followed by the signature of the endorser and the date, and also followed by the **submittal** of the instrument.

Classification of endorsement depending on the object of the transmission¹:

- translative endorsement (including transmission of rights and guarantees arising from the bill of exchange, from the legitimizing and the guaranteeing of the acceptance and from the payment);
- non-translative endorsement.

The translative endorsement has the effect of investing the endorsee with one’s own autonomous right, so the new holder acquires higher rights than his antecessor (in the sense that the exceptions opposable to the holder cannot be used with the endorsee). The Romanian doctrine solved the controversy regarding the real accessory rights in the sense that, the accessory guarantees are transmitted together with the instrument.

The translative endorsement has the effect of **legitimizing** the possession of the instrument: the holder of the bill of exchange is considered to be the lawful holder if he justifies his right through a continuous series of endorsements.

Based on the translative endorsement, the **endorser takes the responsibility towards the endorsee for the acceptance and the payment of the bill of exchange in solidarity** with the other signatories of the bill of exchange; the endorser undertakes the double obligation to ensure the effecting of the payment, and he shall be also obliged to effect the payment of the bill of exchange in person if the drawee refuses to pay.

The non-translative endorsement can be:

- pignorative (constitute a right of pledge in favour of the endorsee over the bill of exchange debt by inserting the clause value in guarantee or value in pledge);

¹ For details and for the presentation of the endorsement in the Anglo-Saxon law, see (Cristea, 2001, pp. 70-82)

- for mandate (to be cashed in) – gives a mandate to the endorsee to cash in the amount written on the instrument in the name of the endorser.

1.6. The aval

The aval is the guarantee undertaken by a person that the instrument shall be paid upon the due date.

The person who undertakes the obligation is the **avalist**, and the person guaranteed is the **person guaranteed by aval**.

The aval is an institution often used in banking practices. In order to give loans, banks ask applicants that guarantee the loan with commercial effects (bills of exchange or promissory notes) to obtain the guarantee of the aval of the instrument by a person in order to ensure the fulfilling of the obligation of the debtor who made the loan.

The aval is used not only as above mentioned but also in the circulation of the bills of exchange, when a signatory of the instrument does not enjoy trust regarding the payment of the instrument and therefore he turns to another person, a third party, to have him sign together with himself, thus guaranteeing the fulfilling of the bill of exchange obligations. In some cases, to prevent any doubt entailed by the use of the aval, thus discrediting the person guaranteed by the aval, the guarantee can be disguised as acceptance of the bill of exchange or as endorsement of the bill of exchange.

The aval shall be written on the bill of exchange and shall be signed by the giver, by using the phrase “For aval” before the instrument.

The aval can be given to guarantee the execution of the obligation by a drawee or by the drawer or even for another avalist.

The aval has the following **features**:

- it cannot be given under requirements;
- it can guarantee only part of the obligation;
- if the person guaranteed by aval is not specified, we assume that the aval is given to guarantee the obligation of the drawer.

The effects of the aval¹ are:

- although similar to the fidejussor, the person guaranteed by aval does not have the benefit of discussion (only the benefit of division), even in case of nullity of

¹ For details see (Condor-Cristea , 2000, pp. 9-11).

the obligation of the person guaranteed by aval, the avalist shall be still bound to pay.

- The avalist can oppose to the holder of the instrument the exceptions that the debtor guaranteed by aval had against him.
- By paying the bill of exchange, the avalist undertakes some of the rights of the paid-holder and he can exercise direct action against the drawee (or his avalists) or the regress action against: the drawer, his endorsers (and their avalists).

2. Promissory Note

The promissory note is a document by which a person, called issuer, or underwriter, undertakes to pay an amount of money upon the due date to another person called beneficiary or upon his request.

2.1. Compulsory elements

According to the Law 58/1934, the promissory note, in order to be valid, shall include:

The designation of promissory note; the unconditioned promise to pay an established amount of money on the due date; the place of payment; the name of the beneficiary; the issuing date and place; the signature of the issuer.

Since the juridical regime of the promissory note is similar to the bill of exchange, here are the differentiating features:

- the bill of exchange has more requirements for validity, (8) than the promissory note (7); the promissory note lacks the name of the drawee because in the case of the promissory note, the drawer and the drawee are identified;
- The promissory note implies only two participants: the issuer (drawer) and the beneficiary as against the bill of exchange which implies 3 participants;
- In the case of the promissory note, the person who undertakes the payment is the issuer himself;
- The promissory note is not submitted for acceptance; not even in the case of the promissory note with due date after some time from sight which shall be submitted within 1 year from the issuing date, this submittal does not have the value of an acceptance of the instrument and only serves at establishing the moment of exigibility;

- If the instrument does not stipulate the issuing place, we shall interpret that the issuing place is the place mentioned as the place of payment (because the issuer is the person who pays).

3. Cheque

The cheque is a document by which a person called the drawer gives order to a bank where he has money available, a bank called drawee, to pay, upon submittal of the instrument, an amount of money to another person called *beneficiary*.

3.1. Compulsory elements

According to Law no 59/1934, regarding the cheque, a valid cheque shall include the following compulsory elements:

- The name of cheque;
- The unconditional mandate (order) given to the bank to pay a certain amount of money;
- The name of the drawee (bank);
- The place of payment;
- The issuing date and place;
- The signature of the drawer.

Although the cheque has a juridical regime that is similar to the bill of exchange, it is **different**.¹ through the following:

- The juridical relation between the drawee and the drawer, called fundamental in the case of the bill of exchange, is called reserve or amount available for cheque and it is essential for the existence of the cheque, it is an agreement concluded between the drawer and the bank where the amount available is constituted, either as a money deposit, or as a loan;
- The cheque can be issued only within the limit of the amount constituted as a reserve;
- In the case of the cheque, the drawee can only be a bank;
- The cheque has fewer compulsory requirements; it lacks: the name of the beneficiary (this element is optional in the case of the cheque; in the case of the bill of exchange, the law does not allow the bill of exchange payable to bearer,

¹ In this respect, see (Capatina & Stefanescu, 1987, p. 94).

accepting that the name of the beneficiary may not be indicated upon issuing but later, only the blank bill of exchange), and the due date (because the cheque is payable, without exception, “at sight”, and because of this, it is considered to be only a payment instrument, not a loan instrument);

- The cheque cannot be drawn upon the drawer himself, unlike the bill of exchange;
- While the bill of exchange usually is accepted by the drawee (except for the bill of exchange “at sight”), the cheque cannot be accepted, even if an acceptance may be mentioned upon the instrument, this is considered to be not written;

While the holder of the bill of exchange can take action as he wishes, either against the acceptant and his avalists, or against the regress debtors, the beneficiary of the cheque only has the action of regress against the endorsers, the drawer and the others from the same category.

The cheque is incompatible with the direct action (against the acceptant) because the drawee (the bank) does not have the obligation of acceptance, it does not have the capacity of a bill of exchange debtor.

4. Conclusions: Advantages of the Debt Instruments

Major advantages:

- Since there is a debt, the payment is postponed until the due date;
- Several debts can be paid through one payment;
- Since they are public documents, it is more certain that they exist and circulate;
- They can be quickly executed through a special procedure;
- There are several manners to execute it: through a bill of exchange (direct, regress), or through another manner (causal action and unjust enrichment).

Solidarity of the payment; the more signatories, the more secured the loan.

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What are the Investments Opportunities in the European Capital Regions?

Claudia Ionescu¹, Wiolleta Wereda²

Abstract: There might be some specific problems for Central East European Countries (CEE/ CEEC) to comply with the additionality principle and to avoid excessive deficits at the same time. The main reason is that the budgets of the CEECs still face some risks for revenues and expenditures. Therefore, maintaining structural expenditure at a stable level without allowing for temporary public deficits will be difficult for CEECs. In this paper we will provide several arguments that suggest not targeting the EU structural assistance exclusively at the reduction of regional disparities within CEECs. Doing so would not only face problems due to missing administrations and statistics at the regional level, but might also be at the expense of national economic growth and extend the process of catching-up. Each CEEC has its own specificity that is reflected more or less on capital region. According to our analysis we will find what are the opportunities for investments in this Capital regions.

Keywords: development; investment; region

JEL Classification: R1; R5

1. Introduction

The CEE includes the former socialist countries, which extend East from the border of Germany and south from the Baltic Sea to the border with Greece.

The enlargement of the European Union (EU) in 2004 extended in 8 countries: Estonia, Latvia, Lithuania, East of Germany, Czech Republic, Poland, Slovakia and Slovenia from CEE and in 2007 other two countries joined: Bulgaria and Romania. In 2013 Croatia will accede the EU. These countries started a tremendous process for development of their communities and regions.

Taking into consideration that “the EU mission in the 21st century is to:

- Maintain and build the pace established between its Member States (MS);

¹ Senior Lecturer, The Bucharest Ilfov Regional Development Agency, Romania, Address: 163-165 Mihai Eminescu, Str., 2nd District, Bucharest, Romania, Tel.: 0040213138099, Corresponding author: adrbinvest@yahoo.com.

² PhD, University of Podlasie, Poland, Address: ul. Konarskiego 2, Siedlce, Mazowieckie, Poland, Tel.: +48 (25) 644 20 48, Fax: +48 (25) 644 20 45, e-mail: weredawiolletta@tlen.pl.

- Bring European countries together in practical cooperation;
- Ensure that European citizens can live in security;
- Promote economic and social solidarity;
- Preserve European identity and diversity in a globalised world;
- Promulgate the values that European share”¹; we have to be optimists and hard workers in building our common future.

2. The EU Policies for Growth

The three pillars of the Lisbon Strategy (economic competitiveness, social inclusion and environmental protection) have been compared with the three cohesion policy objectives.

In the same time when the EU is using all resources to implement Lisbon Strategy “globalization is increasing shaping our lives by fostering the exchange of peoples, goods, services and ideas and by offering new opportunities to citizens and business. Greater trade flows and economic growth have increased prosperity, transforming the lifestyles of Europe’s citizens and lifting millions worldwide out of poverty. But globalization also confronts us with new economic, social, environmental, energy and security challenges².”

Cohesion policy is one of the main instruments of the EU to support its Member States and regions, particularly the poorest one. The current European budget for Cohesion policy is more than 347 billion Euro and for next period 2014-2020 will be 376 billion Euro. The reduction of regional disparities remains a key concern in the enlarged Union. A clear majority of contributions argued in favor of concentrating funds more strongly on less developed Member States and regions. The EU Regions have a central role as they are the primary institutional partner for universities, other research and education institutes and SMEs, which are key to the process of innovation, making them an indispensable part of the Europe 2020 strategy.

3. Financing of the EU Budget

The issue of budgetary imbalances first emerged with the accession of the United Kingdom to the Communities in 1973 and became progressively the leitmotiv of all financial framework negotiations, often overshadowing the discussions on the content of the EU policies. Even though the roots of the problem are generally

¹Pascal Fontaine (2010), Europe in 12 lessons, EU, Brussels, p. 4.

² EU Declaration on Globalization, European Council Presidency Conclusions, Brussels, 14 December 2007.

considered to be on the expenditure side of the budget, correcting measures have been applied mainly on the revenue side.

Two new corrections were introduced in the 2007 Own Resources Decision for the period 2007-2013 only. Germany, Austria, Sweden and the Netherlands benefit from a reduced rate of call on the VAT based resource¹. Moreover, the Netherlands and Sweden were granted a gross reduction in their GNI resource payments (EUR 605 million for the Netherlands and EUR 150 million (in 2004 prices) for Sweden), to be financed by all Member States. Since their introduction in 1988, the EU's multiannual financial frameworks have ensured strict budgetary discipline and medium-term predictability of EU expenditure. However, this predictability came at the price of limited flexibility.

The degree of a country's openness is heavily determined by its size. Smaller countries such as Belgium are usually more open than big countries like France, as they are more dependent on the outside world for getting what they need (imports) and for selling their domestically produced goods and services (exports). Therefore, to assess the degree of trade integration inside the Internal Market, the focus should not only be on the degree of openness in any given year, but also on changes over time. A significant increase indicates that a country is becoming more open and integrated inside the Internal Market and therefore it is "trade creating".

However, in many new Member States, integration has not lost momentum after accession, although significant cross-country differences can be observed: while Poland, Lithuania or Latvia have seen further increases in imports during the current decade, countries like Estonia or Hungary stayed at their (high) 2000 levels. Overall, enlargement can be seen as the major driver for further integration within the Internal Market. Among the "older" Member States, only some small countries exhibit high import penetration rates: Belgium (whose imports from other EU countries account for more than 49% of GDP), followed by Austria, Luxembourg, the Netherlands and Portugal. As expected, the big economies are the least open ones, with shares of intra-EU imports of GDP ranking between 9.9 % in the United Kingdom and 16.6 % in Germany. While many of these larger economies had shown growing degrees of openness during the nineties (in particular France and Spain), only Germany maintained that momentum during the current decade. By contrast, the Nordic countries and Austria, which joined the EU in 1995, are still increasing their imports from other EU countries. Nevertheless, the highly dynamic trade performance of Belgium or Germany shows that the Internal Market still offers the potential also for more trade integration for long-time members – both with regard to small and already highly integrated economies (Belgium) and for big economies such as Germany.

¹ The rate of call is fixed at 0.225% for Austria, 0.15% for Germany and 0.1% for Sweden and the Netherlands.

4. Why to Invest in the EU?

Foreign Direct Investment (FDI) is a international investment made with the intention of acquiring an everlasting financial interest in an economy. If done strategically then this kind of direct investment can really bring huge benefits to investors. The importance of liberalization has made many countries to open up their economies. Considering this in mind, one continent which has really banked on this is Europe and the formation of European Union only corroborates this fact. The integration of 27 countries in Europe has really made it one of the most preferred destinations in the world for investment.

The European Union views FDI not as a mere sense of investment but also a way of promoting economic and social growth and development. The investment policy of the European Union is tilted more towards providing investors with a kind of stability and legal certainty coupled with an environment conducive to carry out business and in accordance with the International rules. It has abolished all the trade barriers that were acting as a hindrance for free trade. Furthermore, the European Union has also adopted a common currency which has served as a major fillip towards increasing trade in the European Union.

The services sector forms the core of the European Union as it accounts for a major chunk of the entire Economy of the EU. Some of the key sectors worth investing in the European Union are Aerospace and Defence, Automotive, Biotechnology, Information and Communication Technology (ICT), Nanotechnology, Nuclear, Logistics, Engineering, Real Estate and many others.

As the European Union is a host of comprehensive range of countries, it has really become one of the best destinations for investing in the Real estate sector. The diverse property opportunities across the Union and the well established rental markets have already attracted loads of foreign investors. Bulgaria, Croatia, Hungary, Czech Republic, Poland, Romania and Turkey are the hottest destinations for investing in Real Estate.

As far as trade is concerned, the various economic policies of the EU really make it one of the best trading destinations in the world. This is evident from the fact that the European Union is the largest exporter as well as largest importer in the entire world. The EU exports large amounts of Machinery followed by energy, Chemicals and Transport Equipment and textiles clothing. Other commodities that are exported by the EU include dairy products, meat, iron and steel, wood pulp, paper products, alcoholic beverages, pharmaceuticals, motor vehicles, air craft, plastics and paper products. Machineries also account for large number of imports of the EU followed by Transport equipment and chemicals, plastics, crude oil, textiles, metals, clothing, vehicles and aircraft.

Despite the global financial meltdown, European Union is showing a speedy recovery and EU's economy has started showing an upward trend. The European Union Commission has come up with a proposal with a strategy known as the Europe-2020 Strategy to help the EU recover to economic growth at a faster rate. For this, the Directorate-General for Economic and Financial Affairs in its report has analyzed the bottlenecks that may come against this growth and also highlighted the need to address the issues hindering the economic growth of the Commission. The monetary policy of the EU is no longer restrictive and businesses can once again gain free access to credit and other business activities.

The European Union is really one of the most important destinations which should not be overlooked by investors who want to expand their reach across the world. Its exuberant natural resources and ever increasing sectors really make it one of the most preferred destinations for investment in the world today.

Due to the integration of 27 countries, the European culture is considered to be a massive one and there is a collation of many languages and religions. However, this has only united the Union and it is working on ways on how to sustain its rich and varied culture. Improving cultural relations and co-operation forms the core of the European Union.

Ever since its establishment, the European Union has set only one objective-to create a single market for all of the member states of the Union. This has really worked and it is evident from the fact that the European Union has now become the largest economies in the world. The European Union is hence attracting loads of young people and entrepreneurs. It has already started taking the necessary steps to make the working environment more conducive to businesses and is providing all the necessary financial and technical support for those willing to start a business or work in the Union. The European Union has lately started taking initiatives to expand the working opportunities for Non-European citizens. The EU allows all its citizens to work and live anywhere in the EU carriers and that too with the entitlements of social benefits such as healthcare.

The continent of Europe has always been known for its different languages and traditions but with united values. The Union has also undertaken numerous initiatives which promises further liberalization of the Union which will provide lots and lots of opportunities not only for the residents of the Union but also to people from all parts of the world.

5. Study Cases – Poland and Romania

Poland's 38-million strong consumer markets is one of the biggest in Europe¹. The country's favorable localization, in the centre of Europe, where the main communication routes intersect, makes it possible to export goods to all European countries and thus reach over 500 million consumers. Poland's major trade partners are, among others, Germany, Russia, China, France, the UK, Italy, Hungary, Ukraine and Spain.

Well-educated Polish economists, engineers, IT specialists and scientists are highly sought-after and appreciated employees who find employment in IT companies, R&D centers and scientific institutes.

In the 2010 Ernst & Young European Attractiveness Survey international concerns' managers indicated Poland as the top potential investment destination for their FDI projects in Europe. The report places Poland on the 5th position in terms of job creation and 8th among European countries which are most active in attracting FDI projects. Authors of the report emphasize that against the backdrop of other West European countries, Poland has been developing rapidly both in terms of job creation and foreign investment. In 2009 new FDI projects generated 7,500 jobs.

The country offers a wide range of investment incentives. Investors are invited to locate their projects in 14 Special Economic Zones (SEZ), i.e. special zones where economic activity may be run in favorable conditions. Polish SEZs offer attractive tax exemptions, employment incentives and well-prepared investment lots.

Poland is a country with a number of tourist and sport opportunities. The diversity of landscape and natural wealth together with the wide range of recreation forms ranging from sea sports through lake yachting, skiing and mountain climbing attract tourists from all over the world. Recreational tourist opportunities may effectively be completed with elements of Poland's rich cultural heritage and history.

The EU grants may be allocated to projects from virtually all sectors of the economy. Poland is scheduled to be the largest beneficiary of EU funding in the coming years. In order to successfully control their distribution and use, Operational Programmes, Regional Operational Programmes and the Operational Programme for European Territorial Cooperation (Interreg IV), have been established.

“Structural funds are the basic instrument of the EU's structural policy. They have been set up to support the more poorly developed regions, in solving their most

¹ <http://www.paiz.gov.pl/en>.

urgent economic problems. Between 2007 and 2013 Poland will receive a vast injection of investment: the EU has granted us over 67 billion EUR”¹.

The principles for implementing the structural funds in Poland are stipulated by the National Cohesion Strategy (NCS). This is a strategic document which specifies the priorities and areas of application and the system for the introduction of: the European Regional Development Fund, the European Social Fund and the Cohesion Fund in Poland, under the framework of the Community budget for 2007–13.

“Furthermore, EU funds will be utilized for the improvement of water quality, construction of modern rubbish dumps and for the building of a flood prevention infrastructure. The Brussels capital may also be used for ecologically friendly activities. All this will be possible as a result of the **Infrastructure and Environment Operational Programme**, which is one of several operational programmes specifying goals for the spending of funds.

Under the framework of the **Innovative Economy Operational Programme** (IE OP), Poland will receive EU support in such areas as R&D and the development of exports. The anticipated results will be scientific laboratories of the highest standards that work in cooperation with business, ultra modern technology among firms,

The **Human Capital Operational Programme** is a plan running to 2015, for the expenditure of EU funds for investments in human resources. It embraces the financing of training for the unemployed, raising qualifications for those in work, modernization of the educational system, reducing barriers related to finding work, raising the effectiveness of public administration and supporting innovative faculties in higher education. The concept of the programme was to create an educational system, which would ensure training in the professions and trades that are needed for the labor market. Due to this we can expect that in the near future, Polish personnel will be competing with the western Europeans mainly according to their improved qualifications and not only for lower paid positions.

The EU has also taken into account the development of the poorest regions of the Union, within which there are five Polish voivodships. The **Development of Eastern Poland Operational Programme** (EPD OP) is to decrease the gap that divides the voivodships of: Świętokrzyskie, Warmińsko-Mazury, Podlasie, Podkarpacie and the Lublin region from the wealthier EU regions. Under the framework of the EPD OP, financial support will be provided to firms that increase attractiveness for investment in Eastern Poland and promotion of the Region. It must also be remembered that each of the 16 voivodships has its own operational programme (Regional Programme), which provides support for entrepreneurs for

¹ www.mrr.gov.pl.

investments, the infrastructure within the gminas (local authorities), or for internet development in the region”¹.

In Poland there are three tier division in public administration, divided as follows: voivodships – regions (16), powiats – districts (379) and gminas – local authorities (2,478). The national administration is divided into government administration and self governing bodies. The government administration is the gathering of the administrative organs directed by the council of ministers. The self governing administration is that bureaucracy organized either locally or regionally.

Mazowieckie voivodeship and the City of Warsaw, Poland’s capital, is the leader of Poland’s transformation and the country’s most swiftly developing region. It can boast young, well-trained human resources, the lowest unemployment and the highest employment - features attesting to the region’s high economic level. The Mazowsze region stands out for its significant degree of internal differentiation. In nationwide terms, it displays great potential in every field: science, research, education, industry and infrastructure.

Investment Opportunities²:

- area with a large concentration of companies also foreign;
- the highest level of income per citizen;
- location in trans-European transport corridors; well-developed railway network and the largest airport in the country ensuring connections with the big cities in the country and in Europe;
- area with the highest level of innovations; outlays on R&D activities are one of the highest in the country;
- importance of the region is stressed by Warsaw - capital of the country and the region, as well as a city of international importance;
- Warsaw is characterized by the highest dynamics of economic changes in the country, large pool of qualified labor, high rate of privatization in the state sector;
- central sitting at the crossroad of commercial routes;
- economics leader: the highest rate of participation in gross domestic product – 21,6% of the Polish GDP;

¹ www.fundusze-strukturalne.gov.pl.

² www.paiz.gov.pl.

- first position in Poland in gross domestic product per capita - about 160% average;
- Warsaw Stock Exchange is the largest in the Central Eastern Europe.

Sectors with huge potential: Food industry, construction and BPO.

Romania has joined the European Union. Since January 2007 the Romanian (Ionescu & Toders, 2007, p. 11) state improved the mobility of Romanian workers throughout Europe. Per year more than 4 million workers are performing works in foreign countries.

Investment opportunities-objectives for Romania:

In order to allow multimodal transport of freight and passengers, transport modes shall be connected in freight terminals, passenger stations, inland ports, airports and/or maritime ports. These nodes shall connect at least two transport modes. Realization of inter-modal transport in and through Romania is seen of key importance to¹:

- Maximize the utilization of currently under-used freight infrastructure (rail + Danube);
- Attract cargo to inter-modal solutions into the transport market in Romania;
- Support the development of efficient green logistics corridors via Romania in CEE;
- Lower external costs in Europe (e.g. CO2 emissions);
- Empowering Romania as the Eastgate Trade Hub of Europe;
- Priority of the development of intermodal transport;
- Existing market is limited and concentrated around Corridors nr.4 & 7, key corridors within existing & new EU TEN-T, reflecting area where most new industries established locations;
- Corridor nr. 4 is the route most in demand and used for inter-modal transport Constanta Port is key entry port into Europe in new EU TEN-T Key hubs for phase one development: South Port of Constanta, Bucharest side, Timisoara North side, and Oltenita / Giurgiu;
- Creating direct route for serving EU from Asia (saving 2400 sea miles and reduce CO2 emissions);
- Route is more efficient and will attract additional benefits;
- It will create new business for Romania (brokers, storage, transport companies);

¹ www.adrbi.ro.

- It will stimulate Romania to further develop logistic infrastructure (roads, inland ports, intermodal strategy, railway transfer hubs).

Romania's legal framework has a considerable amount of impact on the Foreign Direct investment. With a view to ensure a favorable business climate and provide incentives for large-scale investment projects, the Romanian legislation in charge of regulating the Foreign Direct investment, undergoes revisions quite frequently. Factors such as, free access to the domestic markets, no imposed limits on the participation of foreign businesses in Romanian commercial enterprises and free access to the domestic markets, make Bucharest a favorable foreign investment destination.

In Romania, foreign investors can engage in business activities in different ways as follows: By increasing the capital of an existing business or acquiring shares, by establishing a new commercial company, a branch or a subsidiary (that is either entirely owned by or involves an association with a Romanian firm), by acquiring leases or concessions.

“The city of Bucharest is a market of about two million inhabitants, continues to be attractive for hypermarket operators. Carrefour, Kaufland and Auchan have recently signed agreements with land owners of Electroaparataj (Pantelimon), Romprim (Berceni) and Grantmetal (Crangasi) for new hypermarkets, according, while the Irish Caelum Development has announced the start of work on Park Lake Plaza Mall in Titan, which will be anchored by a Cora hypermarket.

Development of industrial and logistics real estate is planned to begin in Bucharest towards the end of 2012 or early 2013. The project will be implemented by Octagon building company, owned by Greek businessmen Alexandros Ignatiadis and Paschalis Paganias, which became a majority shareholder in Comat Electro.”¹

Bucharest² is the cultural, industrial and financial capital city of the country of Romania. It is the largest city in the country and is located in the southeast corner of Romania, on the banks of the Dambovița River. In terms of the economy, Bucharest is the most prosperous city in the country of Romania. It is one of the most important industrial hubs and transportation centers of East Europe. The city of Bucharest has a wide variety of educational, cultural, recreational and convention facilities. As such, it is the center of the Romanian economy and industry. This is due to the fact that it accounts for approximately 17.4 per cent of the gross domestic product of the country of Romania.

The economy of Bucharest is centered on the industry and service sectors. Service, in particular, has grown in the past decade. Bucharest today is the headquarters of more than 186,000 firms, including the leading companies of Romania. Another

¹ <http://www.investineu.com/content/invest-bucharest>.

² www.adrbi.ro.

important source for this growth of the service industry has been the rapidly evolving construction and property sectors. In addition, the city is considered to be the largest center of information technology and communication in Romania. It is home to many software companies that operate offshore delivery centers.

Each capital region from the EU has its particularities that with a good leadership it could provide welfare for the citizens of that particular region.

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The Impact of Uniform Prudential Regulations Implemented at the Level of European Insurance Industry

Laura Elly Naghi¹

Abstract: While the financial markets have to face systemic and systematic risks, especially the insurance industries, the national supervisory authorities intend to implement regulation systems as uniform as possible at regional level and in the same time as conservatory as possible from the point of view of the risks accepted. The present paper intends to accurately analyze the regulation systems of important insurance markets (as tradition or volume of premiums) – such as RBC, SST, Solvency II in order to stress the similarities of these models but more important the differences that generated a different rigidity degree of the insurance companies, in other words, a different minimum capital requirement. The paper intends to illustrate the financial and organizational impact of the European model Solvency has on the insurance companies, through its supplemental requirements, introduced by the supervisory authorities as a reaction to the recent financial crises.

Keywords: calibration; prudential; supervisory models; solvency

JEL Classification: G22

Along with the development of society, implicitly of the human activities, risks have diversified. Therefore, the insurance industry must deal with new exposures of their customers and also their own, **offering optimal combinations of advantageous conditions of risk management**. In recent years there has been an increase in the number of natural disasters, even if it cannot be clearly demarcated how many of them can be the result of human activity and how many are purely natural (Insurance Information Institute, 2012). Moreover, in the last twenty years there were registered the most costly natural events (Munich Re, 2012) faced by humanity, implicitly by the insurance market.

Positive upward trend in the number of natural disasters has important implications for insurance market. But not the number of those, but the severity of phenomena affecting insurance companies who lose out increasingly large - according to the Insurance Information Institute, only in 2005 - the year of hurricanes, there have been recorded insured losses worth 64 billion USD. Events

¹ Senior Lecturer, PhD, Academy of Economic Studies, Romania, Address: 6 Piața Romana Bucharest 010374, Romania, Tel.: +4 021 319 1900, Corresponding author: Laura.novac@fin.ase.ro.

such as earthquakes, affecting alone or along with large tsunami, habitable surface (see the example of Japan, Sumerians, Chile) or flooding due to storms / hurricanes (USA, Cuba) emphasized the impact that a catastrophic event - is considered catastrophic an event resulting in losses greater than 25 million USD - has on the insurance market, and indirectly on the reinsurance market. Insurers seek solutions to protect against geographical concentration of policies or risks (through their exclusion from the general conditions) to meet claims from their clients.

Based on these circumstances, we cannot draw only one conclusion: **the insurance market was not ready for events of this magnitude**, they ignored them considering that the probability is almost zero. Our world is evolving, environment constantly changes, which inevitably exposes us to risks becoming more diverse, with high degree of correlation with effects becoming more expensive for insurance companies. The examples presented above are illustrations of some causes of insurance market failures that have significant effects on the reinsurance market as a result of active financing contracts, under pressure from significant damage.

These events were just some of the factors that led to the need to implement a good surveillance system, in order to reduce the adverse consequences of end users, that experience such events. The reaction of the insurers was prompt in face of the disastrous effects, realizing that **a second experience of high magnitude would not allow them to survive in the market**; thus, they changed the policy conditions and also changed the list of excluded events. However, each time a new exposure (an event plausible but still untried) hit the final consumers and brought substantial losses for insurers, surprising them again. Such moments cannot be avoided or predicted, the only feasible solution for insurance companies is to implement a system that does not exhibit a high degree of risk associated with extreme nature events, geopolitical interests that may lead to terrorist attacks or economic crisis world.

Worldwide, the insurance market is divided according to the level of development of each country. Thus, the market is divided in **developed countries**, where the insurance market is mature and **developing countries** that have a high potential for development - the past 10 years, the annual growth rate in these markets was 11%, with the more surprising as on developed markets, the growth rate was 1.3% (Swiss Re a, 2011).

The insurance market, as any item that fits into the market economy system, is heavily influenced by developments in the economic environment, particularly by the macro-economic indicators such as gross domestic product, the development by regions of economic activity, population density. Macro-economic indicators are influencing factors that insurance companies cannot control, but for which they can implement measures to reduce losses in times of recession. Overall **economic**

developments affect insurance markets in different proportions, depending on the degree of development of the insurance market in the total market. The more developed the insurance market is, the greater the exposure to insurance companies in adverse economic conditions, due to the degree of inter-relationship of the insurance industry with other sectors of the economy (banks, real estate, capital market). An example of this is the propensity of the insurers to invest in financial instruments with a high rate of profitability that have associated high risk in order to make their products more attractive - a favorable decision under economic boom but generating significant risks during periods of economic instability.

The chain of economic crisis in 2008 brought a **new challenge for financial markets, strongly shaken by bankruptcies of banks and reduction of liquidity**. One of the consequences was an intensification of supervision (Swiss Re b, 2011) from the regulatory authorities - considered negligent in preventing the shock created by the financial crisis. In this regard, the authorities have focused on increasing the degree of supervision, imposing new rules and basic parameters of the global financial and economic systems. In many ways, understanding and acceptance of the overall system of risks, implicitly of the systemic risk, is new, but for the first time since 2008 we have seen how strongly related are the financial markets.

Despite the crisis induced by the banking sector, insurers and reinsurers were found themselves in the process of attack by the regulators who intentionally applied a brutal cutting exposures related to the banking system (Liedtke, 2010) - there were companies like AIG that beyond the investment banking division, failed on insurance market because of its investment portfolio (Dinallo, 2010). Despite the lack of bankruptcy cases, however, in the whirl of events, **insurance supervisory system was alarmed and the result was rather dramatic and disproportionate**. Moreover, due to the banking crisis, interest rates decreased, thus affecting investment of insurance companies (a decrease of 1% in interest rates led to a cost of 220 billion Euros a year (Swiss Re b, 2011). A major difference between banking and insurance industry is that a company's bankruptcy (caused by liquidity problems) will not create liquidity problems on other market players - on the contrary, other insurance companies will take the missing portfolio, thereby protecting the end user.

The regulators are the ones setting the legal framework for insurers to operate safely, the latest financial crisis highlighting the importance of international regulatory cooperation, especially for financial groups. Currently there are **many initiatives that act as drivers of reforms to the prudential supervision**. Besides World Bank and IMF, another body concerned with improving national financial systems and international vulnerability reduction is the International Association of Insurance Supervisors (IAIS) that approved in 2010 to develop a common legal framework (CRO Forum a, 2009) necessary for the monitoring process of

internationally active groups and also created an initiative concerning the collaboration of supervisory colleges at international level.

Beyond the benefits brought by the solvency regimes imposed by regulators, attention should be paid to the lack of communication between the regulator and the insurance market which can lead to inefficient additional requirements, such as stress tests imposed by the FSA in the UK in 2001 and 2002 revealed - the tests led to the forced sale of assets, capital market conditions worsening, leading to low corporate value. Moreover, it must be beared in mind that a system that will be implemented across multiple unitary national markets (such as Solvency II) need well calibration, in other words, to take account of specific market conditions, following the implementation phase, in order not to create significant imbalances in the market value of the companies that operate under uniform rules.

Diversity of Risk-Based Regimes in Insurance Industry

At the time of writing this paper, we identify global application of several types of prudential systems - **fixed-rate model** (the European markets still apply Solvency I), **risk-based model** (RBC model applied in the U.S. and Canada) and **internal model** (Switzerland). The simplest model assumes a single risk quantification; simplicity of design is reflected by the limited results obtained from this evaluation, which is why this model (Solvency I) is about to be replaced by a more complex model.

As a consequence of limitations due to fixed-rate model and also in the context of economic and financial changes, it was obvious the need to implement a more complex model that reflects the complexity of the interrelationship between risks. Examples of such models which include more risks so that solvency requirements will better reflect threats in the insurance system are **the RBC model** and **the SST model**.

But the model that best reflects the multitude of risks faced by insurance companies and that pursues their custom detailed quantification and interdependencies between risks is **the internal company model**. Starting from their own historical data and based on forecasts specific to each insurance company, models can be developed so that they reflect actual exposures of an insurer, according to the risk profile and its activity.

The **Solvency II** directive proposes a **standard model for calculating the solvency** that falls in the category of systems based on more risk quantification. Like the SST, Solvency II enables developers and even support their own internal models approved by regulators, which should be within the typology of detailed models that quantify risks and their interdependencies. The European and Swiss prudential systems share the same foundation, based on **working principles**. Both

models provide risk-based capital requirements, taking into account the market value of balance sheet items. Furthermore, both models support a stronger internal risk culture and allow regulators to respond in a flexible manner to changes of external circumstances. Lastly, Solvency II and SST introduce the concept of group supervision by a dedicated group supervisor (CRO Forum a, 2009) - Solvency II will explain in detail how the cooperation between supervisors will be performed.

Swiss Solvency Test (SST) is the first circulating regulatory regime that sets an economic model for assessing the risk-based capital and is the precursor to the European Solvency II regime. Supervisory activity in Switzerland is an illustration of the regulatory **regimes** of the new generation (Dacorogna & Keller, 2009), **based on principles and consulting services**, with a strong perspective on group solvency.

U.S. regulatory system is based on a **combination of approaches based on rules and principles**, when it comes to evaluating assets and liabilities. According to RBC rules-based regime, concrete methods of calculating solvency requirements are clearly defined, insurers are required to hold sufficient capital to cover at least the RBC. Calculating these requirements quantifies **asset risk, credit risk, underwriting risk, the risk arising from subsidiaries**. NAIC latest trend is to include and evaluate the group's solvency and group supervision, given the success of SST regime.

Most regimes **prohibit insurance companies to engage in the management of speculative derivatives**. As a general rule, in a group, only banks or brokers or other entities (excluding insurance company) are entitled to use speculative derivatives. Speculative derivative activities related to a component of the group, whether or not regulated, are included in the group capital requirements. Moreover, the regulatory authority has the right to intervene through discretionary capital requirements, if not enough sufficient risk capital is used to ensure the solvency. SST calculation will take into account derivative activity of non-insurance items in the calculation of consolidated or enterprise level within the group. Moreover, this activity is required to be presented separately in the report to the regulatory authority. In the U.S. RBC model does not include the area of monitoring activities related to derivatives held by a non-insurance entity within a group (NAIC, 2009).

Another aspect illustrating the differences between supervision arrangements relate to **mismanagement of short-term funding sources to cope with the liquidity risk**. Solvency II regime is not including specific quantitative requirements for liquidity risk (CRO Forum b, 2009), regardless of the activity it generates. In order to address liquidity risk, the available capital is less relevant than the liquidity of capital available - companies must implement a process for liquidity risk management (EC, 2009). If the insurer does not ensure implementation of liquidity risk management, the regulator has several options, including imposing additional

capital requirement. Sketches lately stress the distinct need to introduce contingency plans (CEIOPS, 2009) on liquidity risk to be reported at regular intervals by the board of directors of the insurance company / group. Similar to Solvency II regime, SST seeks capital rather focus on liquidity risk through quantitative requirements. Nevertheless, all insurance companies must develop adequate systems of risk management and internal control and reporting any change in risk profile. In the U.S., states supervision authorities focus on proper analysis of assets, with a review of liquidity risk management practices by regulated examinations, questionnaires and surveys, as well as models of stress on liquidity (NAIC, 2009).

The evaluation of assets and liabilities taken into consideration in the solvency computation represent another difference of the supervision According to RBC, balance sheet items are measured under accounting rules, taking into account historical cost. On the other hand, Solvency II proposes the valuation of assets and liabilities based on market conditions to better reflect the real value.

Concerning the internal model, the RBC does not allow insurance companies to develop their own internal models for solvency that meet the needs of each insurer (The Joint Forum, 2010). Solvency II accepts and even encourages insurance companies to develop custom internal models and also to establish the specific risk profile of the insurance business, subject to approval by the regulatory authority.

Impact of Solvency II over the European Insurance Market

Solvency II is bringing the risk-based supervision process to a new level - besides establishing a capital adequacy for the insurance companies, the regime is looking for **methods of influencing corporate behavior and decision making** (PriceWaterhouseCoopers, 2012). The challenge for this regime is to establish a common ground for different markets, when discussing practical actions to be implemented in highly volatile economic circumstances. The difficulty of everyone's agreement and enacting the new procedures can be stressed from the **methodic postponing of the process** - nowadays, the target date is early 2014, with a remote possibility of introducing the obligation of it with 2015, in spite of the side effects brought by another year of discussions and changes.

Diversification of the portfolio is expected to become an important part of the capital requirements in order to reduce the capital burden by almost 35% - this solely can be done by using an internal model by each insurer, whose benefit will be to maximize the value of diversification (this due to the fact that the standard model does not provide a significant the flexibility needed by a financial institution. The diversification will be advantageous primarily to the composite insurers (as the degree of correlation between life and non-life risks is rather low)

and to the reinsurance companies -the diversification is even more potent in their strategies.

One evident effect of Solvency will be the **increase in the number of mergers and acquisitions of insurance companies** (Clifford Chance, 2011), either as a way to raise the capital required by the regime or as a way to change their operational models in order to reach the best possible risk profile generated by applying the group-based approach of solvency model. Another reason for the mergers and acquisitions will be the huge IT costs - concerning implementing and maintaining the internal risk-based model - as the prospect of “acquiring” such system through a merger might prove to be easier and cheaper than the actual purchase of a new system.

The tradeoff between the expected return on investment of their portfolio and the cost of capital need to cover the risk of investment will be determinant in choosing the type of investments the insurance company will seek out in order to comply with the risk profile set from the beginning. Such procedures will definitely cause an **increase in the price of low-risk assets** such as fixed income securities, especially on financial markets with low liquidity and also a corresponding impact on the long-term securities (used mostly by the life insurance companies).

Tailor-made reinsurance solutions may be sought by market participants to ensure effective risk management and reduction in required capital levels. Therefore, proportional reinsurance treaties are excellent for reducing the concentration degree of the insurer's portfolio, which in turns will extend the capacity to write other lines of business. Non-proportional treaties can be used in order to reduce the volatility of claims generated by the associated capital charges, while aggregate excess of loss contracts are perfect for limiting the frequency of claims, as they will bring about additional capital relief. **Additional forms of alternative risk transfer** mechanisms will also emerge as Solvency II unfolds. The impact of these may need to be tested and approved, and the level of risk reduction they offer will be subject to regulatory approval.

The insurance companies are facing significant **costs related to human capital** in order to implement Solvency II regime - European Commission forecast was 3 billion euro of the total cost of implementation (European Commission, 2007). Introduction of the directive required and continues to produce at the time of this paper, significant employee training efforts, thus increased training costs. In addition, important costs are generated by **investment in computer technology** - almost half of the total cost- (PriceWaterhouseCoopers, 2010), as the methodology of Solvency II calculation implies the existence of an information system able to generate high-quality results for the company. Finally, companies are faced with the **costs of collecting data** required for calculation of capital requirements (Minimum Capital Requirement and Solvency Capital Requirement) - given a

rudimentary data collection process that existed before the introduction of the Directive and a lack of consistent data on insurance; for example, the Romanian companies in this period bear the burden of implementing appropriate systems for collecting and processing historical data (thus understanding information systems costs, human resources training costs involved in the process at all levels of the company).

In addition, adoption of Solvency II will result in **additional costs to shareholders** of insurance companies, in order to meet the new solvency requirements. Despite high levels of expenditure arising from the implementation of Solvency II, the major European insurers consider that the financial efforts required to comply with the new regulations are justified - an example in this respect is the reduced effects of the financial crisis had on the insurance industry, enough previously capitalized. According to a survey conducted in 2008 involving 44 large insurance companies in Europe, 43% of them expected to spend less than 5 million euro related to capital requirements (Accenture, 2008). For a third of the companies that participated in the study, estimates of the costs imposed by the transition to Solvency II fell between 5 million and 25 million euro.

However, these costs are supported by shareholders of insurance companies who are convinced that the implementation of the new regime will increase the risk control and also will bring about a consolidation of their companies. On the other hand, in 2011, there were voices among European insurers, that the regime required maintaining excessive and unnecessary levels of capital inside insurance companies.

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Economic and Social Cohesion in the South-East of Romania

Dorel Ailenei¹, Amalia Cristescu²

Abstract: In the midst of struggling with the global economic crisis the European Union is working to maintain its integrity while applying the motto “United in diversity”. Even while turning a deaf ear to the euro-enthusiasts and the euro-skeptics one wanders just how cohesive this diverse unity is. To analyze this is to dwell into the cohesion principle that underpins the whole European construct, going beyond the models presented by politicians – a Europe of the Regions or The United States of Europe. Our aim is to identify the disparities that might exist so far as economic and social cohesion in Romania goes. Thus, continuing a previous study concerning economic and social cohesion in Romania in the year 2010, based on a methodology developed by professor Shalom H. Schwartz from the Hebrew University of Jerusalem, we set out to research the cohesion elements in the Southern and Eastern regions in our country and compare the findings of the two scientific inquiries. The existence of significant disparities among the South-Eastern part of Romania and the whole country would add to the concerns expressed by the authors of the previous study regarding the low level of economic and social cohesion in our country.

Keywords: economic cohesion; social cohesion; disparities; scientific inquiries

JEL Classification: R10; D63; Z13

1. Introduction

The new approaches to the regional policy of the European Union³ point out that “minimising the regional disparities in production, unemployment and income is, for many countries, a major political objective and *determines the national coherence*”. Before seeking an answer for what the meaning of national cohesion is in a transnational structure as that of the EU, a brief analysis of the concept of cohesion is needed. From the perspective of The General Systems Theory, “*cohesion refers to the cause which ensures the dynamic stability and implicitly, the existence of a system or a subsystem. This stability derives from the restrictions*

¹ Professor, PhD, The Bucharest University of Economic Studies, Romania, Address: 6 Piața Romana Bucharest 010374, Romania, Tel.: +4 021 319 1900, Corresponding author: dorel_ailenei@yahoo.com.

² Senior Lecturer, PhD, National Scientific Research Institute for Labour and Social Protection, Address: 6-8 Povernei Str., Bucharest 010643 District 1, Romania, Tel.: +40-21-3124069/3172431, Fax: +40-21-3117595, e-mail: dorel_ailenei@yahoo.com.

³ Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999 [Official Journal L 210 of 31.7.2006].

that are imposed by the dynamic interactions in a system on the dynamics of the component elements. A dynamic system is a set of interacting elements that is characterized and individualized by other systems through their cohesion". (Collier, 2006)

The defining characteristics of the concept of cohesion may be useful in understanding the states of regional imbalances. Thus:

1. Cohesion is a balance between centrifugal and centripetal forces which act as centripetal forces and flow acting on the elements of a system, respectively between the flows that favour the inward or outward tendencies;
2. Cohesion manifests itself differently in time and space having different intensities and forms;
3. Cohesion is conditioned by the distribution in time and space of the forces and the flow within and outside the system.

As a balance between centrifugal and centripetal forces, the cohesion state involves links between the elements of a system, but also different levels of freedom of motion (Figure 1):

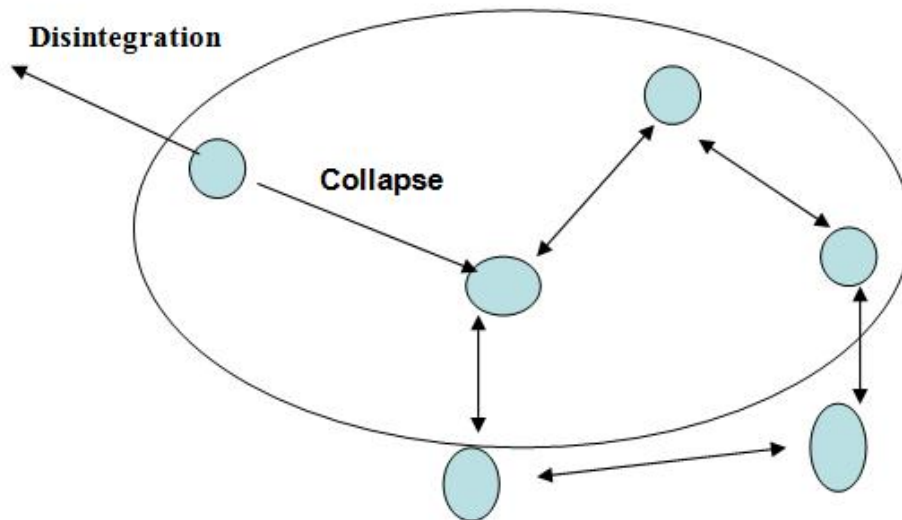


Figure 1. Cohesion as the basis of system stability

In other words, cohesion is the result of a delicate, dynamic, yet stable balance between the state of collapse and disintegration. From a social point of view, the two states can be easily identified with anarchy or extreme autocracy, the revolutionary states illustrating quite well the disintegration of human societies,

while the social collapse reflects the failure of the “monolithic unity” utopia of the communist vision.

Since the human being is multidimensional, cohesion has different social manifestation forms:

- Economic cohesion;
- Social cohesion;
- Cultural cohesion;
- Political cohesion.

This paper focuses on the economic and social dimensions of the concept of cohesion, although the connections with the cultural and political dimensions are also extremely important for the development of the research.

2. Economic Cohesion

More often than not, economic cohesion is defined in terms of income inequality between individuals, regions, or countries, or in terms of dynamics as a process of convergence. This approach is not correct, but can be found including in the EU programmatic documents¹. Fortunately, there are increasingly more views of experts who reject the cohesion approach in terms of convergence. (Tarschys, 2002) The error is that differentiation separates and does not unite, and therefore approaching cohesion from this point of view does not take into account the causes that link the elements of a system. Moreover, the concern for reducing inequality refers to reducing the anti-cohesive factors, namely the intensity of centrifugal forces and of outward flows, neglecting the centripetal forces and the flows within the system.

Approaching the economic cohesion in terms of centripetal and centrifugal flows and forces is found in the literature of spatial and regional economics in recent years: It can be seen that centripetal and centrifugal forces correspond to the concentration and spatial dispersion forces defined by P. Krugman:

Centripetal forces (concentration)	Centrifugal forces (dispersion)
Number and intensity of the connections between markets	Immobile production factors
Weak labour markets	Ground rents
Economies of scale	Diseconomies of scale

¹ Preamble of the Treaty of Rome: “the Member States of the European Community are concerned about ensuring their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions”.

Positive, negative, position and agglomeration externalities	
Existence of knowledge diffusion	Modern transport and telecommunication networks
Clusters	Network industries

Economic cohesion as a balance of centrifugal and centripetal forces and flows

- **Centripetal forces:** *the system of economic interests*
- **Centripetal flow:** *the exchange of economic goods within the division of labour. → The market networks system.*
- **Centrifugal forces:** *the income inequality between individuals, social groups, regions; poverty as economic collapse, unemployment as exclusion;*
- **Centrifugal flow:** *segregation, isolationism, emigration, self-consumption.*

Since the exchange is the basic relationship of economy, we believe that the best representation of economic cohesion at a regional level is rendered by the level of integration of local markets, according to the Enke-Samuelson model. (Roehner, 1995)

Social cohesion:

Social cohesion is a characteristic of a society based on social connections and relationships between social entities such as *individuals, groups, associations*, and between territorial entities (McCracken, 1998). The concept of social cohesion includes the following features of the human society:

- *the existence of shared values and feelings of affiliation to a group of people.*
- *the ability of the human society to ensure equality between its members and prevent the marginalization of any citizen.*
- *it exists if the forms of participation in the decision making process, which include political parties, trade unions and governments are inclusive, democratic and effective.*

Economic and Social Cohesion in the Romanian Society

The assessment is based on a study within the research contract 91-050/2007, PN II, Partnerships in priority areas, “*Reducing inequalities - prerequisite for economic and social cohesion. Quality of European integration*”, which was conducted between 2007 and 2010. In the early stages of the study, the analysis of economic and social cohesion was made based on standard indicators for such an analysis, therefore in terms of inequalities (i.e. centrifugal forces and flows).

3. Research Methodology

At this stage, the focus was laid on the attitudinal basis of economic and social cohesion, respectively on the centripetal forces and flows. We tried to point out the values and attitudes which unite Romanians. The research was based on the following elements:

- ✓ Representative survey for the Romanian population of 19 years and over.
- ✓ The questionnaire consisted of 35 operational questions and 12 questions of identification and structuring.
- ✓ Making the questions and interpreting the survey results were made based on *The theory of basic human values*.

The theory of basic human values was developed by Professor Shalom H. Schwartz, from the Hebrew University of Jerusalem and represents a theoretical basis for many studies of social barometer (e.g. European Social Survey).

There are 10 basic values considered, that are described by 57 specific characteristics (Table 1), which focus on 3 universal requirements of the human condition:

- the needs of individuals as biological organisms;
- the need to coordinate social interactions;
- the groups' need to survive and live on welfare.

Table 1. Basic human values and their associated characteristic elements

Value	Associated characteristic elements
POWER	<i>Social status and prestige, control or dominance over people and resources</i> (social power, authority, wealth, preserve one's public image)
ACHIEVEMENT	<i>Personal success achieved by proving competence according to social standards</i> (successful person, capable, ambitious, influential)
HEDONISM	<i>Search for and gratification of one's own pleasure</i> (pleasure, joy of life, self-indulgence)
STIMULATION	<i>Emotion, novelty, challenge of life</i> (to dare, an eventful and exciting life)
SELF-DIRECTION	<i>Independent thinking and action, creativity, exploration</i> (creativity, freedom, independent, curious, choosing one's own goals)
UNIVERSALISM	<i>Understanding, appreciation, tolerance and protection of nature and of the welfare of all people</i> (open-mindedness, wisdom, social justice, equality, world peace, a beautiful world, unity with nature, protecting the environment)
BUNEVOLANCE	<i>Preserving and enhancing the wellbeing of those with which the person is in often personal contact</i> (helpful, honest, forgiving, loyal, responsible)
TRADITION	<i>Respect, commitment and acceptance of the customs and ideas of traditional culture or religious ideas</i> (humble, accepting one's life,

	devout, respect for tradition, moderate)
CONFORMITY	<i>Self-control against actions, inclinations or impulses that might offend or hurt others or that could violate social regulations or expectations (polite, obedient, self-discipline, respect for parents and elders)</i>
SECURITY	Safety, harmony and stability of society, of relationships and of one's self (family and national security, social order, cleanliness, mutual favours)

Source: (Schwartz, 2004, pp. 67-68)

4. Motivational Continuum Chart

The circular layout represents the motivational continuum. The more closely two of the 10 values are, the closer are the motivations supporting the effort to achieve these values. The more distant two of the 10 values are in the chart, the more antagonistic are the motivations behind them. This leads to a structure with two orthogonal dimensions: *self-enhancement vs. self-transcendence* and *openness to change vs. conservation*.

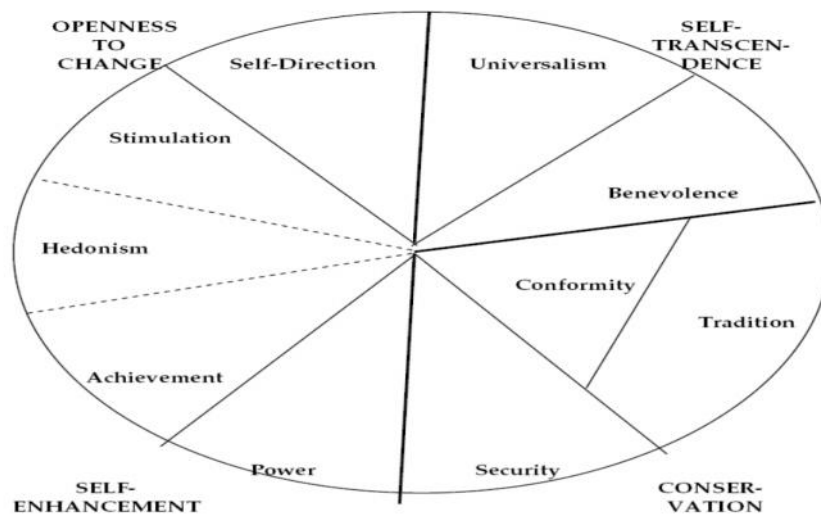


Figure 1. Theoretical model of relations among ten motivational types of values

Source: (Schwartz, 2004, pp. 56-57)

The chart of the basic human values for Romania was based on the distributions of the answers to the questionnaire by correlating these distributions with the characteristics of the 10 basic human values. The colours in this chart have been chosen in order to highlight the intensity of the attachment to each basic human value. The more intense colours (red, orange, yellow) show a high level of

attachment to a certain value, while pale colours (light blue to white) show a low level of attachment (Fig. 2).

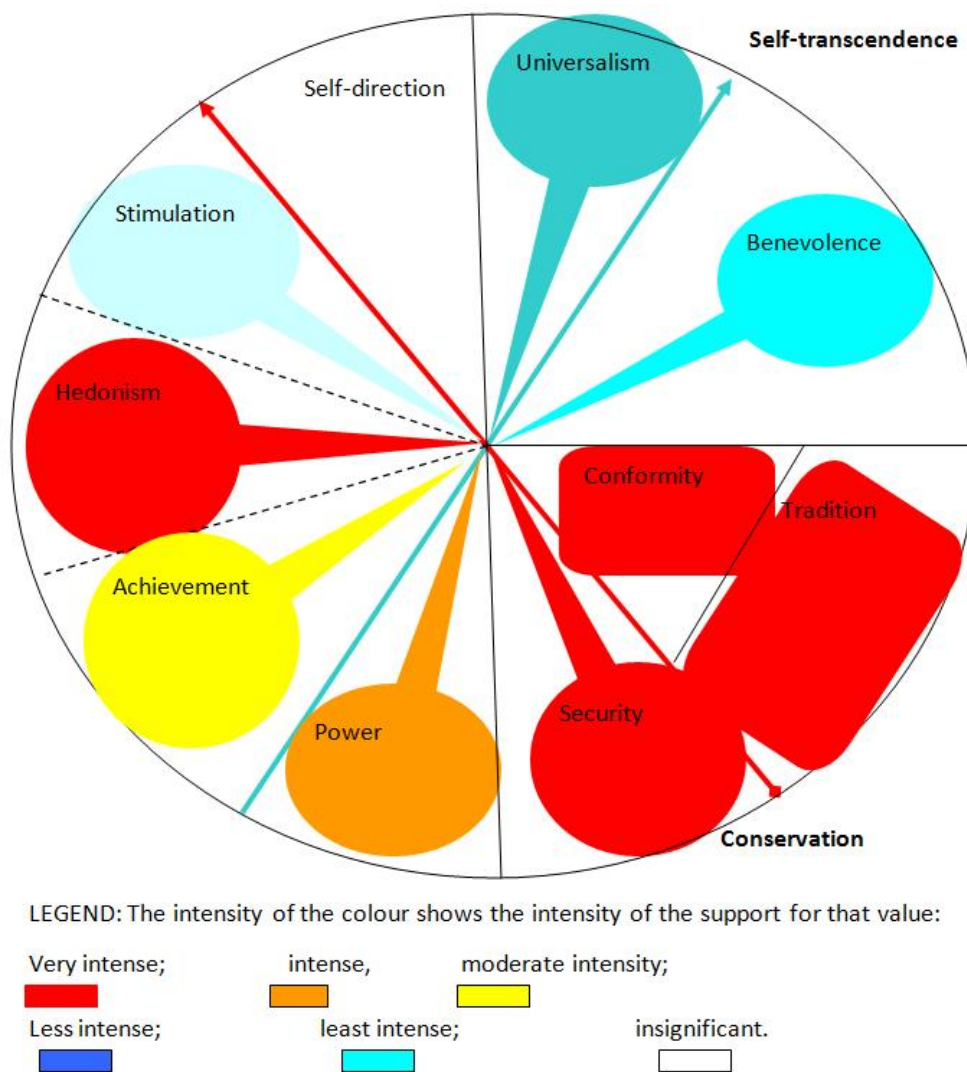


Figure 2. Chart of basic human values characteristic of Romanian society in 2010

4.1. Interpretation of Results

- It can be seen that red, orange and yellow are predominant at the bottom of the chart, with the exception of the Hedonism value at the intersection of the lower and upper semicircles. This reflects a predominance of the attachment to the following values: *Tradition, Conformity, Security, Hedonism, Power (apparent) and Achievement*.
- The analysis of the distribution of preferences for these values was made in relation to the transcendence axes of the values. Thus, the values of Tradition, Conformity and Security strongly support the *Conservation state on the Axis: Conservation → Openness to change*. In relation to this axis, the dominance of red as opposed to light blue that characterizes the values of Stimulation and Self-direction, shows a low tendency towards renewing and changing the present Romanian society, a trend that does not support strongly enough the economic and social cohesion.
- In relation to the other axis: *Self-enhancement (as self-abuse) → Self-transcendence*, the values of Power and Achievement clearly tip the balance in relation to Universalism and Benevolence, while the Hedonism value undoubtedly cuts the orientation of the attitudinal state towards *introversion* in opposition to *openness and relating to other individuals*. This relational blockage further undermines economic and social cohesion even more than the attitudinal state pointed out by the previous axis.
- What is interesting is that the dominant values on these two axes are distributed in continual proximities, which shows more a *motivational consensus*, rather than a conflict state of values that could be *favorable to social progress*. The conclusion is reinforced by the lighter colours in the upper half of the chart, which highlight the attitudinal strength of the opposition values.

5. Confidence in Institutions as a Factor of Cohesion

The alarmingly poor condition of economic and social cohesion revealed by this survey is also highlighted by the great level of distrust of individuals in public authorities and institutions. The confidence in the National Bank of Romania is the only one that exceeds the level of support of 50% (Fig. 3). As for the rest, the confidence of the Romanian citizens in the European Parliament (34.2% very high and high) is greater than in the national institutions (less than 30% as confidence level). The confidence in politicians (9.6%) and in political parties (10.6%) is

dishearteningly low. Neither is the confidence in the justice system appropriate to a modern state (26.6%).

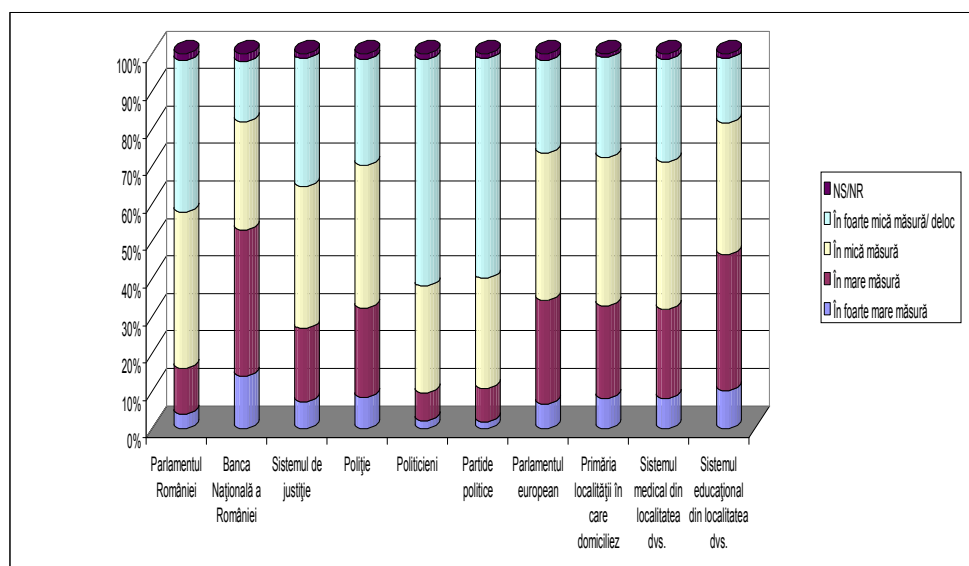


Figure 3. Romanians' level of confidence in institutions

5.1. Individuals' Distrust in Authorities and Institutions

Another factor that greatly undermines the economic and social cohesion in Romania is the citizens' indifference. The quasi-dominance of negative answers to question no. 21 shows without any shadow of a doubt the harmful indifference of the citizens (fig. 4). But it is still shocking to note that:

- ✓ 80.6% of citizens have not contacted a politician, a government representative or a representative of the local authorities (mayor, vice-mayor, counsels);
- ✓ 84.3% of them have not been part of a political party or a civic action group, 81.2% have not worn badges and have not distributed campaign flyers;
- ✓ 79.5% have not worked in a charity or voluntary organization;
- ✓ 76.3% have not participated in a public demonstration or legal rally;
- ✓ 72.3% have not signed a petition;

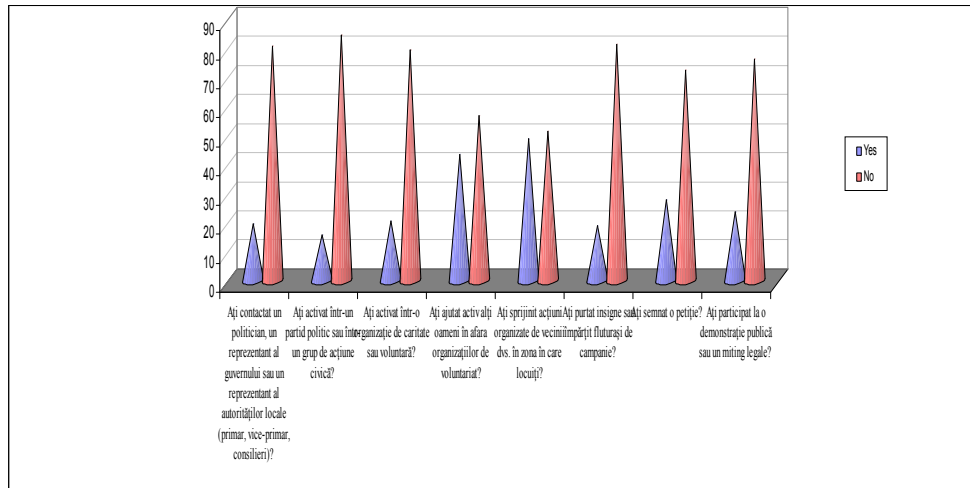


Figure 4. Romanians' level of civic involvement

The state of economic and social cohesion, revealed by the survey conducted, is very low and quite dangerous for the stability of Romania.

Such a state of cohesion is very unfavorable to a high-quality integration of our country into the EU and it may worsen to the extent that the community project would be led towards a Union of Regions.

6. Instead of Conclusions

Romania's entry into the economic crisis has worsened the economic and social framework and it is expected that changes might occur in the state of economic and social cohesion. That is why the authors decided to resume the analysis of the economic and social cohesion of Romania in 2013. Unfortunately, the territorial area of the survey was restricted, and the authors resorted to their own resources and to the support of the students at the Bucharest University of Economic Studies. Thus, two NUTS 2 regions were selected, Southeast and South (Muntenia), regions from which a great part of our students provides information and which cover the South-East of Romania. 750 questionnaires were distributed in Argeș, Brăila, Buzău, Călărași, Constanța, Dâmbovița, Galați, Giurgiu, Ialomița, Prahova, Teleorman, Tulcea and Vrancea. The Bucharest-Ilfov region was not included in the analysis, because it exceeds the average level of economic and social development in Romania and the results would have been inconsistent with those in the regions analyzed. However, it would be interesting to carry on the study in this region as well, in order to highlight the regional disparities of the economic and social cohesion. Currently, about 378 questionnaires were collected, of which 321 were validated. Preliminary results seem to indicate interesting differences

between the two regions analyzed in that the Southeast region seems less cohesive than the South region (Muntenia). It is interesting that the Romanians' level of civic involvement in civic actions has increased, but the confidence in national institutions still remains at a low level. Also, it is worthy of note that the National Bank of Romania remains leader in terms of confidence, as people correctly perceive its position as the main factor of economic stability.

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