Romania

Systematic Country Diagnostic

BACKGROUND NOTE

Regional Development

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Acknowledgments

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Romania’s Regional Development at a Glance

Romania is one of the fastest-growing economies in the European Union, with a growth rate of 7 percent in 2017 (National Institute of Statistics). Growth is expected to remain solid, and public debt is still one of the lowest in the EU. However, Romania still has one of the highest poverty rates in the European Union. Despite improvements in recent years, concerns about governance and weak administration limit Romania’s competitive advantages.

Romania’s cities and urban areas are its growth engines, with great potential for development. While Bucharest has reached productivity levels comparable to those of other EU capitals, there is still room for the Romanian secondary cities to compete with secondary cities in the EU. To sustain growth in the coming years, it is mandatory that Romania strengthens these secondary cities and transforms them into more competitive and developed ones.

Figure 1. GDP per capita (PPS) in primate cities, secondary cities, and at the national level in 2013

Data source: EuroStat
Development Dynamics in Romania

Key points of a fast-growing economy

The communist fall

1. **Romania’s economic performance after the communist fall has been impressive.** Between 1992 and 2015, Romania’s economy grew at a compound annual growth rate of 9.3 percent, and was one of the fastest growing economies in the World. The growth rate in this time-period was 1 percent higher than the average for upper-middle-income countries, and more than three times the rate for the EU and high-income Countries. Most impressively, Romania managed to catch up with the economies of Brazil and Mexico, which in 1992 had a GNI per capita that was 3 and 4 times respectively as high as that of Romania.

![Figure 2. GNI per Capita (Atlas method) compound annual growth rate between 1992 and 2015](image_url)

Source: World Bank

The European Union accession

2. **The EU accession has been of crucial importance for Romania’s economic growth.** The European Union, as the largest trade block in the World, brings great benefits for its member states, with widespread economic growth, both nationally and at the regional level. Moreover, the modernization of the private sector made possible by being under the EU umbrella was doubled by a rapid modernization of the public sector, through the legislative and administrative changes that the EU pushes.

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3. **The main aspects that largely contributed to the economic development of Romania are:**

   i. **The Foreign Direct Investments (FDI)*** contributed widely to Romania’s development. The foreign companies brought with them technological advances and know-how, as well as training programs and higher salaries for the staff they hired. They have been raising, in this way, the collective and individual productivity, encouraging human capital development and productivity growth.

   ii. **The out-migration** is another aspect that has widely increased Romania’s productivity. Remittances sent by Romanians working abroad represent a significant and substantial source of revenues, almost as significant as FDI. Moreover, the remittances flow has been much more stable than foreign investments, with a smaller downward dip after the 2008 crisis and a more reliable pattern afterward.

   iii. **The strong export performance** is a crucial aspect of Romania’s development. As Romania’s economy has become integrated into the EU trading block, it has also started to morph and look more like the economy of the EU. About 72 percent of the EU exports fall in three large categories: transportation (cars, car parts, trucks, trains, airplanes); machines (TVs, computers, mixers, microwaves, mobiles), and chemical products (soaps, shampoos, detergents, fertilizers, medicaments). Romania’s export share in these three sectors went from 24 percent in 2000 to 46 percent in 2014. Moreover, the volume of Romania’s exports has grown 8 times more than its 1989 exports.²

**Intelligent urbanization**

4. **Economic growth is driven by big agglomerations, and cities are drivers of regional economies in Romania.** The more urbanized a region is, the more developed it tends to be. After the fall of communism, and the EU accession, a revolution in urbanization with investments in connectivity and local infrastructure can put Romania on the right path for sustainable economic development.

   i. In 2011, when the last Census was completed, the 41 metropolitan / functional urban areas of Romania provided 61 percent of the total jobs in the country and more than 70 percent of the nonagricultural ones. They also generated 90 percent of the national corporate income, out of which 75 percent was generated by areas within a one-hour drive of Romania’s eight growth poles.

² MIT Observatory of Economic Complexity.
ii. The bigger cities are, the more productive they tend to be. At the regional level, the largest cities outperform the smaller localities by a wide margin. The figure below presents the share of firm revenues in the functional urban areas, and it nicely shows how the largest cities are the main economic drivers of their region.

Source: Borg Design (Listafirme.ro) Database

Note: FUA=functional urban area
iii. **The level of development and the level of urbanization are clearly connected.** The figure below clearly shows, for Romania’s 41 counties, the correlation between the share of population living in urban areas and the actual level of development. Moreover, the proximity to the large economic centers contributes very much to the development of specific areas. Iflov County, for instance, benefits largely from Bucharest economic development spillovers. On the other hand, the Hunedoara County, urbanized in a centralized, rather forced manner during the communist period, hasn’t capitalized on the benefits of urbanization. Deva, its county capital, went from 78,438 people in 1992 to 61,123 people in 2011 (the last census), and its population is still declining.
Figure 5. Relationship between urbanization and level of development in NUTS 3 regions in Romania

Key aspects for a sustainable economy

Connective infrastructure

5. **Connective infrastructure plays a very important part in development.** Geography matters very much for development, as the easier a region’s access to large markets, the more developed it tends to be. Romania’s EU membership puts the country in a very convenient global position. On the other hand, Romania is situated at the periphery of the European Union, and there is still much room for improved connectivity with Europe, and also within Romania and within its functional urban areas. The main levels of connective infrastructure to be improved for Romania are:

   a. **European connectivity**

6. **Within the EU, the most developed regions are those in the center of the continent, with easy access to trade routes everywhere in the world.** Conversely, the least developed regions are those at the periphery of the EU. The map below highlights the location of EU lagging regions, and it is hard not to notice the relatively uniform pattern. Despite different governance and economic arrangements and human capital endowments, the southern and eastern peripheries of the EU seem to be equally lagging.
In Romania, investors usually prefer the western part of the country, as it is closer to Western European markets. Thus, localities inside the Carpathian Arch have a disproportionate share of their exports going to the EU—where more than 70 percent of all Romanian exports go—whereas localities in the east and south are less connected to the EU markets. The map below clearly shows the difference made by connectivity and by proximity to the west.
8. **The west of the country has developed faster than the east and the south, and larger cities have by and large fared better than smaller cities.** In the north-east Region, it is the city of Iași, the largest urban area, which has developed the fastest; in the south-east region, it is Constanța that has had the best performance; and, in the south-west, Craiova is the best performer. However, smaller cities from the west of the country, such as Sibiu or Arad, have had higher productivity rates than these large cities from the east and the south.

9. **In order to achieve convergence, Romania must connect all these growth poles to Europe.** A critical thing is the completion of the two main highway connections to the western border (the A1—București-Pitești-Sibiu-Arad, and the A3—București-Brașov-Cluj Highways). High speed roads, quality railway infrastructure and trains, but also larger airports and better airline connection with the west are mandatory in order to encourage a uniform share of exports from all Romanian regions. All of this connective infrastructure, together with an improved naval connectivity, will bring great value to the Romanian economy.

**b. National connectivity**

10. The internal connectivity, within Romania and between its functional urban areas, is also extremely important. Good connectivity makes it easier for people to move from one place to another for opportunities that help them develop themselves, and at the same time it makes it easier for them to keep the connection to their place of origin. Thriving urban areas are almost always important transport hubs. The development of better connective infrastructure is inevitable when a city is growing, but careful and strategic planning can ensure that this connective infrastructure is developed in an efficient and sustainable way.
11. The map below shows access times to Bucharest—Romania’s capital and the country’s largest internal market. The way the situation looks currently, some of the cities that benefit from closeness to the western border are also some of the cities that are furthest away from the capital. Timișoara, Cluj-Napoca, Oradea, and Arad are closer to large regional growth engines like Belgrade and Budapest than to Bucharest. This distance from the capital has served these cities well in previous years, as the gravitational pull of Bucharest was not as strong as it was for cities like Ploiești, Brașov, or Constanța. For cities like Iași, however, which have few large and easily accessible markets nearby, the 6-hour drive to Bucharest can be seen as a factor in the city’s slower development.

![Travel times to Bucharest with current road infrastructure](source: World Bank 2013. “Competitive Cities: Reshaping the Economic Geography of Romania”)

12. On the other hand, Figure 9 shows access times to the western border with the current infrastructure in place. Eight-hour access times make it even clearer why cities like Iași have not grown as fast as Cluj-Napoca, despite having a similar population and a similar economic makeup. Also, in the absence of a highway connecting them to the western border, cities like Brașov, Sibiu, or Târgu-Mureș have similar or slower access times to the border than Bucharest, even if they are geographically closer.
Given Romania’s current level of development, investments in connective infrastructure should be one of country’s top priorities. Particularly important will be the extension and modernization of airport infrastructure, with air traffic growing continuously to and from its important economic hubs. The improvement of railway infrastructure and the quality of trains will also encourage mobility and will highly contribute to the national economic growth.
c. Urban and metropolitan connectivity

14. The urban connectivity within a city or town, and the connectivity within a functional urban area can contribute very much to local economic development. The figure below shows, in the case of Ploiești, how the increase by one unit on the urban connectivity scale tends to lead, on average, to an increase in local development by 7 units on the local human development index (LHDI) scale.

![Figure 11. The link between local development, commuting, and urban connectivity](image)


Note: In order to avoid overloading the diagram, not all locality names were included.

15. One of the challenges is the suboptimal deployment of urban and metropolitan public transport systems. The provision of connective infrastructure and of accessible, efficient, and clean public transport systems act as prerequisites, allowing dynamic cities to grow and foster low carbon economies. Public transport should expand to areas with a high enough population density and with strong commuter flows. Yet, with some notable exceptions (such as Alba Iulia), metropolitan transport is not developed, and the connections leading to the dynamic urban centers in the regions need to be improved. High transaction costs are incurred when coordinating planning and scattered investments, as several administrative jurisdictions cater for various categories of transportation infrastructure (for example: ring roads of larger towns fall under the remit of national authorities, while urban mobility issues are dealt with by the local municipality).
16. **The significant underperformance the urban public transport sector and its ability to evolve are hampered by a series of opposing factors**, such as: recorded decreases in passenger figures, delays in implementing necessary reforms and ensuring alignment to EU regulatory framework, underinvestment, and poor maintenance of infrastructure and rolling stock. Well-planned investments and firm actions are needed from the urban municipalities to cope with increasing congestion and transit problems, with large GHG emissions, and inefficient transport systems, while providing cleaner and better alternatives for the citizens. Sizeable EU Fund allocations were made available under the 2014–20 programing period (EUR 2 billion) to invest in low carbon strategies in the cities, notably by promoting sustainable urban mobility and a modal shift to clean transport technologies and non-motorized transport alternatives. Yet significant delays hamper the deployment of EU cofinanced investments in rolling stock, as most cities struggle to develop and enforce Public Service Contracts compliant to EU Regulation 1307/2009, on state aid in public transport systems—a systemic bottleneck that has not been addressed comprehensively in the past.

17. **For a city to thrive, it has to be well connected.** Good connectivity means that people will have easier access to more opportunities in the area (for example, it will be easier for them to find another job), while firms will have easier access to a larger labor pool of qualified labor and to larger markets—internal and external. Easy access to a qualified labor pool implies well-developed local and regional infrastructure, to allow easy commuting to the city for a large number of people in the region. Easy access to markets may require a well-developed highway network, good airport, rail, and naval infrastructure, and the availability of a well-developed information and communications (ICT) infrastructure. The functional urban areas (FUAs) of Timișoara, Cluj-Napoca, and Iași have a high number of commuters (about 50,000 people commute every day to and within these FUAs), but they all lack the infrastructure required to accommodate all these commuters. For example, the stretch of road between Cluj-Napoca and Florești (Cluj-Napoca’s largest suburb, and the largest village in Romania) has the highest traffic numbers in the country, and the highest incidence of traffic accidents. Consequently, the development of metropolitan transport infrastructure and metropolitan public transport is of great importance. Moreover, the tourism aspect should also be taken into consideration. The easier it is to get to an attraction, the more visitors it is likely to enjoy. Easy access to airports, major road infrastructure, rail and naval hubs is very important in this respect, although it is not always within the means of just one local authority to provide this connectivity.

### Urban agglomerations

18. **Urban agglomerations are critical for development.** Romania is currently one of the least developed and least urbanized countries in the EU, with only 55 percent of people living in cities. About 65 percent of Romanians live in functional urban zones (cities and their peri-urban areas). These functional urban zones have been the country’s main economic engines, with the fastest growth between 2002 and 2011 (Figures 12 and 13).

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19. **Not all 320 cities and towns in Romania are able to generate the same pace of growth and productivity.** Several factors influence the cities’ potential to exploit the opportunities of agglomeration and to spur economic and inclusive growth—for example, endowment with connective infrastructure; ability to customize interventions to increase competitiveness and attract investments; provision of basic services, including for marginalized groups; promotion of measures to improve the quality of life; measures to address capacity gaps and nurture well-performing local governance systems. The more positively a city meets these aspects, the more attractive it is. Figure 14 shows, at the county level, the share of migrants in the total stable population.

![Figure 12. Level of development by locality, 2002](image1)

![Figure 13. Level of development by locality, 2011](image2)


Note: The blank spots indicate localities for which no data was available.

![Figure 14. The share of migrants in the total stable population, at county level, 2011](image3)

Source: Romanian National Institute of Statistics
20. **Currently, the urban system in Romania is skewed, with the capital city Bucharest being about six times larger than the next batch of cities, and concentrating almost 25 percent of the GDP.** However, there is an urban re-shuffling taking place in Romania, and the system of cities in the country seems to rearrange itself around a classical, more uniform distribution pattern, with a limited number of prominent rank 2 and 3 cities.

21. **Inner migration, primarily from rural to urban areas, was the main source of urbanization growth in the communist period.** The Figure 15 shows that at the end of the Second World War there were significant differences in the populations of the top 10 cities in Romania. In 1992, just two years after the collapse of the Communist regime, Romania had seven secondary cities with almost the same population (more than 300,000 inhabitants each). This was the result of the centralized urbanization and industrialization plans implemented by the communists. To balance the migration flows that were naturally oriented toward these growth poles, the authorities even decided to ban migration to the big cities, and to force people to move to medium-size cities. As a result, cities such as Zalău and Vaslui artificially doubled their population in less than 15 years.

**Figure 15. Population and ranking of largest 10 Romanian cities over time**

<table>
<thead>
<tr>
<th>City</th>
<th>Stable population and ranking (1930–2011 censuses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucharest</td>
<td>639,040</td>
</tr>
<tr>
<td>Cluj-Napoca</td>
<td>100,844</td>
</tr>
<tr>
<td>Timișoara</td>
<td>91,451</td>
</tr>
<tr>
<td>Iași</td>
<td>102,872</td>
</tr>
<tr>
<td>Constanța</td>
<td>59,164</td>
</tr>
<tr>
<td>Craiova</td>
<td>63,215</td>
</tr>
<tr>
<td>Brașov</td>
<td>59,232</td>
</tr>
<tr>
<td>Galați</td>
<td>100,611</td>
</tr>
<tr>
<td>Ploiești</td>
<td>79,149</td>
</tr>
<tr>
<td>Oradea</td>
<td>82,687</td>
</tr>
</tbody>
</table>

*Source: Romanian National Institute of Statistics*
22. The last decades and especially the recent years after the EU accession rebalanced these state-planned migration flows based on market-driven forces. The natural growth poles, such as Bucharest, Cluj-Napoca, or Timișoara continue to attract young people, whereas some cities which have grown “artificially” in the communist period are shrinking and losing population. For example, the city of Vaslui gained almost 40,000 inhabitants in the 1980s and lost 25,000 people after 1990, most of them moving to Iași, to Bucharest, to out-migration, or even to the rural areas they came from 20–30 years before (Figure 16).

Figure 16. Population and ranking of the smallest county capitals over time

<table>
<thead>
<tr>
<th>City</th>
<th>Stable population and ranking (1930-2011 censuses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Călărași</td>
<td>18,053</td>
</tr>
<tr>
<td></td>
<td>(30)</td>
</tr>
<tr>
<td>Alba Iulia</td>
<td>12,282</td>
</tr>
<tr>
<td></td>
<td>(36)</td>
</tr>
<tr>
<td>Giurgiu</td>
<td>31,016</td>
</tr>
<tr>
<td></td>
<td>(24)</td>
</tr>
<tr>
<td>Deva</td>
<td>10,509</td>
</tr>
<tr>
<td></td>
<td>(39)</td>
</tr>
<tr>
<td>Zalău</td>
<td>8,340</td>
</tr>
<tr>
<td></td>
<td>(40)</td>
</tr>
<tr>
<td>Sfântu Gheorghe</td>
<td>10,818</td>
</tr>
<tr>
<td></td>
<td>(38)</td>
</tr>
<tr>
<td>Vaslui</td>
<td>15,310</td>
</tr>
<tr>
<td></td>
<td>(32)</td>
</tr>
<tr>
<td>Slobozia</td>
<td>7,591</td>
</tr>
<tr>
<td></td>
<td>(41)</td>
</tr>
<tr>
<td>Alexandria</td>
<td>19,350</td>
</tr>
<tr>
<td></td>
<td>(29)</td>
</tr>
<tr>
<td>Miercurea-Ciuc</td>
<td>4,807</td>
</tr>
<tr>
<td></td>
<td>(42)</td>
</tr>
</tbody>
</table>

Source: Romanian National Institute of Statistics
The figure below clearly shows the migration flows to Romania’s growth poles over time. It can be seen the way in which, decade by decade, migration flows have set the country’s main regional centers.

Figure 17. The dominant migration flows to the eight growth poles in Romania, at county level, by period

Source: Romanian National Institute of Statistics
24. **Romania needs to facilitate urbanization and the proper administration of functional urban zones as key ways of sustaining long-term growth and development.** Investments in public spaces, pedestrian and cycling-friendly infrastructure, leisure facilities, the environmental cleanup of brownfields and their preparation for future investments, and the maintenance and expansion of green areas are equally important for attracting and retaining people and firms while offering a better quality of life in the cities. Some progress has been achieved over the past decade, and some cities reveal illustrative examples of successful regeneration of the urban environment (for example, Alba Iulia and Oradea). However, while a consistent allocation of EU funds is available to finance investments in the revitalization of towns and the greening of public spaces, evidence shows that persisting administrative and planning gaps hinder an optimal deployment of interventions (such as unsettled property issues, lack of cadaster and land registration, unclear legal frameworks, and delays in enforcing registries of public green spaces).

25. **Making a city more attractive and resilient also implies investing in the regeneration of the decayed stock of public and residential buildings and in the provision of public lighting,** notably to increase their energy efficiency. Almost 13,000 public buildings have been identified in Romania, among which more than 6,500 educational units and more than 360 hospitals. Most public administration buildings were constructed between 1950 and 1990 and have high levels of energy consumption accounting for 45 percent of total energy consumption. Yet the sector offers good perspectives for improvements, with energy savings estimated at 40–50 percent.

26. **The public lighting system in Romania is administered in most of the cases by local authorities and is regarded as a public utility provided to local communities.** Consequently, its modernization progressed extremely slowly. A European Bank for Reconstruction and Development (EBRD) study estimates that public lighting represents 1 percent of the total energy consumption in Romania and offers a high reduction potential, estimated at between 40–60 percent depending on the current condition of lighting systems. Improving the energy efficiency of municipal buildings and lighting implies an ambitious investment program, estimated at several billion euro. Ample EU co-financed grant schemes are made available—of more than EUR 400 million—but the funding gap remains outstanding. More efficient delivery mechanisms could be developed to ease the constraints on municipal finances, for example by leveraging private contributions, deploying performance-based contracts with service companies, etc.

27. **The residential sector accounts for almost 84 percent of the energy consumption in buildings.** Recent statistics show an indicative number of 4.6 million residences in the urban areas, out of which 1.4 million apartments are linked to the centralized system for thermal energy supply. Even if heating prices are still heavily subsidized, the actual cost of adequately heating absorbs a sizeable 11 percent of the average citizen’s take-home pay. The investment cost in energy efficiency measures for the residential

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5 TASK 2 REPORT, Romania Energy Efficiency in the Residential Sector, EBRD study, page 13.
sector is estimated at around EUR 4.9 billion\(^8\) and the planned implementation of a set of energy efficiency measures in this sector would result in a 40 percent decrease in energy consumption.\(^9\)

28. **While there is much room for improvement, the capacity of consumers to pursue upfront capital investments in improving the energy efficiency of their dwellings is limited.** Significant allocations of EU Funds are available (EUR 580 million). However, the performance of the grant schemes launched over the past years has been limited, having been hampered by persistent administrative and bureaucratic hurdles. Performance has also been limited by the persistence of a highly fragmented market with diverse levels of experience, ability, and take-up across Romanian cities. Some investments in district heating began in 7 cities with EU funds, even though for most of them implementation has been delayed (except for in Oradea and Iași). A large investment is also planned for the capital city of Bucharest.

29. **Land and housing markets are dysfunctional. On the one hand, the ownership situation is not always clear.** Following 1989, lands were restituted to their rightful owners, but ownership could not always be clearly established. As such, a significant share of urban land in Romania has no clear ownership or is disputed in court. Moreover, of the about 982,000 new housing units developed between 1990 and 2015, 64 percent were developed in the functional urban areas of Bucharest and the 40 county capitals. Also, about 52 percent of the housing units developed in these 41 FUAs—around 326,000 in total—were developed outside the core city, indicating a very rapid process of suburbanization. Most of these new developments were undertaken with a weak or absent spatial planning system and with no efforts at metropolitan planning. Moreover, brownfields occupy large swaths of land in most metropolitan areas in Romania, but because of an unclear legal framework, and because of the lack of involvement of public authorities in this area, have largely remained idle in the past years. Most local authorities lack the expertise, willingness, or financial means to undertake environmental cleanup and preparation of these spaces for future investments. Even in Bucharest there are significant plots of land in the city center, with high real estate value, that have not seen any interventions on them in the past 28 years. These brownfields could accommodate not only new housing units, but also much-needed office space and mixed-used developments—particularly needed in the regional magnets. Efficient and dynamic land and housing markets are critical for rapidly developing cities. When these markets work properly, the inflow of people and businesses is made easier. Therefore, the municipalities need to better manage the key assets and fashion strategies for urban regeneration in order to add value and engage private capital for the critical investments needed to develop attractive and sustainable cities.

30. **Moreover, while most localities have registered some level of development in the last 10 years, rural areas—particularly those further away from dynamic urban centers—have had the slowest growth.** This slow growth affects the capacity of rural localities to provide needed public investments that will allow people in rural areas have the same start in life as people in urban areas. Recent studies show that communes—the lowest level of administrative subdivisions in Romania—can allocate no more than an average of €1.8 million for capital investments between 2014 and 2023.\(^10\) In essence, this means that most communes have an investment budget that allows them to, at most, rehabilitate a communal road and a school in the next EU programming period. Consequently, additional resources have to be allocated from the national budget to ensure quality basic services provision across the country.

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\(^8\) European Investment Bank and European Bank for Reconstruction and Development studies


31. It is vital that all Romania’s localities nurture good institutions that enhance the accessibility and quality of basic services, such as education, healthcare, running water and sewage, functioning land markets, etc. This is particularly important in lagging regions, whereby the eastern and southern parts of the country concentrate a higher incidence of people at risk of poverty and social exclusion. Cities are drivers of economic growth and administrative capacity gaps at local levels, which need to be addressed with a view to enhancing the role of cities in planning and implementing investments. While urban strategies have been developed, further efforts are needed to improve their quality, as too often subnational planning documents are vague and unrealistic, and fail to identify specific priorities and corresponding sources of financing. Furthermore, local capacity to develop mature project pipelines with well-coordinated investments is limited, notably in smaller municipalities. This hampers the absorption of ample EU funds made available for subnational capital investments. Part of the solution lies in making available sufficient staff to cater for the available financial envelopes, and in improving their skills and performance. Also, the central authorities could assist by providing local municipalities with simple, ready-to-go tools to incentivize the optimal planning and delivery of investments, such as toolkits for identifying the list of priority investments, seed funding to develop the projects, and guidance for community building and empowerment. Developing strong networking and communication channels to share good practices, lessons learned—and to instill further concerted action among cities—could also be instrumental in enhancing capacity at the local level and benefiting from existing knowledge and practice across Romania’s regions and cities.

![Figure 18. The share of EU funds that Romanian cities had and have access to](image)

Source: Individual programmatic documents

32. The more people, investors, and tourists a city attracts, the more competitive and developed it is. To make their city or town more attractive, local authorities must define the priorities that are critical for the locality they are leading, and must carefully coordinate the activities they are undertaking. The World Bank team has defined three types of “pyramids of needs” that could help local leaders develop their city or town and improve the quality of life of their citizens. These “pyramids” are: (i) The Citizens’ Pyramid of Needs; (ii) The Private Sector Pyramid of Needs; and (iii) The Tourist Pyramid of Needs.
A city’s citizens are without a doubt its main constituent group. Citizens elect the mayor and the local council, and local authorities are directly responsible to them. Citizens’ needs can largely be clustered in the following five categories: opportunities; housing and basic infrastructure; connectivity; effective and efficient administration; quality of life.


The private sector is a city’s source of economic dynamism, and an active local economy is a magnet for people. Without an active private sector, cities often wither away. For local authorities, it is therefore important to identify ways to address some of the key needs of the private sector. These can be grouped in the following categories: qualified labor force; land and basic infrastructure; connectivity; effective and efficient administration; clusters.

The tourist pyramid of needs

The large majority of cities are not tourist attractions, even if they may be visited regularly by people. However, for some, tourism represents a significant source of revenue. Cities with a clear tourist potential should look for ways to meet the needs of tourists. These needs can be grouped in the following five categories: attractions; information; connectivity; accommodation; quality services.


33. Cities are in a global competition to attract the best and most qualified people, and the cities that have the largest gravitational field and the strongest gravitational pull will also be the most developed. Migration and commuter patterns are variables that work well for establishing hierarchies for cities. Some of the aspects that transform a city into a magnet one include the level of urbanism and connectivity, the enforcement of rules and regulations, the quality of education, the metropolitan and regional infrastructure, and the private sector development. The figure below shows the magnet functional urban areas in Romania and divides them by categories. The map indicates, by locality, where the largest share of migrants went.
Figure 22. Migration catchment areas for the 41 FUAs in Romania

Source: Romanian National Institute of Statistics
Human capital and innovation

34. Cities only matter insofar that they bring together lots of people, because lots of people are equivalent to large and diverse markets, enabling the private sector to grow and diversify easier. An agglomeration of people and firms enables cross-sectoral pollination and inter-sectoral synergies and help drive individual productivity growth. To generate new ideas, cities need a large enough human capital pool. The more successful cities are in enlarging their human capital pool, the more successful and innovative their economies will tend to be.

35. To spur economic growth, competitive cities need to focus on the policy levers that create a favorable business climate and seize the opportunities offered by a concentration of knowledge, innovation, human capital, and industrial assets. A series of factors influence the capacity of a city to attract and retain human resources—size, proximity to the west, the structure of economic sectors, existence of strong universities, and quality of life. While economic activity is concentrated in a number of dynamic urban centers in Romania, it is critical that cities enhance their capacity to customize interventions and exploit the endogenous competitive advantages—such as fostering skills and innovation, creating a favorable business climate, providing facilities for entrepreneurship, and business support. This also implies an enhanced capacity in local administrations to connect to regional and national innovation ecosystems, steer an open dialogue with the entrepreneurs, and facilitate the deployment of services and infrastructure that enable a vibrant business environment.

36. An economy is the sum of its people. The marginalized groups in Romania represent a large share of the population. In urban marginalized areas, 342,933 people—a 3.2 percent of the population—are located. Pockets of poverty can be found at cities’ outskirts and also in the downtown historic central areas. These are severely deprived areas that combine low human capital—with little education, poor health, or a having high number of children—with low formal employment and inadequate housing conditions.

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The 2011 census revealed that at the national level, 6.2 percent of the rural population is located in rural marginalized areas. By definition, these rural areas are severely deprived census sectors in which most of the population have completed only lower secondary education at most, make a living in the informal sector, especially in agriculture, and live in precarious dwellings even by the usual low standard for rural areas. In other words, they live in overcrowded houses or have no access to running water or electricity.
While rural and less urbanized areas have a lower growth potential, the people living in rural areas should be offered the same opportunities in life as people living in cities. It is critical to provide a basic set of services, such as good education, easy access to healthcare, water and sewage systems, sanitation, and good roads. Artificial administrative and spatial delimitations between rural and urban areas often hamper the deployment of integrated actions to break the vicious circle of poverty and social exclusion. Integrated, cross-sectoral regeneration projects that balance social inclusion with economic competitiveness are the best ways to reduce geographically concentrated poverty in marginalized urban areas.
areas, in Roma communities, and in certain remote rural areas. These interventions need to be supported by a broad range of public and private players—public agencies, landlords, residents, and businesses—in order to be effective.

39. **Moreover, investments in human capital and in fostering knowledge-driven growth should better cater for the role of universities and vocational education and training, and their interactions with the private sector.** Bucharest has been and will probably remain the main attraction hub in Romania. But strong universities are critical to attract high value-added service industries, and cities like Cluj-Napoca, Iași and Timișoara have stronger prospects for sustained future growth. Concerted action is needed to enhance the role and the capacity of cities as enablers for public-private partnerships and collaboration platforms, to attract and retain well-skilled people and higher value-added investments, and foster positive spillovers at broader territorial levels—for example, providing for vocational skills matching the labor market needs in the county or the region and enhancing the role of dual learning programs.

40. **Recent developments around the national and regional smart specialization agendas offer new opportunities for cities to engage in entrepreneurial discovery processes,** and some progress has been reached in instilling the more active participation of urban centers under the European Commission’s Initiative, ‘Lagging Regions’, piloted in the northeast and the northwest. Yet further progress is needed to enhance local capacity and coordination between national and regional governance systems. Modern urban administrations should seize the opportunities offered by the digital economy, opening up their services to increase transparency and efficiency, and to engage with citizens. Until now, very limited progress has been achieved in deploying open data and e-governance tools by the Romanian administration. Data from the European Commission’s Digital Society and Economy Index reveal that in 2017 Romania ranked last among its EU peers, with notable low levels of the rate of digitization of the economy, including for the supply and demand of e-government services—only 6 percent of Romanians use digital public services; and the low rate of digital skills—only 28 percent of the population have at least basic digital skills.

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**Figure 25. Digital Economy and Society Index 2017 ranking**

Source: Digital Economy and Society Index 2017

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Main Recommendations for Romania’s Urban and Regional Development

41. **Better connective infrastructure** that facilitates the access to large markets in Europe and globally, but also internally within Romania, strong functional urban areas, and human capital development will transform Romania into a more competitive and developed country.

42. **The key priority reform areas for Romania are:**
   
   Reform area 1: Enable better connections between dynamic cities in Romania and large international markets.
   
   Reform area 2: Encourage the creation and development of functional urban zones.
   
   Reform area 3: Invest in human capital and provide integrated solutions for marginalized communities.

43. **The figure below summarizes the key interventions Romanian public authorities should take into consideration** in order to maintain the economic growth rate Romania has attained so far, and to improve Romania’s development.

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**Figure 26. Key public interventions proposed for Romania 2014–2023**

- **International**
  - **Shorten the distance to large markets globally** by improving infrastructure and encouraging cross-border flows of people, capital, and ideas

- **Regional**
  - **Improve connections between leading and lagging areas** within Romania to enable efficient concentration of resources and spillover effects

- **Local**
  - **Foster good institutions** (basic services infrastructure, education, health, land markets, etc.)
  - **Improve connective infrastructure** between cities & surrounding areas
  - **Promote quality-of-life investments**
  - **Design and implement targeted measures for marginalized groups**

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Conclusions

44. **Cities and functional urban areas are Romania’s engines for economic growth and development, but they are performing below their potential.** Over the past years, various central policies offered a clear and simple identification of large urban centers within each region (i.e. growth poles) or county (i.e. county capitals) as being the focus for concentrating public support. Such an approach was instrumental in providing the recognition of the role of larger secondary cities as drivers for territorially balanced economic growth, in line with economic principles regarding the benefits of agglomeration and spillover effects from center cities to surrounding areas. However, both the growth poles policy and the more recent concentration on county capitals have a few of shortcomings, lacking a clear, in-depth understanding of how the designated urban centers can contribute to the general development of Romania. Also, a series of regulatory and functional coordination gaps pose constraints to cities’ capacity to generate long-term, robust, and resilient growth.

45. **Romania needs to facilitate urbanization and the proper administration of functional urban zones, as a key way of sustaining long-term growth and development.** Yet Romania has never had a clear urban development policy to provide a vision and a definition for the role of cities as drivers of economic growth and territorial development. While the access to EU funds triggered some progress in defining various taxonomies and areas of intervention to support investments in cities, the existing regulatory and policy incentives fall short of providing solid frameworks and appropriate tools for long term, sustainable urban development in Romania.

   Ideally, clearer regulatory frameworks should be accompanied by appropriate delivery mechanisms, including dedicated investment programs for metropolitan areas and support for capacity building—such as standards, spatial and economic planning tools, and incentives. New metropolitan arrangements are required to manage growth beyond current large cities’ boundaries and to enable Romania’s economic engines to keep fueling the national economy. Efforts can focus first on enabling better connectivity between dynamic cities and surrounding localities—develop the road, rail, and public transport infrastructure that improve access for individuals and households to opportunities, such as jobs, higher education, healthcare, culture, and entertainment offered by cities, and that provide firms with access to a larger labor pool. Investments in human capital and improvements in quality of life in cities will attract and retain people, so cities will become more developed and competitive.

46. **Without strong metropolitan areas Romania cannot sustain growth in the coming years.** A good urban development policy at city and metropolitan levels could, undoubtedly, foster country’s economic growth and development.