Regions and development – the Regional Attractiveness Index

Background

The Regional Attractiveness Index is the result of a model developed by PricewaterhouseCoopers in 2001. Its main purpose is to analyse and classify the eight regions using an indicator that combines relevant factors that describes the specifics of each region. This Regional Attractiveness model was developed using indices that measure the socio-economic levels of the regions in the year 2002.

For purpose of regional development, Romania is divided in eight development regions, established by the law No. 151/1998. However, these regions have not yet had any impact on the administrative structures of the country.

Generally, regional analysis and comparable regional statistics are used for a wide range of purposes, the most important of them being the allocation of funds in a rational and coherent way. Regional development also aims at stimulating and diversifying economic activities, stimulating investments in the private sector, contributing to unemployment reduction and improving living standards i.e diminishing the socio-economic disparities of the regions.

The Regional Attractiveness Index (RA-Index), *as we developed it, is a view regarding to the relative capacity of a region to develop and to attract investments that sustain economic growth.*

Why measure regional attractiveness?

Figure 1

Source of map: www.mdp.ro

Areas with significant socio-economic potential generally attract investment, as they tend to offer adequate infrastructure, human resources and business opportunities. However, less developed areas may become equally attractive for certain categories of investors, generally risk-takers willing to benefit from the incentives available for investments in these particular areas or niche players looking for very specific resources.

By understanding political, economic, business, social and living standard environment of a specific region, investors may develop more useful forecasts and build better insights into where they should concentrate their business activity.

On medium and long term, the interest for the least developed areas is likely to increase, should they be able to offer competitive comparative advantages (natural resources, skilled labour force, etc), as well as a firm set of incentives. It is part of the fundamental logic of local development policy that many of these problems are reversible, through measures such as infrastructure improvement, small business development, modernization of agriculture and stimulation of tourism. In doing so, policy can release supply-side improvements in the local economies in question that help to develop the national economy rather than result in zero-sum game type losses in other areas.

Attractiveness of regions

Measuring the regional attractiveness based on all socio-economic and social life and living standards indices is a complex task. To ensure coherence and comparability of data, a limited number of socio-economic factors have been selected and analysed, divided in three categories: demographic, business environment, social indicators and living standards.

We performed a number of analyses and we established different weights to the factors that compound our model. Hence, we obtain a global indicator, which varies between 0 to 100 (0 - less attractive; 100 - most attractive region).

Consequently, we identified intervals that correspond to different levels of attractiveness:

- Between 0 and 25 points: low attractiveness;
- Between 26 and 50 points: moderate attractiveness;
- Between 51 and 75 points: above-average attractiveness;
- Between 76 and 100 points: high attractiveness;

The RA scores are indices relative to the population and they must not be interpreted as absolute values. This means that the (relative) attractiveness of a region may be modified with no change of the factors that describe that region but only with changes in factors of other regions.

Finally, we ended up with the following results:

Figure 2: RA – index for each region
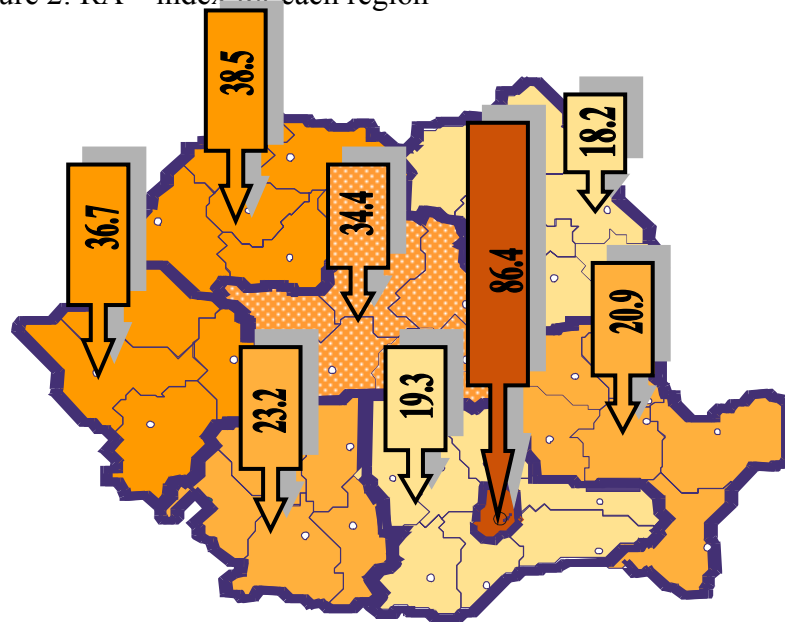
Generally, Bucharest appears to be a distinctive region. Its high score (RAI 86.4) is due to the fact that it is the country capital, the financial and administrative hub, hence concentrating most of the resources and activities. Although the demographic factors of the Bucharest region were one of the poorest in the country, the region outpaces all the other regions in terms of the business profile and social life and living standards factors.

The factors included in the analysis of the regional demographic profile describe the age structure of the population, the natural increase of the population and the urbanization degree.

Figure 3: RA – index - Demographic profile
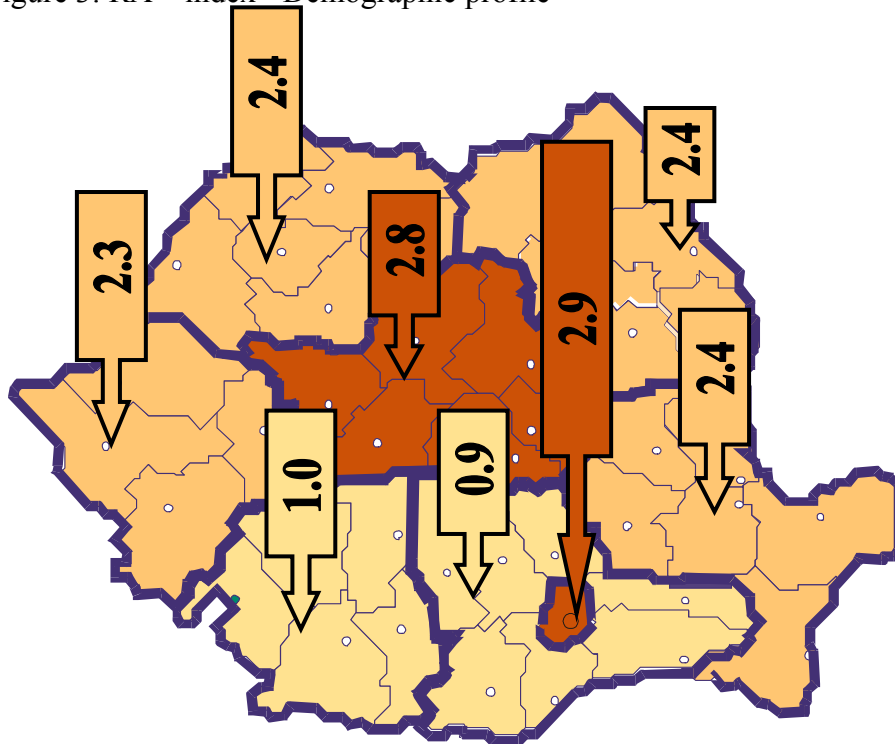
The factors included in the analysis of the regional business environment describes the political and administration environment, the labour market and wages, the economic environment, the private sector and market competition, foreign investment, foreign trade, infrastructure and prices for real estate.

Figure 4: Regional attractiveness index - Business environment
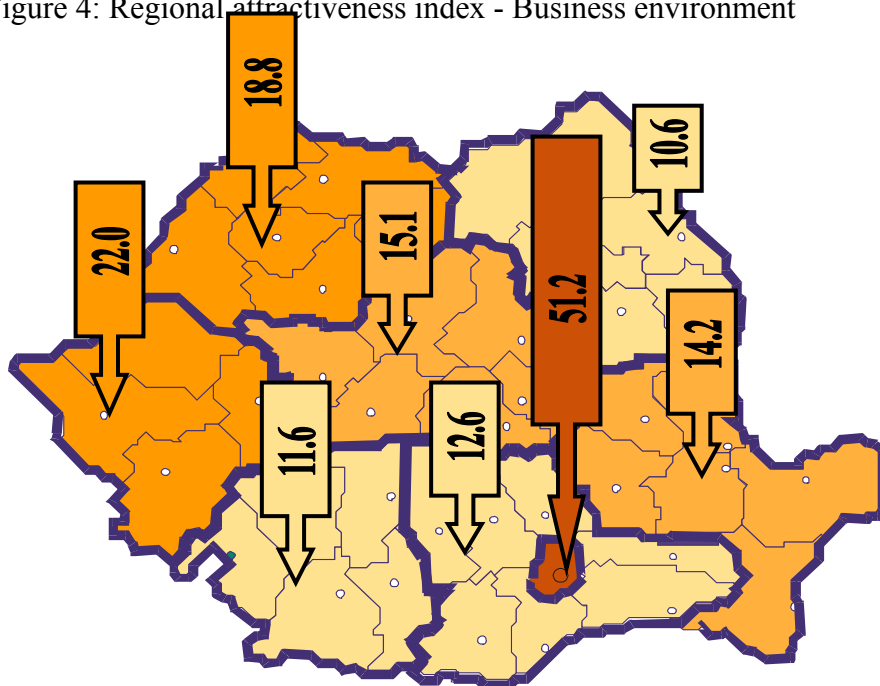
The analysis shows that the second most active region after Bucharest is Region West (which includes the counties of Timis, Arad, Hunedoara and Caras Severin) – RAI 22. In addition to this, we looked at factors which describe the regional social and living standard (e.g. telecommunications, health, education, bank accounts, internet users, household equipment, holidays and spare time spending, average prices for basic products).

Figure 5: Regional attractiveness index - Social and living standard indicators
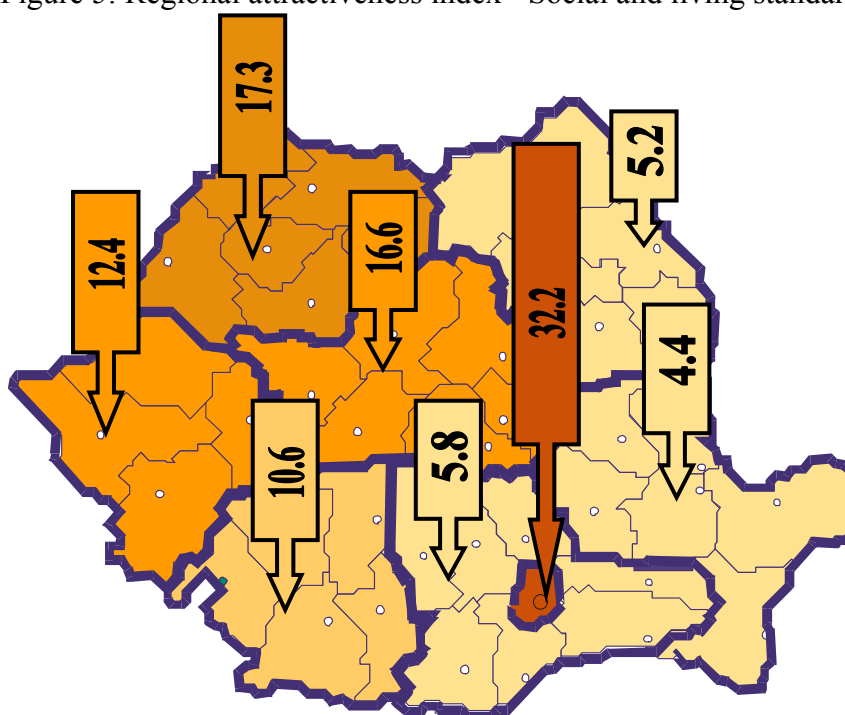
This time, the North-West region (which includes the counties of Bihor, Satu Mare, Maramures, Salaj, Cluj, Bistrita-Nasaud) is placed second after the Bucharest region, with an RA-index of 17.3 (third comes the Centre – Sibiu, Alba, Mures, Harghita, Covasna, Brasov – RA-index 16.6).

Why the differences?

The Bucharest region: RA-index 86.4, high attractiveness. The Bucharest region was revealed all the times as an atypical region. Not all the factors that compose the RA-index are ranking high, though (e.g. such the demographic, political and administrative factors, prices and rent levels for the real estate). This allows the other regions to surmount the difference among them.

The North-East region: RA-index 18.2, low attractiveness. The loss of the North-East RA-index is mainly because of the set of factors within the business environment category; it counts for almost 60% of the difference between this region and the benchmark. The factors that mostly make this dissimilarity are the labour market and wages, the foreign trade, the economic environment measured as the GDP/capita factor, and the foreign investment.

The **North East** region is made up of **Bacau**, **Botosani**, **Iasi**, **Neamt**, **Suceava** and **Vaslui** counties. It is the largest region in Romania (representing 15.5% of the total area of Romania). North East is the most populated region (17% of the Romania total); also it has the youngest population (the percentage of population under 19 years old in the total population is 28.3%). North East is the only region with positive natural increase - about 1.0‰.

On the other hand, North East region has the highest unemployment rate in the country (10.1% at the end of 2002), the second lowest monthly average salary in economy (ROL 3.41 million in 2002 at the regional level), the banking activity of the population is at the lowest level in the country, in terms of number of banking clients (68.3% of the total population). Besides, the household endowments are at the lowest level compared to all the other regions.

The South-East region: RA-index 20.9, low attractiveness. The South-East region lost almost 45 points in RA-index mainly due to business environment factors, especially due to political and administration environment, labour market and wage indicators, private sector and market competition.

The South East region consists in **Constanta, Tulcea, Braila, Galati, Buzau** and **Vrancea** counties. South East has the second highest social capital subscribed by companies with foreign capital, following Bucharest (11.9% of national total, out of which Constanta and Galati counties cover 91% of the regional total, while at the opposite pole is Tulcea county with 1% of the regional total). However, this region has the least developed infrastructure in the country in terms of roads and railways density (the roads length in the region represents 13.64% of the national total, out of which only 19.8% are modernised), but this is the region with the highest number of ports (Constanta, Galati, Braila, Tulcea, Medgidia and Sulina) ...

The regional development poles are Constanta and Galati on one hand (from the total bank deposits of the population, Constanta has 33% and Galati 24% of the regional total, from the total bank deposits of the companies Constanta cover 53% of the regional total, while from the turnover of private companies Constanta counts for 36% of the regional total) and Tulcea and Braila on the other hand. South East is the region with the lowest mobile phone penetration.

The South region: RA-index 19.3, low attractiveness. The South region has also a significant attractiveness loss due to the political and administration environment, labour market and wages, economic environment, foreign investment, private sector and market competition factors, but also because of the health and education system.

The South region consists in **Arges, Calarasi, Dambovita, Giurgiu, Prahova, Teleorman** and **Ialomita** counties. South region has the eldest population (the percentage of population of 65 years and over in the total population is 15.2% of the total population). The business environment is polarised (e.g. Giurgiu is the county with the smallest number of companies with foreign capital with more than 250 employees, while Prahova is on the 4th place at the national level; Giurgiu is the county with the smallest turnover of the private companies, while Prahova is on the 2nd place at the national level). The south region has the least developed health system

in the country (5.6 hospital beds per 1000 inhabitants) the least developed high school education system and the lowest Internet penetration in the country.

The South-West region: RA-index 23.2. The South-West region Oltenia is struggling to catch up with its more successful neighbours. This region' sensitive factors are the labour market and wages, economic environment, private sector and market competition and foreign investment (it's the most modest in the country), as well as the foreign trade and this was reflected in one third of the loss in the RA-index.

The South West region consists in **Dolj, Gorj, Mehedinti, Olt, Valcea** counties. South West region recorded the second highest monthly average net salary in the country, following Bucharest, in excess of ROL 4 million in 2002.

On the other hand, the region attracted the lowest amount of foreign investment (the social capital subscribed by foreign companies during 1991 – 2002 represents 3.1% of the national total) and recorded the lowest foreign trade level in the country (less than 6% of the national total). Furthermore, the turnover of the private companies is the lowest in the country, representing less than 5% of the national total. Moreover, South West has the smallest number of private companies that are banking clients (6.7% of the national total). Also, both companies and population have the smallest disposable cash in bank accounts and deposits (3.1% of the national total – for companies and ROL 4.4 million per head).

The West region: RA-index 36.7, moderate attractiveness. The West region ranks third overall. Although labour market, wages and foreign investment are one of the highest in the country, they are far below the benchmark; an improvement of these indicators will positively influence the RA-index in the future.

The West region consists in **Arad, Caras-Severin, Hunedoara** and **Timis** counties. The region has the second highest urbanization degree, following Bucharest – 60.9%, the second lowest unemployment rate – 6.4%, following Bucharest, the second well-educated population, following Bucharest, the second highest electrified railways density following Bucharest (6.3 km per 100 sq km), the second most intense telephony activity, both in terms of automatic fixed phone network and mobile phone penetration, following Bucharest and the second most developed health system, following Bucharest (8.6 beds in hospital per 1,000 inhabitants).

The North - West region: RA-index 38.5, moderate attractiveness. The region ranks second after Bucharest-Ilfov. For the North-West region, the labour market and wages, foreign investment, as well as private sector and market competition factors have boosted the region's RA-index.

The North West region consist in **Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu-Mare** and **Salaj** counties. This region has the lowest monthly average salary in economy (ROL 3.39 million in 2002 at the regional level). The turnover of the private companies based in North West is one of the highest in the country, representing 10.9% of the national total.

This region also counts for the second highest number, following Bucharest, of regional branches of a selected commercial banks – 15% of the national total, the second highest number of private companies that are bank clients, following Bucharest (13.8% of the national total, with Cluj on the second place in the country, following Bucharest – 4.8% of the national total), the second highest number of enterprises with foreign capital with more than 250 employees, following Bucharest (13.9% of the national total), the second highest airports density, following Bucharest (2.4 per 1000 sq km), the second highest internet penetration, the highest household equipment with durable goods.

The Centre: RA-index 34.4, moderate attractiveness. It includes **Alba, Brasov, Covasna, Harghita, Mures** and **Sibiu** counties. It has the second highest gross domestic product per capita, following Bucharest (approx. 1,200 USD), the second highest disposable cash in bank accounts and deposits of companies, following Bucharest – 8.2% of national total, the highest number of bank clients (93% of the total population), the second highest bank deposits of the population, following Bucharest (ROL 6.9 millions/capita). Moreover, the household equipment is one of the highest in the country, at almost the same level with North West region. On the other hand, Centre has the lowest road density (29.6 km of roads per 100 sq km).

We do not expect that the attractiveness of the regions described by the RA-index to change significantly in the short run. The data and sources used are reviewed regularly, and new RA-indexes are computed.

As we continue to publish this report yearly and more data will be available, extensive methods of analysis will also be developed in order to estimate the impact of the change of the various factors upon the RA-index that will be calculated.