GREEN RECOVERY TRACKER REPORT: ROMANIA

Romania’s COVID recovery package (the National Plan for Recovery and Resilience) was presented in its first version in late 2020. Following a call to rewrite the plan, in particular concerning the lack of focus on the green transition and digitalization, the second version of the Plan was published in March 2021. The public debate around the Plan, launched on March 19th, has been scarce.

Overall, the total funding allocated by the EU to Romania’s Recovery and Resilience Plan was reduced to €29.2 bn (or 13% of domestic GDP), after the recalculation of the Romanian GDP in 2020 compared to the European average\(^1\). According to the new RRP, the Government requests an allocation of €41.14bn - almost €11bn more than the initial allocation. Overall, Romania’s recovery measures make a positive contribution to the green transition, although the ultimate contribution of the recovery measures cannot yet be fully assessed as public versions of the RRP lack details on the design of specific recovery measures beyond the overarching elements of the plan our analysis identifies the following spending shares:

<table>
<thead>
<tr>
<th>€ 5.1 BN</th>
<th>€ 14.5 BN</th>
<th>€ 6.1 BN</th>
<th>€ 9.0 BN</th>
<th>€ 6.4 BN</th>
</tr>
</thead>
<tbody>
<tr>
<td>negative</td>
<td>likely climate effect but direction not assessable</td>
<td>likely no significant climate effect</td>
<td>positive</td>
<td>very positive</td>
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In focus: Green Spending Share

We find that Romanian draft recovery plan (RRP) achieves a green spending share of 24%, below the EU’s 37% benchmark. In contrast, 12.8% (€5.1bn) of all measures have a negative impact. Furthermore, we find that 35% (€13 bn) may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the further planning, review and implementation of the recovery measures.

Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to climate mitigation (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count “very positive” measures towards the green spending share, while “positive” measures are weighted using a coefficient of 40%, which is applied to the associated costs. All individual assessments can be accessed via the country page on our website.
The Romanian government has framed the Plan as an opportunity to create structural change in a nation which still suffers from significant shortfalls in infrastructure, education and healthcare. Infrastructure development, including large budgets for road and rail transport, water management, natural gas networks and healthcare, has been highlighted as a key priority for the package. Modernization and future-proofing of Romania’s public systems, in particular public administration and healthcare, are at the core of significant proposals for digitalization across multiple sectors. Finally, the Plan has prioritized regulatory changes leading to structural reform in several sectors, principally to address Romania’s large-scale poverty, but which also include reforms to the justice system and the energy sector where legislative measures are proposed to facilitate investment in renewable energy.

**OUR HIGHLIGHTS**

**Good Practice**

**Renovation wave**

The Plan’s “Renovation Wave” element is well-tailored to the reality of Romania’s built environment impact. Given the substantial proportion of historical buildings classified as cultural landmarks, this element includes specific measures for upskilling contractors for historical building renovations and reusing historical building construction materials.

**Bad Practice**

**Missing specific renewable energy and energy efficiency targets**

The Plan’s “Renewable Energy and Energy Efficiency” component does not set specific targets, in particular milestones for coal phase-out, or specify how they will be enshrined into relevant climate law. More detail is required to robustly link the proposed measures to Romania’s National Integrated Plan for Energy and Climate Change, in particular its proposed decarbonization plans for large coal producers.

**To Our Surprise**

**Via Transilvanica**

One of the Plan’s proposed measures for improving cycling will provide funding for a mature community-led project. Initiated in 2018, its mission is to build 1,000 km of paths suitable for walking, cycling or horse-riding, crossing Transylvania. To date, 685 km have been built using private funding.
GENERAL CONTEXT

Romania has the largest share of people living in poverty in the EU (23.5%) and the highest income gap. Low educational attainment and healthcare access are long-term issues, with Romania having the second-lowest government spending on education in the EU. This has resulted in a chronic rate of dropout and poor future-proofing of the workforce, particularly when it comes to digital competencies. Another crucial element of the political and economic debate in Romania has been healthcare. Romania’s healthcare budget allocation per capita was the lowest in the EU, and this significant underinvestment has led to an overwhelming strain on health services in the COVID pandemic.

A crucial part of Romania’s political and economic debate, both before and during the COVID pandemic, has been the lack of infrastructure. Education and healthcare development are both in need of significant infrastructure expansion and upgrading, as are Romania’s roads and buildings. Infrastructure development has been a core part of the government’s narrative around the Romania’s recovery package, which includes €4.5 billion earmarked for improvement of roads and motorways. Investing in Romania’s basic infrastructure for roads and motorways has been quoted as an “opportunity not to be missed” when it comes to the recovery package.

When it comes to the green transition, Romania faces several major challenges. Firstly, as a country with traditional regional dependencies on coal and gas, it must phase out fossil fuels through a just transition for workers and local economies. This will require substantial investment and infrastructure development in regions such as the Gorj and Jiu valleys. Secondly, Romania’s power grid is in need of substantial expansion and reinforcement to enable additional renewable energy capacity (such as onshore and offshore wind resource) and to integrate the recently-liberalized energy market into other energy markets in the region. Thirdly, air pollution is extremely high, with Romania ranking 7th in the EU for premature deaths caused by air pollution, due to poor transport policies, low investment in electric vehicles and inadequate routes for active travel. Car ownership has doubled in the last decade, with a substantial increase in diesel engine use and an average age of the car fleet 4 years above the EU average. Finally, climate adaptation, including afforestation, is a major challenge to Romania. Romania is one of the most flood-prone countries in the EU, and
the capital Bucharest ranks third for fastest-warming temperatures in the EU’s 58 largest cities⁴. On the other hand, Romania’s substantial forest cover is shrinking; the country has more than 525,000 hectares of virgin primary forests, more than any other country in the EU outside of Scandinavia, however the control and management of logging is fraught with issues⁵.

<table>
<thead>
<tr>
<th>Context indicators⁶</th>
<th>Romania</th>
<th>EU average</th>
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</thead>
<tbody>
<tr>
<td>GDP (2019, provisional)</td>
<td>223 bn €</td>
<td></td>
</tr>
<tr>
<td>GDP (per capita, 2019)</td>
<td>11 510 €</td>
<td>31 170 €</td>
</tr>
<tr>
<td>GDP (per capita, 2020, provisional)</td>
<td>11 290 €</td>
<td>29 640</td>
</tr>
<tr>
<td>Debt (% of GDP, 2019Q4)</td>
<td>35.3 %</td>
<td>77.6 %</td>
</tr>
<tr>
<td>Debt (% of GDP, 2020Q3, provisional)</td>
<td>43.1 %</td>
<td>89.8 %</td>
</tr>
<tr>
<td>Unemployment Rate (December 2019)</td>
<td>3.9 %</td>
<td>6.5 %</td>
</tr>
<tr>
<td>Unemployment Rate (August 2020)</td>
<td>5.3 %</td>
<td>7.7 %</td>
</tr>
<tr>
<td>Unemployment Rate (December 2020)</td>
<td>5.2 %</td>
<td>7.5 %</td>
</tr>
<tr>
<td>Real GDP forecast for 2020</td>
<td>- 5.0 %</td>
<td>- 6.8 %</td>
</tr>
<tr>
<td>Real GDP forecast for 2021</td>
<td>+ 3.8 %</td>
<td>+ 3.7 %</td>
</tr>
<tr>
<td>Total recovery spending</td>
<td>€41.1 bn</td>
<td></td>
</tr>
<tr>
<td>EU recovery funding</td>
<td>€29.2 bn</td>
<td></td>
</tr>
<tr>
<td>EU recovery funding (grants only, current prices)</td>
<td>€14.2 bn</td>
<td></td>
</tr>
</tbody>
</table>
KEY FOCUS AREAS OF THE ROMANIAN RECOVERY DEBATE AND THE RECOVERY PACKAGE

As approved by the Romanian Government for negotiation with the European Commission, Romania’s recovery package contains 6 pillars and 30 overarching elements, many with long lists of individual measures. €17.8 bn are earmarked for large infrastructure programs in road and rail transport, urban mobility, water and waste management and healthcare. The Green Transition has a budget of €15.3 bn, including €4 bn for climate adaptation, and other elements of the package are associated with “green transition principles”, including development of cities, towns and villages, and active transport.

The Romanian government has framed the Plan as an opportunity to create structural change in a nation which still suffers from significant shortfalls in infrastructure, education and healthcare. Infrastructure development, including large budgets for road and rail transport, water management, natural gas networks and healthcare, has been highlighted as a key priority for the package. Modernization and future-proofing of Romania’s public systems, in particular public administration and healthcare, are at the core of significant proposals for digitalization across multiple sectors. Finally, the Plan has prioritized regulatory changes leading to structural reform in several sectors, principally to address Romania’s large-scale poverty, but which also include reforms to the justice system and the energy sector where legislative measures are proposed to facilitate investment in renewable energy.

Although the second version of the Plan was released for public debate on March 19th 2021, there has been little public discussion around its proposals. Broadly, much of the criticism has been related to the lack of detail in the Plan’s proposed measures, as well as its “wish-list” semblance. Several highlights include criticism on allocation of the budget to the private sector and research, development and innovation, as well as a firm stance from the government on securing €4.5 bn for infrastructure development on roads and motorways. It should be noted that, in its first version, the Plan received substantial criticism on its handling of the green transition from environmental NGOs, criticisms which are still present in the second version of the plan, in particular on the lack of key elements such as grid reinforcement and offshore wind in energy-related measures, and the approach to afforestation and its lack of underpinning structural reform. According to recent reports, the European Commission has criticized the inclusion of irrigation works and a too strong focus on transport infrastructure in the RRP, stating that these cannot be funded by the Recovery Facility. 7
FINANCING AND ADDITIONALITY OF ROMANIA’S RECOVERY PACKAGE

All measures in the Plan are requested to be financed by the EU Recovery and Resilience Facility through grants and low-interest loans. No significant detail is provided on how this funding will be distributed and governed once it is agreed. Certain recovery measures in the package highlight cooperation with EU institutions in view of research, development and innovation funding (e.g. Horizon Europe), however any further detail on how Romania’s recovery package will be financed is absent from the Plan.

A large proportion of the recovery measures, and the narrative framing them, is around infrastructure development and modernization. Romania is in desperate need of reform in both these aspects, which cut across healthcare, social care, energy and climate, mobility and education. The Plan is thus not necessarily additional to Romania’s pre-existing needs (save measures for vaccination and post-pandemic economic recovery, e.g. the arts and culture sectors), because these have only been deepened and highlighted further under the COVID crisis. The country is also an important recipient of programs under the 2021-2027 Multiannual Financial Framework, including €26.8 bn of the Cohesion Policy (which prioritizes green transition and digitalization, as well as strategic transport networks) and €1.9 bn of the Just Transition Fund. Further analysis is required against a more detailed Plan, to determine which measures are additional to existing plans and programs under Romania’s MFF allocation.

The recovery plan has been highlighted by the government as an “opportunity not to be missed”, at least when it comes to upgrading and expanding Romania’s road infrastructure, a crucial development priority. As such, it can be said that many of the Plan’s measures address long-term socio-economic issues, and that the Recovery and Resilience Facility offers an opportunity to implement these measures for future development and resilience in the face of crises. Whether or not these measures can be successfully implemented in the timelines of the RRF is still a subject of discussion.

GOVERNANCE OF THE RECOVERY PACKAGE

The Plan refers to international environment and climate agendas, including the European Green Deal, as well as Romania’s National Climate and Energy Plan (2021-2030), which proposes a national target of 30.7% renewable energy by 2030. Following the first draft of this Plan, the Commission recommended Romania to increase its proposed share of RES from 27.9% to 34%; however, the final Plan sets a 30.7% target which falls short of the Commission’s recommendation.8
In the recovery plan only few specific measures link robustly to these policies and associated targets. There is also reference to a National Climate Law, with little detail other than it will be developed following the revision of Romania’s long-term emissions reduction strategy, and would be accompanied by an action plan for emissions reduction between 2021 and 2030.

**NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS (“COMPANY BAIL-OUTS”)**

Few short-term liquidity or state aid measures are specified in the Plan. €77 million are earmarked for the cultural and arts sector, including post-Covid recovery (although no detail is given on the financing mechanisms). Some measures could be argued to be short-term aid measures, for example grants for equipment to facilitate virtual learning, however little detail is provided as to whether they represent a short-term injection for the crisis and recovery phase. It is not specified whether climate aspects played any role in deliberations on these measures.

More liquidity and state aid measures have been implemented under the EU Temporary Framework for State Aid, rather than incorporated into the Recovery Plan. Measures with potential climate impact included bailouts for the aviation industry (€7.1 M in direct grants to regional airports and specific airlines and a total of €81.3 M in Romanian loan guarantees to TAROM and Blue Air); direct grants to support agriculture producers (€47.4 M to support pig and poultry breeding and €12.4 M to support wine producers) and, recently, €500 M in direct grants to tourism, hospitality and food services, affected by the pandemic (April 2021). Finally, the Ministry of Economy is still issuing funding to support SMEs, from a €1 bn state aid package, with no climate conditionality attached.

**DEEP DIVE: THE MOST IMPORTANT RECOVERY MEASURES AND HOW WE ASSESS THEM**

The most important measures with an effect on the green transition are:

- **Afforestation.** We assessed Romania’s plan to establish plant nurseries and afforest and reforest suitable land as “positive”, given its contribution to carbon capture and the gap between Romania’s current forest coverage (29%) and its optimal forest coverage (40%).
- **Renovation Wave.** We assessed the Plan’s Renovation Wave element as “positive”, given its combined regulatory and financing approach to building renovation
investment and its specific mention of historical buildings, a significant component of Romania’s built environment.

- **Renewable energy and energy efficiency.** We assessed plans to increase renewable energy capacity and improve industrial energy efficiency as “very positive”. However, it should be noted that Romania’s target for renewable energy generation (30.7%) is still below EU recommendations (34%).

- **Road transportation.** We assessed Romania’s proposed package for road and motorway development as “negative”, given its connotations for stabilizing the fossil-based car economy. The measure does list smart traffic management systems and electric vehicle charging points as components, however these are not detailed and no targets are set.

- **Natural gas infrastructure.** As per Green Recovery Tracker guidance, we assessed Romania’s proposal for improving the natural gas network as “negative”. It should be noted that the measure’s components are frequently conditioned by the use of hydrogen/other green gases in the natural gas mix, however these are not detailed and no targets are set, and it is therefore likely that the majority of this funding will ultimately support fossil gas infrastructure.

The package furthermore contains a significant number of measures that do not directly relate to the green transition but are still important and potentially transformative, such as:

- **Digitalization.** 22 out of the 30 measures outlined in the Plan contain elements of digitalization, including the Digital Transformation pillar, with a budget of €4.02 bn and with the main beneficiaries being education, healthcare and public administration. The potential additional contribution of energy consumption of data centres and associated data infrastructure cannot be assessed at this time, but could be significant.

- **Support for cities, towns and villages for community development.** A significant proportion of the Plan’s budget (€4 bn) is earmarked for the Community Resilience Fund, and many of the associated measures are delegated for implementation by local authorities. Depending on the design, implementation and monitoring of these measures, they could have a positive or a negative climate effect.

- **Investment in education, social care and healthcare infrastructure.** Many measures propose expansion or construction of infrastructure (schools, hospitals, care homes), which in many cases are not specified to align with green transition principles or net zero building standards.
IMPORTANT CLIMATE POLICY DECISIONS TAKEN DURING THE CRISIS AND RECOVERY PERIOD

In April 2020, Romania published its National Integrated Plan for Climate and Energy\(^9\), proposing to increase its share of renewable energy resources to 30.7% and add 6.9 GW of renewable energy\(^10\), by 2030. The Plan is now due for government approval and presentation to the European Commission\(^{11}\). In August 2020, the Romanian Parliament tightened its forestry law in an effort to combat illegal deforestation. Finally, in November 2020, Romania adopted its National Long-Term Strategy for Renovation, targeting residential and non-residential buildings\(^{12}\).

ANNEX: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR

<table>
<thead>
<tr>
<th>Sector</th>
<th>Most important measures with effect on green transition</th>
</tr>
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</table>
| Energy   | • Renewable energy and energy efficiency: regulatory reform, investment in renewable energy capacities, and increase of energy efficiency in the industrial sector, SMEs and large companies (positive).  
          | • Gas network development: develop Romania's natural gas infrastructure and facilitate the use of hydrogen and other green gases (negative). |
| Mobility | • Road transportation: improve road and motorway infrastructure, safety and high congestion rates (negative).  
          | • Rail transportation and urban mobility: regulatory reform and investment to improve rail infrastructure, including inter-modality (very positive).  
          | • Active travel: regulatory reform and investment to improve cycle network (very positive) |
| Industry | • Generally part of cross-cutting measures  
          | • Renewable energy and energy efficiency: increase in energy efficiency for industry sector (positive)  
          | • Waste management: valuing of industrial waste (positive) |
Buildings

- Renovation wave: regulatory reform, investment and upskilling of the supply chain to address the need for resilience and sustainability of the built environment, encompassing energy efficiency, earthquake and fire-proofing, and a transition to smart buildings (positive).

Agriculture

- Reforestation and biodiversity, addressing afforestation and reforestation of suitable areas, control of illegal logging, and biodiversity protection (positive).
- Waste: control and improve farm waste collection (positive).

Cross-cutting

- Government cloud and inter-connected digital system: improvement of digital public services, the gaps in which have been evidenced by Covid-19 (likely climate effect but direction not assessable)
- Healthcare measures: infrastructure expansion and development and digitalization of healthcare services (likely climate effect but direction not assessable)
- Education measures: infrastructure expansion and development (likely climate effect but direction not assessable)

It should also be noted that there are uncertainties in evaluation of the measures positive or negative climate impact, given the lack of detail presented in the Plan.

This report was written by Luciana Miu (EPG) and Magdolna Prantner (Wuppertal Institute). We are grateful to Mihnea Catuti and Constantin Postoiu (both EPG) and Felix Heilmann (E3G) for providing valuable inputs.
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