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# Institutional implications on the development of the Romanian business environment – lessons for candidate countries

***Abstract:*** *Theoretical approaches and macroeconomic policies implemented after 1990 in Central and Eastern Europe were different and controversial, from country to country. Generally, they tried to build a proper business environment, focused on structural changes, macroeconomic stability and competitivity. In this evolution, the capital played a crucial role and having in view the opportunities and the priorities for each economy, there were a strong competition in the attraction of the foreign investments and development of those economic branches strategic and attractive.*

*The institutional frame and legislation have the main contribution to the establishment of the proper business environment in economy. The results of the policies implemented can be influenced by the relations between institutions and „actors" from the market. The relational process has met different barriers of diverse nature, having in view the characteristics of each country. That is why the experience of the New Member States can be an example for candidate countries. The attitude of the investors can give us the measure of the maturity of the economy. The experience of the last years shows us how important is the institutional frame created for coordination, assistance, implementation, or evaluation of national and EU policies in rural development.*

*In this paper we want to highlight the importance of the relations between business and institutions as regulator and interface, lessons for candidate countries* *based on the experience of the New Member States. We include in this analysis the institutions and organizations which have attributes in investment field. Based on the analysis of the contribution of the institutions on the creation of the business environment, having in view the recommendations of the investors and their perception of the market, we can realize a profile of the economy and give examples for candidate countries.*

***Keywords:*** *Institutions, Investments, Romania, New Member States, Candidate countries*

## Introduction

New opportunities have appeared in the capital market following the geo-strategic changes that occurred in Europe in 1989 and Romania has joined the main flow of reformers. Capital flows occurred in Europe in recent years and the importance of the Central and Eastern Europe for the future of the European Union (EU) have attracted attention of experts in all fields and become a major factor in promoting the free market economy and capitalist paradigm. In the same time, the role of the institutions from the New Member States (NMS) have changed, according to the new requirements of EU legislation and that is why it is important to analyze all these changes and their implications on business, in general.

The main objectives in this paper can be summarized as follows: highlighting the direct influence of investment on economic activities, highlighting the institutional mechanisms for the conduct of investment in the best conditions, institutional failures occurred in the pre and post-accession.

We analyze the investment flows, by source and destination, using series of statistical data, identifying the institutions responsible for attracting investors, for the determination of institutional failures, the issue of alternative assumptions of the conclusions and building Romanian business environment by attracting investments in a sound institutional framework, based on successful models used in other states.

The data used for writing the article were provided by national institutions empowered to collect, compile and process these types of information, such as the National Trade Register Office (ONRC), the National Institute of Statistics (INS), the National Bank of Romania (BNR), or specialized international institutions in this area, in analysis of the business and foreign direct investments (FDI) activities, as the United Nations Conference on Trade and Development (UNCTAD) and other organizations, associations or specialized companies. Among these were very useful the data available from the Foreign Investors Council (CIS) and especially it's periodically publications, in evaluation and recommendation for business, or reports compiled by Transparency International.

This paper aims to identify the gaps arising in the course of investment, which, after the assessments, are rooted both in the incomplete or erroneous legal framework built during the transition and in the institutional functioning. Once identified, the weak links of the system can be more easily controlled and fined. Proposals made at the end of the study can make a contribution to correct the failures of institutional functioning identified in the years previous of EU membership, or after accession into EU, in 2007.

## Business in the world and Romania

### Evolution of FDI in the world

According to the data presented by UNCTAD (www.unctad.org), the global FDI flows in 2008 declined by 18%, reaching 1.7 trillion USD (Figure 1). This is due to the beginning of the global economic downturn, tightening credit conditions, lowering corporate profits and uncertain prospects for global growth in the short term. The effects of global crisis vary between regions and countries, thus giving a different impact on the geography of foreign direct investment flows.

The current situation is very different from that generated by the last financial crisis that began in developing countries from Asia in 1997, having a negative impact on FDI inflows attracted by them, particularly in Indonesia. Unlike previous crises, the current was triggered in developed countries, rapidly expanding to developing countries and transition economies. The developed countries are the most severely affected by the global crisis, by contrast, in developing countries were recorded in most cases only indirect effects, thus influencing the location characteristics of foreign direct investment. Data for 2008 reveal that in many developed countries the attracted foreign direct investment flow decreased significantly by 33% compared with 2007, due to the deepening problems facing the crisis of financial institutions and money market liquidity[1]. The cutting down of transnational corporations revenue from developed countries and the lowering of bank loans granted by bank unions have significantly limited funding for investment.

In developing countries and in the transition economies, data for 2008[2] indicate a modest growth of just 4% of FDI flows from the previous year, compared with 20% growth registered in 2007 compared with 2006. It is worth mentioning that in 2008, the FDI flows attracted by Africa has exceeded 60 billion USD recording a growth rate of 16.8%, amid slowing economic growth worldwide and the negative impact on the region.

1 UNCTAD Database, World Investment Report, Period 2004-2010, available at: www.unctad.org

2 Idem

The flow of direct foreign investment attracted by East, South and South-east Asia, the largest recipient of foreign capital in developing countries grew by 3.3% below those recorded in previous years[3]. FDI inflows attracted by West Asia decreased significantly by 21.3%, due to reduced growth in demand for petroleum products, increasing costs and lower revenue from exports. Contrary to this trend, FDI inflows attracted by Latin America and the Caribbean in 2008 registered an increase of 12.7% due to the increase of FDI attracted to South America. Because Central America and the Caribbean are traditionally dependent to a large extent on the U.S. economy, the attracted foreign direct investment flows has decreased slightly in 2008.

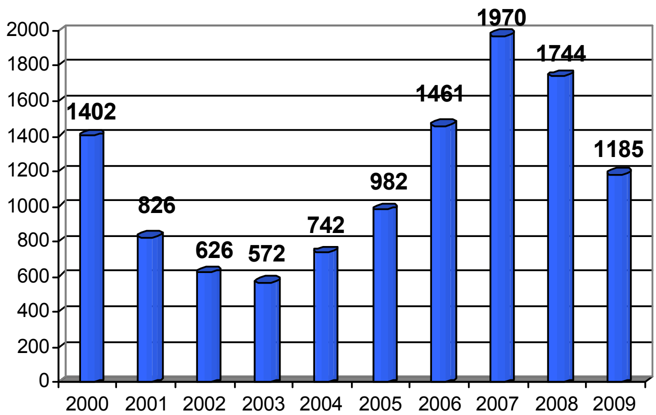


**Figure 1. Evolution of global FDI flows, 2000-2009 (billion USD)**

**Source: UNCTAD Database, World Investment Report, Period 2004-20010, www.unctad.org**

According to estimates, the flow of foreign direct investment attracted by the transition countries of Southeast Europe and the Commonwealth of Independent States has maintained an upward trend, marking an increase of 6.2%, despite the financial crisis and economic slowdown[4].

## Evolution of FDI in Romania

As can be noticed (BNR, 2010), in 2008, the inflow of FDI in Romania registered a value of Euro 9.024 billion (Figure 2), increasing by 24.4% compared with the previous year (7.250 billion Euro). Considering the period of 1990-2008, the flow of FDI in Romania in 2008 is very close to the peak reached in 2006, being only 36 million Euros lower compared to a record 9.06 billion Euros. However, in 2006, without including BCR privatization (the biggest Romanian bank, which was privatized), FDI would have amounted to 6.900 billion Euros, which entitles us to consider 2008 as one of the exceptions in attracting FDI in

3 Idem

4 Idem

the Romanian economy. The structure of FDI attracted in 2008 was as follows (BNR, 2010):

- Equity capital - 2767 (30.7%)
- Profit reinvested - 1756 (19.4%)
- Other capital (intra-group loans) - 4501 (49.9%).

In 2008, the FDI flows have financed 53.5% of the current account deficit (BNR, 2010) compared with 43.5% last year. Please note that in December 2008, Romania recorded a 20.5% increase in monthly flow of FDI attracted (593 million Euros), compared with the previous month (492 million Euros), in light of the economic crisis and the experience of recent years showing a lower monthly flow of FDI at the end of the year.

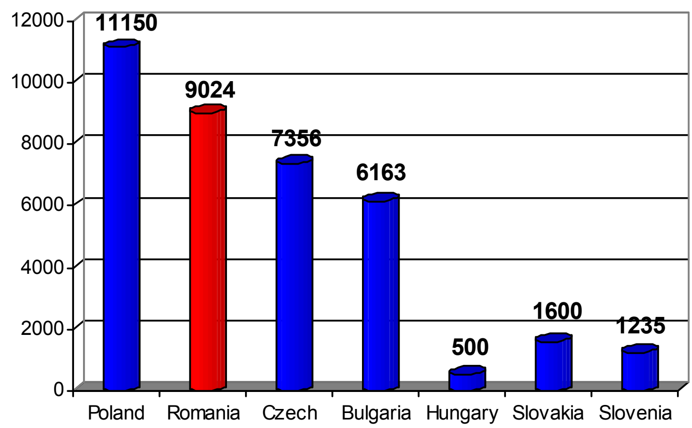


**Figure 2. Evolution of FDI in Romania in the regional context, in 2008 (million Euro)**

**S**ource: **BNR, (2010): Investiţiile străine directe în România - Raport anual 2009, Bucureşti, Romania**

According to Chamber of Commerce and Industry of Romania and Bucharest - National Trade Register Office statistics, the number of companies with foreign capital participation newly registered in 2008[5] is 77.7% (12,265), compared to the similar period of the previous year. However, the subscribed capital of new foreign companies in 2008 had a share of only 36.3% compared to same period of 2007.

In the classification, which is taking into account the country of residence of investors, with the reference period 1991-2008 (Table 1), the first places are occupied, according to the capital subscribed by investors from the Netherlands (4 billion Euros and 3436 companies), Austria (2.6 billion Euros and 5375 companies) and Germany (2.2 billion Euros and 16664 companies). The rating investors' countries of the issued share capital of companies with

5 CCIR Database, Chamber of Commerce and Industry of Romania and Bucharest - National Trade Register Office (CCIRMB-ONRC Database), Bucharest, Romania, available at: www.ccir.ro/www.onrc.ro

foreign participation illustrates on the one hand the economic integration of Romania into the European Union, on the other hand the interdependence between exports and direct foreign capital attracted by our country. Whatever forms of FDI, coming from privatization, capital contribution of the company, in cash or in goods, Romania lags behind other Central and Eastern European (CEE) countries as Poland, Czech Republic and Hungary, in a ranking of the capacity to attract foreign capital.

The structure of the FDI in Romania (Figure 3) is clearly the result of the policy pursued in this area. Thus, we see a big discrepancy between the branches, a lack of concern for some of them, in many important respects the EU integration process and economic development (in agriculture 1% of total).

**Table 1. Rankings by country of residence of investors in Romania (1991--2008)**

| Origin country | No. of companies | Capital invested (bil. of Euros) |
|---|---|---|
| Netherlands | 3456 | 4015 |
| Austria | 5375 | 2650 |
| Germany | 16664 | 2278 |
| France | 5873 | 1776 |
| Cyprus | 4255 | 1099 |
| Italy | 26984 | 935 |
| USA | 5755 | 724 |
| Spain | 3451 | 700 |
| Great Britain | 3940 | 660 |
| Greece | 4484 | 654 |

**Source: Chamber of Commerce and Industry of Romania and Bucharest - National Trade Register Office (CCIRMB-ONRC), (2008): Statistical Bulletin no.128, Bucureşti, Romania**

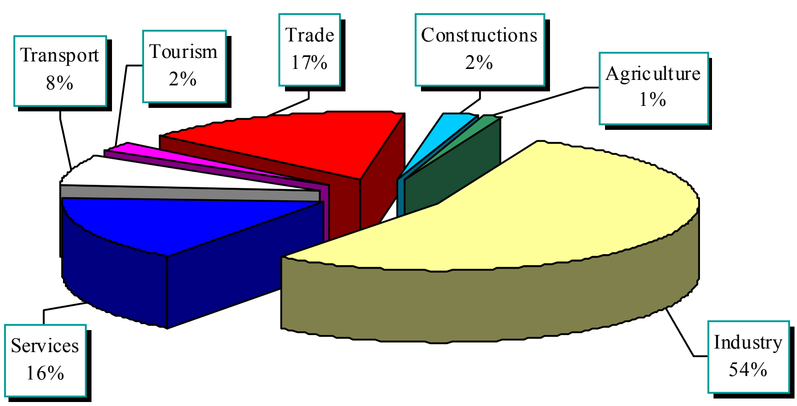


**Figure 3. The structure of FDI in Romania (2008)**

**Source: Voicilas, D.M., (2010), Climatul investiţional şi cadrul instituţional în România – disfuncţionalităţi şi perspective, Jurnalul Român de "Geopolitică şi Relaţii Internaţionale", URSA „Gheorghe Cristea", Bucureşti, Romania**

In the following table (Table 2) we want to present the rank of the first ten investors in Romanian economy, for the period considered in our analysis.

**Table 2. Top 10 foreign investors in Romania (1991-2008)**

| No | Firm | Country of origin | Economic field | Value of investment (thou.USD) |
|---|---|---|---|---|
| 1 | ISPAT SIDEX | Holland Antilles | Industry-Siderurgy | 485.215,7 |
| 2 | MOBIFON | Netherlands | Telecom. | 330.622,3 |
| 3 | ROMPETROL RAFINARE - PETROMIDIA | Netherlands | Industry-Refinery | 309.009,2 |
| 4 | AUTOMOBILE-DACIA | France | Industry-Auto | 235.949,0 |
| 5 | RAIFFEISEN BANK | Austria | Finance | 171.746,1 |
| 6 | DAEWOO AUTOMOBILE | South Korea | Industry-Auto | 156.121,2 |
| 7 | COLGATE-PALMOLIVE | USA | Industry | 128.704,5 |
| 8 | RAFO | Portugal | Industry-Refinery | 111.770,8 |
| 9 | ORANGE ROMÂNIA | Bermuda | Telecom. | 103.317,5 |
| 10 | SHELL ROMÂNIA | Great Britain | Industry-Refinery | 100.509,9 |

**Source: Voicilas, D.M., (2010), Climatul investiţional şi cadrul instituţional în România – disfuncţionalităţi şi perspective, Jurnalul Român de "Geopolitică şi Relaţii Internaţionale", URSA „Gheorghe Cristea", Bucureşti, Romania**

Great names in manufacturing, oil industry, machine building, telecommunications, banking and insurance system, are already present in Romania, as a result of the governmental politics. Privatization of large national companies in the metallurgical industry, petroleum, machinery or establishment, acquisitions and mergers in the telecommunications, food industry or the banking and insurance system have made the Romanian capital market to become multinational and under the influence of globalization. Leading transnational companies with great financial strength, a geographical coverage at global level, many subsidiaries on all continents, great number of employees, but, at the same time, also famous because their product quality and professionalism proved in the activities they carry, are already present in Romania. The influence of these companies on the Romanian business environment, but also on the consumer's behavior, is high and it only brings benefits. The tough competition faced by Romanian companies can only have good results on medium and long term, and most consumers will win. The development of consumer's culture is reflected primarily in changing the attitude of buyers towards the products on the market and offers many opportunities, on the one hand to producers in the industry and on the other hand to actors working in related areas: production of raw materials, production and import of machinery and packaging materials, etc. It is one of the ways of progress and cultural emancipation of a nation. And if we look ahead, to the major privatizations which are prepared, especially in banking, energy or transport, we can only be optimistic that this time we will follow the steps to the end that the growing economy and restructuring, like the one of Romania, will achieve a healthy growth.

## Institutional responsabilities and malfunctions

In this part of the work we intend to present the main features of the Romanian business environment from the perspective of foreign investors as they perceive Romania by the experience accumulated during the transition years. First, we want to refer to factors that, in our view, contribute to the characterization of business today and had a decisive effect on the evolution of FDI flows in the past.

At the macroeconomic level, the overall risk of the country has several components: political, social and economic. These are the defining features of a country in terms of investment decision. The decision to invest should be based on a real analysis of its potential risk. Rating is an aggregate indicator which is based on several components of risk (political, financial, and economic). Based on these components, the rating agencies have assessed Romania's country risk in high risk classes. Most indicators used were unfavorable to Romania, meaning that the country was placed in a gray area still unstable and unsafe for foreign investment.

We can identify several factors that led to the accumulation of many "black balls" in the evaluation of Romania: the slow pace of privatization, reform hesitation in all sectors, legislative and institutional instability, high levels of taxation and its lack of transparency, widespread poverty and low purchasing power, lack of a clear and stable policy of priorities on the national economy, tax evasion and underground economy, bureaucracy, corruption, transfer of ownership and legal condition of the land (buildings), lack of information and unfavorable information, "miners crusades" ethnic conflicts, religious conflicts mysteries of the Romanian Revolution, "lack of professionalism and independence of the judiciary system, the problem of institutionalized children, the issue of adoption, political clienteles, dubious business nationwide with international implications, etc.. In the following we will refer only to some of the causes which, in our view, have had a negative impact on investment activity in Romania.

### Institutions and organizations in Romania

The main institutions responsible for attracting, managing and supporting foreign investors in Romania are: Romanian Trade and Invest (RTI), The Romanian Chamber of Trade and Industry (CCIR), The National Trade Register Office (ONRC). These bodies operate in accordance with the government's policies developed in this field. In addition to these in Romania still exist associations and organizations established by foreign investors, and of these, of interest and with major impact on the business environment is the Foreign Investors Council (CIS). In this section we briefly show the main roles and actions of these structures.

*Romanian Trade and Invest (RTI)*

In the middle of the 90's, in full swing of economic recovery, the authorities looked upon the promotion of the Romanian products and services on the foreign markets as a priority for the development and modernization of the national economy.

Therefore, the foundation of a national centre for export promotion became a must in the strategy aimed at the sustainable growth of the Romanian export.

Under such circumstances, on January 1st 1996, the Romanian Foreign Trade Centre (CRCE) was set up. The key goal focused to become more successful in the international business. A special emphasis has been devoted on helping Romanian companies to develop their capacity and ability to tackle overseas markets.

Since its foundation, CRCE has fully performed the assigned mission: expanding Romanian exports, diversifying export offer and assisting the Romanian enterprises entering foreign markets.

For the very coming years, CRCE has planned to consolidate its position and role as a national trade promotion organization, focusing on developing a wide range export promotion projects, particularly designed for small and medium-sized enterprises, diversification of trade-related promotion activities, improving trade information services and training support, expanding representative offices network across the country, and strengthening partnership and cooperation with national, regional and international trade promotion organizations and institutions

In 2002, Romanian Agency for Foreign Investment (ARIS) was founded having the mission to apply government policies for promoting and attracting foreign direct investments.

In 2004, CRCE went through a reorganization process and changed its name into Romanian Trade Promotion Center (CRPC) aiming to promote exports, to present Romania's economic potential and to provide trade-related information.

In 2009, CRPC and ARIS merged into Romania Trade and Invest (RTI). It is a public institution of national interest, aimed to promote the Romanian trade relationships and to attract foreign direct investment in Romania. At the same time, RTI is in charge in organizing seminars, forums, business meetings, etc for the Romanian companies, increasing therefore their export capacity, giving them the opportunity to meet potential partners. Romania Trade and Invest is also able to provide specialized technical assistance to potential investors from foreign countries.

Among other services provided by RTI we would like to mention: assisting investors with site selection based upon the technical requirements of the project; organizing the industrial site visit and local contact meetings; providing to foreign investors all necessary information on current legislation; networking with potential partners etc.

Romania Trade and Invest is able to cover many of companies' requests, by the territorial representative network the technical assistance provided being widely disseminated.

The main objectives of the RTI are[6]:
- Promoting the internationalization of Romanian companies and increasing the number of export companies
- Strengthening the Romanian companies presence on external markets and finding new export markets for Romanian products
- Attracting Foreign Direct Investments
- Intensifying cooperation with Romanian business environment and developing partnerships with other Trade Promotion Organizations

As regards the assistance and support for investment, RTI has in view[7]:
- Greenfield projects in Romania
- National legal and regulatory framework - incentives and major state aid schemes for investments
- Detailed information about suitable locations and on-site visits for FDI projects submitted
- Meetings with local authorities and prospective partners as of investment projects requirements
- Investment project development and post-implementation
- FDI flows in the national economy

### *Romanian Chamber of Trade and Industry (CCIR)*

The Romanian Chamber of Trade and Industry (CCIR) is the most powerful business association in Romania, bringing together the entire network of 42 territorial chambers of trade and industry, bilateral chambers of trade and professional associations.

6 According to the web site promotion of RTI, available at: http://www.romtradeinvest.ro/index.php/Despre-noi/objectives.html

7 Idem

The Romanian Chamber of Trade and Industry is a nongovernmental organization, with independent character, which supports the interests of the business community, especially those of its members in the dialogue with government's institutions and international bodies. CCIR works to create a stable business environment, coherent and conducive for private sector development, a real market economy, sustainable and open outward.

CCIR is close to the business environment and by its services offer which includes trade missions, professional training programs, seminars and debates, information databases and business opportunities contributes to business development.

Also, in the context of Romania's integration into European structures, CCIR has started a campaign to prepare the business environment in order to adopt the Community rules by the economic agents. For any company, whether foreign or Romanian, the collaboration with CCIR is definitely beneficial for both business developments, on national level and foreign markets, and for the development of staff's skills or to prepare for the integration into the EU.

According to the web site of the Romanian Chamber of Trade and Industry, it represents towards government and central authorities, as well as internationally, the county chambers and the other members, in matters of general interest. In the same time, CCIR[8]:

- provides to the Government and to the central public authorities information and reasoned opinions on general interests of the economy;
- integrates, directs and coordinates the activity of the county chambers of trade;
- directs, coordinates and monitors the activities of the county chambers of trade in developing their business;
- contributes to the strengthening of the business environment and to local economic development, regional and national development;
- conducts information and documentation activities in the interest of its members and the business community.

CCIR collaborates with public and private structures in Romania for defining and developing policies and strategies on business environment, being involved in the development and implementation of Romania's National Export Strategy 2005--2009, National Development Plans (2004-2006 and 2007-2013), the Action Plan on business environment, strategies, policies and national, regional, sectoral and local action plans.

Representing a total of over 50,000 Romanian companies, CCIR supports and defends the interests of the business community in important institutions such as: The Economic and Social Council, The Commissions for Social Dialogue,

8 According to the web site of CCIR, available at: http://www.ccir.ro

The Export Council, other groups and inter-institutional commission, with working or advisory capacity.

Through the protocols of collaboration and the annual programs of common actions, agreed between CCIR and its partners, the Romanian business environment has a multitude of activities of interest to business people. One of the priorities of the CCIR is to promote Romanian economy at international level by supporting both the Romanian businessmen to create and develop relationships with external partners, and the foreign companies to invest in the most attractive and dynamic fields.

The World Network of Chambers of Trade, which includes more than 170 similar organizations from all continents and bodies of cooperation of which CCIR is part of, allow CCIR to facilitate international business contacts. The National Camera is one of the most representative international or regional business organizations, being a member in: ICC - International Chamber of Commerce, Euro-chambers - The European Association of Chambers of Trade and Industry, ABC –the Association of Balkan Chambers, BSEC-BC - the Black Sea Economic Cooperation.

*The National Trade Register Office (ONRC)*

The trade register reappears in the Romanian economic landscape after a 40 years absence under Law no.26/1990, as the specific institution of the market economy. Also, the same law imposes the main functions for this institution, as follows:
- legal advertising
- evidence of legal and financial situation of all traders
- economic and statistical information
- commercial information
- simplification of registration and licensing of companies functioning procedures
- information and assistance

The Register of Trade is organized on two levels[9], respectively:
- locally represented by the 42 regional offices, organized in the subordination of the National Trade Register Office which function near each Court.
- nationally represented by The National Trade Register Office which operates under the Ministry of Justice and Civil Liberties

*Foreign Investors Council (CIS)*

The Foreign Investors Council (FIC or CIS) is an association of the most important investors in Romania. CIS was established in 1997 by a total of 26 companies. Currently it has over 115 member companies, whose cumulative

9 According to the data on web site of ONRC, available at: http://www.onrc.ro

investment in Romania exceeds 30 billion Euros[10]. These investments represent more than one third of the total foreign direct investment in Romania.

The CIS's main objective is to promote dialogue between investors and decision makers to improve the business environment in Romania. Every two years, the CIS publish a White Book, which contains a general analysis, comprehensive of the investment climate in Romania, as well as a series of specific recommendations for improving the business environment. CIS recommendations, which regard not only the foreign investors but also the entire business community, are included in a measure increasingly higher in the new law and economic strategies. CIS believes that the implementation of its recommendations will make Romania more attractive to investors and the final result will increase foreign direct investment in Romania. Furthermore, the CIS believes that its recommendations will help Romania to achieve its objectives after EU accession.

## Institutional malfunctions

### *Foreign Investors Council studies*

Foreign Investors Council analyzes the most critical aspects of the current economic climate, both in terms of overcoming the financial crisis and for adopting the measures required to strengthen administrative capacity of state institutions. The member companies of the CIS are important players in the Romanian economy by contributing to the creation of over 30% of national income[11]. CIS's main objective is to promote dialogue between investors and policy makers to improve the business environment in Romania. Consistent with this objective, members of the CIS, based on international experience, make recommendations to improve the business environment and are partners in both institutionalized dialogue with the Romanian authorities and with international financial institutions, IMF, EU or World Bank.

In the last years, the international financial crisis has reached the Romanian economy and the measures adopted by the Romanian Government and Parliament could not avoid recession, signs of deteriorating financial and economic situation were quickly apparent, a decrease of 7% over the economy in 2009, the firs year of recession. In response to these conditions, the private sector responded in the sense that every company has revised its internal processes to reduce costs and streamline their activities. The result was reflected in particular in reducing staff costs and staff, increasing productivity and allocating financial resources available for productive investments. Now, when the analysts suggest that it is possible to move the crisis from the private sector to the Government and Parliament of Romania they will also have to consider such measures. The presi-

10 According to the web site of CIS, available at: http://www.fic.ro

11 Idem

dent of CIS stated in 2010 that[12] "There are still significant challenges regarding the economy, damaged by the international financial crisis and structural issues related to maintaining the competitiveness of Romanian economy. Now, once again, the administration must give evidence of its ability to determine the short and medium term strategy for its priorities and in particular to find in the shortest time, the necessary levers for economic recovery".

CIS believes that reducing staff costs, while increasing the efficiency of services provided by state institutions are a direct and immediate measure to restore the balance between revenue and spending. Immediate results can be achieved by a priority allocation of financial resources, of the existing availability, to certain categories of expenditure, primarily by investment especially in infrastructure. It thus creates jobs, it stimulates other sectors of the economy and in the end is a signal to business that the economy can return to growth.

The evolution of the economy is still under the signs of recession. Therefore, increasing revenues as a means of balancing the budget is very difficult to estimate and a tax increase would have little chance to bring additional revenue to the state budget. CIS believes that better results could be achieved by measures to encourage taxpayers who have a high degree of tax compliance on the one hand, and tougher penalties for default and evasion, on the other hand.

For business the transparency and predictability of tax rules in the economy are the most important elements of business plans for short and medium term. The President of CIS, concluded in an interview[13]: "...The CIS considers it essential that governments and political parties should be aware of the seriousness of the situation and implement a coherent plan quickly and reliably. Measures envisaged, even if they also have social impacts must be taken without delay. The lack of firm action or postponing decisions will continue to induce a state of uncertainty in the business environment and will delay Romania's chance of overcoming the crisis."

### *World Bank studies*

The World Bank reports (WB), have often criticized the defective mechanisms of functioning of institutions and the relationships with entrepreneurs. The focus is primarily on the Ministry of Finance (MF) and National Agency for Fiscal Administration (ANAF). According to the WB[14], the main challenges of ANAF are particularly the improving of the collection system and the increase of the voluntary compliance of taxpayers.

12 Idem

13 Idem

14 Web site of WB for Romania http://www.worldbank.org.ro/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/ROMANIAEXTN/0,,menuPK:275159~pagePK:141159~piPK:141110~theSitePK:275154,00.html)

WB experts warn about an extensive network of territorial directorates of finance network that increase the costs of collection and waste much of the resources in routine processes. The World Bank, the payment of taxes in Romania is a pretty big burden for the taxpayer, in an institution's report, Romania being ranked 149 in the world out of 183 countries in terms of time spent on paperwork and pay taxes[15]. Total fees to be paid in Romania are 113, say international experts. Although the Financial Guard carried out annually a large number of controls, only very few end up in court.

The World Bank Report (The World Bank, 2010), more precisely, out of a few thousand cases a year, very few end up in court, and in 2009 there were only three convictions. This indicates that there are serious problems in the selection of cases, either in quality investigations. Among some suggestions the Report includes:

- Reducing the number of separate payments of tax. Develop a system to reduce face to face interaction with the taxpayer.
- WB also recommends that, when there will be a well-tuned system, the services of the territory to be replaced with information on the Internet and call center services.

Another important aspect is concerned by reports WB state companies[16] and their relations with the authorities. Thus, one can notice that state companies should be controlled directly by the Ministry of Finance. The Ministry of Finance control over state-owned companies is limited, according to World Bank report. It states that "corporate budgets are presented for approval to the MF, and it is unclear how these budgets were constructed strategically." The financial situation of public companies with losses can create imbalances that affect the state budget, say experts of the World Bank. An example is such debt accrued by these companies to the state budget and to private providers.

Other suggestions mentioned[17]:

- World Bank suggests that medium-term Program of MF should play a direct role in managing state assets, especially in organizing state companies and monitor debts. WB report states "Romania could improve monitoring of the state on the companies to which it is a shareholder by setting up a government body to deal strictly with their monitoring. The new entity may be a direction of the Ministry of Finance, or a new agency under the Ministry"
- The new institution will be responsible for the efficient management of state companies and will provide regular reporting on their performance.

15 The World Bank, (2010): Doing Business 2011: Making a Difference for Entrepreneurs, The World Bank Romania, București, http://documents.worldbank.org/curated/en/2010/01/13686183/doing-business-2011-romania-making-difference-entrepreneurs-comparing-business-regulation-183-economies

16 Idem

17 Idem

BM also notes that MF personnel are oversized so that Romania may have to get more employees than the Ministry of Finance of France and Germany.

Ministry of Finance had, at the level of 2010 year, according to the report, 1867 authorized positions of which 1432 are employed. "The number of employees of the facility far exceeds the number of employees of ministries of finance from other European countries like England, Germany or France." WB suggests that the number of employees in MF should be reduced by about 200-300 people, structure enabling the ministry to work. According to the World Bank, the clearing system at the MF is unfair and not transparent. "Numerous bonuses are granted and they are unevenly distributed within the ministry; they represent about 30% of staff bill of the institution." The World Bank experts said that ministry staff allocation is not in line with current needs.

The suggestions offered in the report[18]:

- Reduction in staff by about 200-300 employees.
- BM proposes a rearrangement of human resources based on strategic priorities.

*Transparency International studies*

Romania ranked in 2010 last in the EU Member States as regards the general perception of corruption on a par with Bulgaria and Greece (Transparency International, 2010).Thus, Romania is perceived as the most corrupt country in the EU, given that 2009 is the first of the last seven years that has not made any progress in fighting corruption, says the report published by Transparency International.

Romania scored 3.8 points out of 10 score equal to that of the previous year, back in last place in the rankings, which it disputes with Bulgaria and Greece[19]. Bulgaria has achieved the same score for Romania as a result of an increase of 0.2 points and Greece reached this position due to the loss of 0.9 points compared to 2008. Score obtained in 2009 indicates capping Romania, this being the first year since 2002 that has not shown any improvement in the results obtained in the fight against corruption. Stagnation is the result of a lack of strategic leadership in the legislative and institutional measures, which led to excessive vulnerability of all the pillars of integrity and to damaging the credibility of reform and Romania in general.

Globally, the 2009 Transparency study analyzes 180 countries, Romania being at 71 and being overtaken by countries such as Barbados (ranked 20th), Botswana (37th), Namibia (No. 56), Cuba (no.61) and Ghana (69th). Ranking

18 Idem

19 Alistar, V., et al. (2008/2009): The National Corruption Report 2009, Transparency International Romania, București, Romania

first is New Zealand in an index of 9.4 followed by Denmark 9.3 and Sweden and Singapore, both with 9.2. By contrast, the lowest score was recorded in Somalia (1.1), followed by Afghanistan and Sudan 1.3 on a par with Iraq, 1.5.

We mention that the Corruption Perception Index of Transparency International is a composite index, based on data on corruption in specialized surveys conducted by several independent and reputable institutions and ranks countries according to the degree that corruption is perceived among public officials and politicians. It reflects the view of businesspeople and analysts from around the world, including experts from the assessed countries.

## Conclusions and recommendations

At the end of 2010 CIS has launched an action plan with 80 measures, entitled “Program for economic growth - Priority actions to restart the economy”, which aims to rapidly restore the Romanian economy on an upward trajectory. The action plan is the result of collective and voluntary contribution of members of the Foreign Investors Council. In June 2010, the organization has conducted extensive research among its members and has resulted in over 100 measures that the authorities and the private sector can take to improve the business climate in Romania. Eighty actions were included in the measure plan, while 12 of them are a priority for short-term economic recovery.

The solutions proposed by the document have been structured in 10 fields of action corresponding to the key goals of today’s economy. These are: to stabilize the macroeconomic environment, the implementation of better governance, support the development of small and medium enterprises (SMEs), supporting investment in the economy, access to financing from EU funds, developing the necessary infrastructure for a modern economy, realizes the potential in agriculture, the pursuit of tax policies which stimulate growth, legal reform and public sector modernization. Foreign Investors Council prioritized the most urgent and important 12 steps that can bring economic growth in a short time.

Only by implementing these priority solutions by 2015, Gross Domestic Product (GDP) of Romania will grow in real terms by 11.6% cumulative, the labor market will have 250,000 new jobs and revenue will increase by 8.5%[20]. Additional cumulative projected budgetary costs for the 12 urgent actions will be only 0.7% of GDP. In the long run, it is expected that these measures should generate additional indirect economic growth of approximately 15-20% of the direct impact. CIS President said, in 2010: “We are convinced that the Romanian economy can get back on a path of short-term growth with minimal costs, if we follow a clear strategy, supported by both Government and business environment. To ensure that this happens, we are ready to provide our

20 Consiliul Investitorilor Străini, (2010): Program for economic growth - Priority actions to restart the economy, Consiliul Investitorilor Străini, Bucureşti, Romania

expertise to work together with authorities and to allocate substantial financial resources to support priority measures."

In our opinion and according to CIS studies[21], there are a few priority measures, as follows:

*Macroeconomics* - Priority actions to stabilize the macroeconomic environment in the Ministry of Finance are introducing a register of the claims made by the state budget and start the "First Home 3" to revitalize the real estate and construction. By 2015, it is expected that these measures should generate aggregate credit of 1,4 billion euros, representing a cumulative increase of 0.6% of GDP. Moreover, measures are expected to lead to the creation of 12,000 new jobs which will be reflected in an increase of 0.5% of budget revenues. Budgetary costs are estimated at 70 million euros and will only correspond to the implementation of the "First Home 3.

*Public investment* - Public investment will be supported further by setting a clear, transparent and accelerated timetable for the privatization of state-owned companies through capital market. It is also necessary local and international listing of the property fund. All proceeds obtained from the sale of majority and minority packages of shares still held by the state, estimated at two billion euros should be invested in infrastructure. This will increase GDP by 2% and revenues by 1.6% advance.

*Infrastructure* - The document further defines two priority actions to provide the Romanian economy with modern infrastructure. First, Romania could join Bulgaria and Hungary in the application for organizing the European Football Championship in 2020. Action would lead to the development of the country's infrastructure at a total cost estimated at 10 billion euros, which will be distributed over ten years, meaning an annual GDP growth of one percent. First estimates show that the number of tourists coming to Romania will increase by one million during the Championship and half a million every year thereafter. Secondly, the CIS believes that co-financing models for infrastructure development are beneficial to speed up the process; the private sector is prepared to help bear the cost of starting a large infrastructure project proposed by the Government.

*Fiscal policy* - The central priority is related to fiscal policy; it focuses to controls taxpayers who have a high risk of tax evasion. The private sector is willing to financially support the fight against tax evasion, hiring security companies to improve customs control. By lowering evasion, approximately 460 million euros will be available annually for investment, it is expected to show 46,500 new jobs over the medium term, which in turn will lead to an increase of 1.8% of budget revenues.

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21 Idem

*EU funds* - In terms of improving the absorption of EU funds, priority actions are either outsourcing or centralizing the management process of accessing funds, or revision of state employee bonus schemes working with EU funds, linking revenue to performance. The first solution will result in attracting annual structural funds worth about 400 million euros, representing a 3.6% of GDP growth by 2015. Moreover, the 75,000 new employees expected on medium term will contribute, in turn, to an increase of 2.9% of budget revenues. First action costs are estimated to reach 400 million euros (0.3% of GDP). The second measure is expected to bring 144 million euros annually from the absorption for agriculture, resulting in a cumulative increase of 1.3% of GDP. The 26,000 new jobs are expected to increase revenues by 1%, while medium-term costs are expected to be of 140 million euros. Bonuses for 8,000 employees are expected to reach 2-3 million per month.

*Government* - Performance and efficiency principles are at the basis of the proposed reform of public administration. The efficiency of structures by evaluating the quality service skills of employees through the implementation of e-Government is expected to have a positive social and financial impact.

*Agriculture* - In agriculture, the main priority is to accelerate investment in infrastructure by attracting EU funding of 150 million euros annually. The measure will reduce the trade deficit and inflation and will cost around 40 million. Furthermore, the document strongly recommends setting clear strategies in the field to increase the predictability and investment.

In the same time, there is a priority to invest in stocks and markets (land and labor), having in view that, through them is possible to regulate the prices of the agricultural products and specialized the markets. Together with all these investments, a new necessity of the sector appears and it is the investment in the infrastructure of the knowledge transfer.

*SMEs* - Priority Action to support SME development is the creation of subsidized credit facilities through the joint contributions of the public sector and the banks. 250 million loans or an increase of 0.5% of GDP and 9,000 new jobs are projected. The latter will be reflected on the increased revenues by 0.4%

*Legal system* - The most urgent action to reform the legal system is to adjust the labor law in the sense of making it flexible and of preparing it to be more adaptable to changes in context. The result will be a decrease by a percentage of unemployment and the creation of 84,000 temporary and permanent short term jobs.

*Governance* - Finally, a more effective management of Romania will be guaranteed by creating a Council for Economic Development (CED) to assist in designing sound economic policies. CED would include renowned professors and researchers in their field of expertise and public and private sector representatives and the employers. Alternatively, CED could act as an advisory entity arising from the private and the presidency or the government to provide ideas for growth. The creation and management of CED could be supported financially by the private sector.

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