

Country Report

# Romania

---

## The Unfinished Business of the Fifth Enlargement Countries

The views expressed in this report are those of the author and do not necessarily reflect the views of the Open Society Institute – Sofia.

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

---

Country Report

## **Romania**

# The Unfinished Business of the Fifth Enlargement Countries

---

**Cristian Ghinea**

Address:

**Open Society Institute – Sofia**  
**European Policies Initiative (EuPI)**

56 Solunska Str., Sofia 1000

Tel.: (+359 2) 930 66 19; Fax: (+359 2) 951 63 48

E-mail: [eupi@osi.bg](mailto:eupi@osi.bg)

Web EuPI: [www.eupi.eu](http://www.eupi.eu)

Web OSI-Sofia: [www.osi.bg](http://www.osi.bg)

© 2009 Open Society Institute – Sofia

ISBN 978-954-9828-79-5

## About this publication

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

“The Unfinished Business of the Fifth Enlargement Countries” is a policy project of the Open Society Institute – Sofia within the European Policy Initiative (EuPI).

The EuPI aims at stimulating and assisting new Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society levels ([www.eupi.eu](http://www.eupi.eu)).

The project was implemented from May 2008 to April 2009. The main outcome of the project is a publication comprised of ten national reports and a comparative analysis. The national reports describe and analyse the post-accession state of affairs in the ten new member states (NMS) from CEE. They do not include data gathered after December 2008, and therefore do not reflect the latest impact of the global economic crisis. The comparative analysis may have references beyond this period.

The project’s research methodology was based on the initial hypothesis that although the new EU member states from CEE have formally complied with all EU membership criteria and thus completed the accession agenda, specific problems persist. These problems are, to a certain extent, common among them due to shared historical experiences and legacies. In view of their comparable level of integration in the EU, the new member states could look for common answers to their post-accession challenges and, in doing so, contribute to the competitive advantage of the EU as a whole.

The research hypothesis has been tested through inquiry and analysis conducted by national experts from each of the ten new member states from CEE: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These national experts adhered to the same methodology and were asked to describe and analyse the post-accession state of affairs in eleven policy areas. Through this process, the experts were able to identify existing and/or potential post-accession “problem areas” in their countries’ political development and governance, economic development, welfare system and social inclusion, health system, educational system, justice and home affairs, migration, research and innovation, agriculture and rural

development, regional development, level of EU funds absorption and their correlating impact.

The national experts were also asked to identify the existing membership leverage for post-accession problem-solving in each policy area and to provide a typology according to the following criteria: active and passive EU leverage,<sup>1</sup> hard and soft mechanisms for influence, and level of significance and effectiveness of their impact.<sup>2</sup>

On the basis of the national experts' ten country reports and the typology of the membership leverage represented by a table (Part C) in each report, a comparative analysis of the post-accession state of affairs was developed.

### **Authors of the country reports:**

#### **Bulgaria**

Open Society Institute – Sofia expert team:

George Angelov, Senior Fellow, Dr. Hristo Hinkov, Ivanka Ivanova, Program Director, Assya Kavrakova, Program Director, Marin Lessenski, Policy Analyst, EuPI, Elitsa Markova, Program Director, Zvezda Vankova, Program Coordinator, Boyan Zahariev, Program Director, Dimitar Vanev, Expert, Ministry of Agriculture, Madlen Vladimirova, Private Consultant on CAP

---

<sup>1</sup> The *active* and *passive* leverage typology is defined and used by other authors mainly with regard to the EU's role for stimulating reforms in the candidate countries (Vachudova, M. A. (2002) *The Leverage of the European Union on Reform in Postcommunist Europe*, Paper presented at the Conference of Europeanists, The Council of European Studies, Chicago, 14-16 March, 2002) where the active EU leverage concerns the linking of the progress of accession with the adoption of EU norms while the passive one is the attraction of the EU as a gravity centre of prosperity and successful development. For the purpose of the present study the typology is used to assess the effectiveness of the membership leverage over the new member states from CEE.

<sup>2</sup> After the accession to the European Union the membership leverage over the member states is *active* with the exception of some policy areas, where the EU still exerts *passive* leverage because further integration depends on meeting certain post-membership conditionality (i.e. accession to the Schengen area; accession to the Euro area). Moreover in the policy areas where decisions are taken primarily on the EU level, the membership leverage is *hard* as breaching the rules is accompanied by sanctions and therefore it is *significant* in terms of influence on a national level and *effective* as it manages to ensure the necessary enforcement by national stakeholders. The opposite is evident with regard to the membership leverage in policy domains of national competence where the EU produces mainly recommendations which are not binding and therefore are not accompanied by sanctions (*soft leverage*) and most often neglected by national decision-makers, which makes them *non-significant* in terms of impact and therefore *non-effective* (e.g. the Open Method of Coordination in education and social inclusion).

## **Czech Republic**

Radomir Špok, Executive Director, EUROPEUM Institute for European Policy

## **Estonia**

Alf Vanags, Director of the Baltic International Centre for Economic Policy Studies (BICEPS)

## **Hungary**

Co-ordinating author: Tamás Szemplér, Ph.D, Scientific Deputy Director, Institute for World Economics of the Hungarian Academy of Sciences, Budapest

Contributing authors: Bence Petővári, Ph.D Student, Corvinus University, Budapest, Dr. Angéla Ragány, trainee at the Legal Service of the Council of the EU, Dr. Miklós Somai, Ph.D, Senior Research Fellow, Institute for World Economics of the Hungarian Academy of Sciences, Budapest, Judit Szilágyi, Research Fellow, Institute for World Economics of the Hungarian Academy of Sciences, Budapest, Ph.D Student, Corvinus University, Budapest

## **Latvia**

Lead author: Dr. Andris Spruds, Lecturer at the Riga Stradins University, Faculty of European Studies, and Vidzeme University College, Department of Political Science

Co-authors: Martins Daugulis and Karlis Bukovskis

## **Lithuania**

Vitalis Nakrošis, Associate Professor at the Institute of International Relations and Political Science (Vilnius University) and partner in the Public Policy and Management Institute, and Ramūnas Vilpišauskas, Chief Economic Policy Advisor to the President of Lithuania

## **Poland**

Leszek Jesień, EU Policy Coordinator, Polish Institute of International Affairs

## **Romania**

Cristian Ghinea, Director of the Romanian Center for European Policies (CRPE)

## **Slovakia**

Vladimir Kvetan and Karol Frank, Institute of Economic Research of the Slovak Academy of Sciences

## **Slovenia**

Urban Boljka, PhD Candidate, University of Ljubljana

**Author of the comparative report**

Assya Kavrakova, Program Director, Open Society Institute – Sofia

**External reviewer of the comparative report**

David Král, EUROPEUM Institute for European Policy

**Project team**

Assya Kavrakova, EuPI, Open Society Institute – Sofia

Elitsa Markova, EuPI, Open Society Institute – Sofia

**Copy editor**

Katerina Popova

# Contents

---

<b>Section A: Executive Summary</b>	11
<b>Section B: Analysis of the Post-Accession State of Affairs in Selected Policy Areas</b>	13
<b>Subsection B.1: Political Development and Governance</b>	15
<b>Subsection B.2: Economic Development</b>	22
<b>Subsection B.3: Welfare System and Social Inclusion</b>	29
<b>Subsection B.4: Health System</b>	35
<b>Subsection B.5: Educational System</b>	39
<b>Subsection B.6: Justice and Home Affairs</b>	44
<b>Subsection B.7: Migration</b>	50
<b>Subsection B.8: Research and Innovation</b>	53
<b>Subsection B.9: Agriculture and Rural Development</b>	56
<b>Subsection B.10: Regional Development</b>	60
<b>Subsection B.11: Level of Absorption of EU Funds and Their Impact</b>	65
<b>References</b>	69
<b>Section C: Conclusions and Recommendations</b>	73



# E

## xecutive Summary

---

Romanians joined the EU with great hopes and high expectations. Accession seemed to be the finishing line of a painful transition, in all areas: economic, social and political. Soon it became clear that the EU is not a panacea to all problems in the country and certainly not the answer to all hopes. There was a state of general confusion after 2007, not because the EU failed in some particular field but because the previous expectations were too high. During accession negotiations, the country seemed to have a direction and a goal. Once the process finished, we lived in the same country, but without a clear goal.

The strict EU conditionalities put the country on a clear track for several years, and ensured some stability and progress throughout the 2000-2007 period. The political crisis, which took constitutional dimensions in 2007 with the impeachment of the President, represented a return to confusion and instability and raised even more questions about the credibility of politicians. Many Romanians still expect the EU to help them gain rights and social advantages that only domestic politicians can decide upon. Very recently, a labour union leader declared he would denounce the national government to Brussels for not increasing salaries in his field. It seems that, after so many years of EU tutoring, many actors have come to depend on Brussels too much.

EU leverage over Romania is much weaker now than it was before accession. Even where the European Commission has formally retained some power, such as in anti-corruption policies through the Cooperation and Verification Mechanism after accession, local interests have prevailed. The government and the majority in parliament have succeeded in dismantling the anti-corruption mechanisms created with EU support in the pre-accession period. The European Commission will have no other choice but to maintain the post-accession verification, using more "sticks" such as cutting some EU funding.

Romania is a hesitant actor in its full EU-member capacity and it is not actively involved in the great debates and dilemmas regarding the future of the Union. Romania promotes actively its interests in narrow fields such

as EU policy towards the Republic of Moldova. "Europe" as a concept still seems an imaginary reality which provides funding.

Although the Romanian economy has enjoyed seven years of sustained growth, at an average of over 5%, the very structure of the economy is still precarious, based on investments and poorly qualified labour, and far from the R&D-based economy envisaged by the Lisbon Strategy. Agriculture contributes disproportionately to the national GDP but ensures only minimal subsistence for millions of peasants with average farms of around 2.5 ha. The infrastructure is weakly developed and remains a problem despite heavy increases in budget spending. Corruption and administrative blockages make the infrastructure unable to keep up with economic developments, becoming an obstacle to further investments. Both the educational and health care systems are in perpetual reform, with permanent small adjustments and limited overall transformations. Romania is not yet able to take advantage of the EU inter-governmental mechanisms (e.g. OMC) in the above-mentioned areas and a common Romania-EU strategy should be created to address this problem.

EU funding is a promise that is still expected to be delivered on. The years 2007 and partly 2008 were spent preparing the relevant procedures and Romania ended 2007 as a net contributor to the EU budget. Still, the high number of projects submitted shows a serious need for changes in all major areas, such as transportation, public services, rural development, and environment.

# **A** **Analysis of the Post-Accession State of Affairs in Selected Policy Areas**

---

Subsection B.1:  
Political Development and Governance

Subsection B.2:  
Economic Development

Subsection B.3:  
Welfare System and Social Inclusion

Subsection B.4:  
Health System

Subsection B.5:  
Educational System

Subsection B.6:  
Justice and Home Affairs

Subsection B.7:  
Migration

Subsection B.8:  
Research and Innovation

Subsection B.9:  
Agriculture and Rural Development

Subsection B.10:  
Regional Development

Subsection B.11:  
Level of Absorption of EU Funds and Their Impact

References



# Political Development and Governance

## Summary

The Romanian political spectrum is highly fragmented, with unstable alliances between parties and a general tendency to ignore policies over politics.

The popular President Traian Basescu has been the central figure in the last years, with parties organising alliances for and against him. The semi-presidential Constitution has created a confused system, as the directly elected President is unable to control governmental policies, with the disputed exception of foreign policy and national defence.

EU integration was a major objective for all the significant parties, including the extreme right, until 2007. But the accession was followed by political and constitutional crises which included the impeachment of the President. The minority government of the Liberal Party was blackmailed by the populists in parliament into increasing social spending, which made Romania face the current economic crisis with a budgetary deficit of 3.5-4% for 2008 and gloomy perspectives for 2009. A new government was formed after the undecided November 2008 elections, with the two major parties creating a "grand coalition" of more than 70% in parliament. But the chances of the former enemies to succeed in this formula are small.

## Issue: Recent political developments

Romania's President Traian Basescu was elected in 2004 with the support of a coalition between his own Democrat-Liberal Party (formerly social-democrat, now centre-right) and the Liberal Party (right-wing). Winning the presidency in a dramatic second round of voting, Basescu used his position to appoint the Liberal leader Calin Popescu-Tariceanu as Prime Minister and brought two minor parties into a coalition to ensure a majority in parliament. This coalition functioned with major tensions until 2007, striving for EU accession. The latent tensions between the President and the Prime Minister became unbearable after accession, the former accusing Tariceanu of corruption and ties with shady business interests. Tariceanu was unhappy with the activity of the Basescu-supported Justice Minister Monica Macovei, under whom the Anti-corruption Office launched several spectacular corruption investigations targeting eight former and current ministers. As a result, the coalition imploded and the President's party was excluded from the

The political crisis took constitutional proportions in 2007 when the new majority in parliament impeached Basescu, accusing him of breaking the constitutional order

government in April 2007. The Liberal Party formed a minority government with the Hungarian Party, officially securing 20% of the votes in parliament, but receiving the added support of the Social Democratic Party.

An awkward game started between the politically isolated President, the weak government and the leftist opposition, with the latter passing laws and forcing the government to

apply them. Against all odds, Tariceanu stayed in office until the winter 2008 elections. The political crisis took constitutional proportions in 2007 when the new majority in parliament impeached Basescu, accusing him of breaking the constitutional order. This accusation was rejected by the Constitutional Court, but parliament continued the procedure. Basescu was suspended for 30 days, during which a referendum had to be held in order to ratify parliament's decision. Although the turnover was low, Basescu won the popular vote, with more than 70% rejecting his impeachment.

The general elections held in November 2008 led to a virtual equality between the President's PDL and the leftist PSD, each of them winning around 33% of the votes. The Prime Minister's Liberal Party placed third with 18%. Each of the two big parties needed Liberals in order to be able to form a government but the political game was further complicated because in the absence of a clear winner, the current President had the right to appoint a person of his choice to form the government. Thinking they were the indispensable king-makers, the Liberals demanded the position of prime minister, an awkward request from a junior partner in a future coalition. Given the situation, a spectacular move took place when the formal enemies PDL and PSD formed a grand coalition and the government. President Basescu's party formed an overnight alliance with the party he had permanently accused of corruption.

### **Issue: Stability of government and capacity to reform**

Until the 2008 elections, the weak position of the Liberal government, permanently blackmailed by its allies in the legislature to increase social spending, led to incoherent budgetary policies. The public budget deficit reached 2.9% in 2007 and jumped over 3% in November 2008. The politicisation of public administration and independent agencies as well as the "pork barrel-like" distribution of resources took endemic proportions.

A new electoral system was adopted for the 2008 elections. As the old proportional system of closed lists was accused of creating unaccountable MPs, a strong public campaign advocated a uninominal (one MP per constituency) system. The outcome is an awkward mixed system based on uninominal vote with proportional distribution of the seats. Although it

allows the electorate to vote for "people not lists" (as the campaign slogan asserted), the distribution mechanism is difficult to understand even for experts and led to situations in which the candidate winning the largest number of votes (but less than 50%) lost the seat, since the distribution took into account the party's score for each county. Thus, around 30% of the newly elected MPs actually lost the competition in their constituencies, but won the seat because of the redistribution mechanism, at the expense of the candidates obtaining more votes (if a candidate from the same party obtains more votes in another constituency in the same county, he/she gets the seat although he/she did not run there). The new system created much confusion and will most probably be changed for the next elections.

As noted above, the November 2008 elections did not produce a clear winner and an unexpected "grand coalition" was formed by the two biggest parties. The new alliance has more than 70% in parliament and easily voted into office its government led by Emil Boc, the formal president of the PDL, while Mircea Geoana, the PSD leader, became President of the Senate. The two parties equally split the chairs in the government and created a complex political mechanism to manage their alliance. They also signed a document called "Partnership for Romania" which lists some policies to be promoted by the new executive. It mixes necessary financial measures to deal with the economic crisis with populist promises. Few people expect the new alliance to last four years as the signed document stipulates. The internal tensions between the two old enemies will be aggravated in 2009 by the presidential elections, when the two partners will compete against each other, with the PDL supporting Basescu for a second term in office and the PSD opposing him by running its own candidate.

Romanian governments are not committed to the existence of autonomous regulation agencies. Some were created in the pre-accession period with EU assistance in order to enhance the state's role in regulating the communication and energy sectors. But the new agencies are besieged by the political parties and private companies. The most dramatic cases concerned the sacking of the director of the autonomous National Agency for the Regulation of Telecommunication. Although this agency scored high in several evaluations undertaken by independent auditors, the government intervened without proper explanations, therefore the allegations of pressure from powerful communication firms cannot be ignored. The former manager sued the government and won, but the Prime Minister simply changed the name of the institution in order to avoid applying the judge's decision. As the autonomy and functionality of this agency were guaranteed by the EU agreements and the EC has serious leverage in the communications area, this case should be used as an example in the event of future attempts to politicise autonomous agencies.

In January 2009, the European Commission started an infringement procedure against Romania, considering that the removal of the former manager and the decision to change the name of the institution compromised the independence of the agency.

## **Issue: Euro-scepticism**

Romania has one of the highest levels of trust in the European Union and Euro-scepticism is low. According to the 2008 Eurobarometer, for 67% of Romanians (the highest level in the EU) the European Union conjures a positive image. The same survey shows that 64% of Romanians consider that Romania's EU membership is a good thing and 65% consider that the country has benefited from being a member. Romanians also tend to trust the European Union (66%) more than they trust their parliament (12%) or the national government (17%). Although popular trust in the EU has decreased in the last few years (it was 80% in 2004), the Romanian population continues to invest hope in the EU, as an effect of overwhelming distrust in national actors. This may give the EU some unofficial political leverage over Romanian politicians, since the declarations of EU officials on Romania tend to create sensations in media and political circles.

## **Issue: Relative influence of populism and nationalism (xenophobia)**

The parliament elected in late 2008 is the first Romanian parliament since 1992 where no xenophobic parties are present. The traditional leader of the extreme right in Romania, Corneliu Vadim Tudor, lost his seat in the Senate and his Great Romania Party remained outside the legislature, far below the 5% electoral threshold. This was a result of the general improvements in the economy and of specific political developments, in which Tudor was faced with the rise of a new extremist leader, Gheorghe Becali. Tudor traditionally won the votes of the people frustrated with the transition, but the eight years of economic growth and the massive migration of low-skilled workforce to the West shrank his political base. While he started as a possible ally of Tudor, Becali finished as an open enemy despite the close political views of the two. Becali is one of the richest Romanians, having made a fortune from real estate transactions, some of them illegal. He owns the popular football club Steaua Bucharest and exhibits extreme bigotry and intolerance in his frequent public appearances. Several years ago he literally bought a party, called the New Generation Party, in order to lead Romania as, he claimed, God had ordered him. Becali ran in the November 2008 elections in a Bucharest district dominated by poverty and poor living conditions where people rebelled three years ago against the electricity company that cut off power supply to a neighbourhood for not paying its bills. Becali intervened and paid the debts in front of TV cameras. Despite such spectacular gestures, Becali was not voted for by the people he had paid for and took only third position in that constituency. His party won less than 2% of the national vote despite the huge media presence of Becali, who used to bribe journalists in order to get media attention. Although it respects the proportional distribution, the new electoral system based on nominal constituencies did not help leaders like Tudor and Becali who failed to build party apparatuses and expected to win votes only by the power

of their personalities. With both extremist leaders outside parliament, it remains to be seen if they will challenge the political establishment from the streets, especially if the economic crisis hits Romania hard.

### **Issue: Major issues of public opinion, including corruption perceptions**

Romania ranked 70th out of 180 countries in Transparency International's 2008 Corruption Perceptions Index, the second worst position in the European Union. The perception of corruption seems to be worse than the actual situation, as the country received an overall rating of "strong" (81 out of 100) in the 2007 Global Integrity Index. Romania has one of the strongest legal anti-corruption frameworks assessed by Global Integrity. However, if Romania's score for the legal framework is high (96 of 100), its score for actual implementation is much lower (65 of 100). Romania has a very large implementation gap (31), with practical implementation of anti-corruption laws being weak. That said, Global Integrity's position is that Romania "has a consistent moderate-to-good governance performance, with few obvious trouble spots".

The 2008 Nations in Transit report shows that Romania maintained its 2007 score for Electoral Process, Civil Society, Independent Media and Corruption but scored worse for Judicial Framework and Independence. Romania's overall Democracy score was the lowest among the EU new member states. Corruption remains a major concern for public opinion, but its importance in the political arena is visibly decreasing. President Basescu won his first term in 2004 with a strong anti-corruption message, directed mostly against the Social Democrat Party (PSD). As the PSD formed the government in December 2008 in alliance with Basescu's party, it is expected that corruption will lose its pre-eminence on the official agenda. A good part of the pro-Basescu public expected the return of the popular anti-corruption campaigner Monica Macovei as Justice Minister, but the PSD vetoed this move. Thus this public, already disappointed by the alliance with the PSD, found new reasons to feel betrayed. The economic crisis and its effects is tending to become a major preoccupation for the media, and it will probably dominate the agenda in 2009. The new government faces difficult challenges, with an unbalanced public budget, inflationary pressures and rising unemployment.

### **Issue: Participation at EU level (representation in the EC, EP, major positions supported/promoted by the country)**

With its 22 million people, Romania has the seventh largest population among the European Union member states (4.4% of the total EU population). Hence, Romania has been allocated 35 seats (out of 785) in the European Parliament. In the Council of Ministers Romania has 14 out of 345 votes,

i.e. 5.4% of the votes necessary to reach a decision by qualified majority and 15.3% of the votes necessary to obstruct any decision. The general feeling in Bucharest and Brussels is that Romania is not yet prepared to play its role as an EU decision-maker accordingly with its formal power. The broken promises made during the accession process have given the country a poor image among Brussels circles, and the continuation of the monitoring mechanism on justice and agriculture undermines the credibility of Romanian initiatives at EU level. The Romanian government has expressed only marginal positions on major European debates, such as the CAP "health check" or climate change actions. There are three issues that Bucharest has tried to put on the EU agenda since its accession in 2007: Black Sea region security, enlargement towards the Republic of Moldova and EU common policies for the Roma minority. The Black Sea Initiative of the EU is for the moment a diplomatic success which remains to be confirmed by real actions. Romania has a long-term strategy to keep the EU's door open to the Republic of Moldova, a neighbour country with which it shares a common history. Romania's strategy is to bring the Republic of Moldova closer to the status of official candidate and Bucharest successfully promoted in October 2008 an EU Council statement promising Moldova a membership perspective if the country continues reforms. Finally, the Romanian attempt to secure EU involvement in solving Roma community problems has had little tangible effects. Nice speeches have been given in Brussels, but the majority of EU countries oppose the precedent in which a transnational population is recognised as a European minority. Thus, while the EU will try to coordinate national efforts, the Roma situation will be dealt with at national levels. Although Romania hoped for the creation of an EU agency for Roma and an "EU-isation" of the issue, this has not been accomplished.

## **Conclusion**

The European Union has little leverage in the political area after accession. Romania officially met the Copenhagen political criteria after starting accession negotiations in 2000. During the accession process, the European Commission took advantage of its gatekeeper position to correct some lagging areas. Thus, the EC defended freedom of speech, independence of public service and anti-corruption mechanisms during the one-party, strong government of Adrian Nastase (2000-2004). After accession, the EC lost its leverage over politics. The eagerness of Romanians to join the EU created huge pressure on Romanian governments to follow the negotiations agenda in the pre-accession period. But once the big prize was secured, Romanian politicians clearly changed their attitude after accession. The European Commission has been attacked whenever it has intervened to remind Bucharest of its previous promises. The post-accession monitoring mechanism in justice and agriculture has proved to be ineffective in keeping the country on the right track. The collaboration of the minority government and opposition Social Democrat Party (PSD)

was visible in 2007 and 2008 in their efforts to dismantle the anti-corruption institutions created with EU assistance before 2007. With a new government in which the PSD is an equal partner, it is not clear at all that Romania will ensure the independence of the Anti-corruption Office (DNA). The Commission should maintain the pressure on the new government and it should consider continuation of the monitoring mechanism after 2009.

The post-accession political crisis in Romania is not an exception in the CEE region, but the Romanian case is exceptional given the dimension of the crisis and its constitutional implications. The EC and other EU institutions should use their indirect influence to signal about the implications of political instability over Romania's policies, especially in areas connected with EU interests, such as budgetary stability, foreign policy and anti-poverty strategies.

Also, the EC should use the limited official leverage still at its disposal. State subsidies in the economy should be carefully monitored. With some of the big Romanian companies facing problems in the current economic turmoil, pressure to grant them state subsidies will increase. The EC should ensure a clear and transparent process for granting such transfers, preventing the traditional method of state help for companies which are better connected with the parties in power.

# Economic Development

## Summary

Romania remains the second poorest country in the EU and eight years of solid economic growth have not changed this situation. Some independent forecasts estimate that at the current pace, the country will need more than 20 years to reach the EU-25 average. But the economy already shows worrying signs. The Liberal government in office until December 2008 increased budgetary spending and the deficit jumped to over 3%. The possibility to pump state money into the economy to deal with the economic crisis is limited. Major Romanian companies have announced collective layoffs and pressure on the public budget is increasing. Social frustration is consistent, as the eight years of growth have not brought significant improvements in the infrastructure or education system. The newly installed government has set bold targets (1.7% deficit in 2009), but it will need strong political will to deliver on some of the electoral promises made by the parties that formed the new executive. Budget cuts are needed to face the crisis but the new coalition government has limited chances to remain united when confronted with such challenges.

## Issue: GDP per capita and economic growth

Romania has only the second lowest GDP per capita in the European Union, estimated at €9 800 (PPS). Fuelled by increased investment, rising wages and a lending boom, Romania's economy grew faster than expected, reaching 9.3% in the second quarter of 2008 – up from 8.2 % in the first quarter. This growth rate was more than three times higher than the EU average and second only to Slovakia's.

The fastest growing sectors were construction and services. The country also witnessed the highest retail growth in the European Union. Seventy-five percent of the economic output comes from the private sector. Although 2008 was the eighth year in a row with significant economic growth, the global financial crisis had already started to take its toll on the country's economy. Budgetary revenues decreased in October and November 2008 and major companies announced collective layoffs in an attempt to deal with the crisis. As the lending conditions of banks become stricter and foreign investment freezes, the economic growth for

2009 is estimated at 3-5%, although these estimations are not very reliable since the full effect of the crisis is not yet visible in Romania.

## **Issue: Budgetary deficit and public spending**

Since budgetary spending is on the rise, the current financial crisis leaves few options for state intervention. In June 2008, the European Commission warned that Romania's budgetary deficit was set to rise from an estimated 2.9% in 2008 to 3.7% in 2009, over the 3% EU limit. This estimation was contested by the Romanian government at that moment but proved to be overoptimistic. The budgetary deficit jumped to over 3% in November 2008 and the government's aim (2.3%) proved to be a moving target. The new government has set the official target of reducing the budget deficit to 1.7% in 2009, but it is hard to imagine how this could be achieved. The document signed by the two parties forming the new government sets this optimistic target, but at the same time promises to launch various investment projects in order to boost the economy.

In October 2008, on the eve of the parliamentary elections, the Chamber of Deputies unanimously passed the Social Democrats' bill awarding a 50% pay raise to more than 400 000 teachers. The former government was caught by surprise, although its own MPs voted for this populist bill, and Prime Minister Calin Popescu Tariceanu asked for a ruling from Romania's Constitutional Court. The Constitutional Court upheld the constitutionality of the law and the bill was approved by President Traian Basescu. This led to growing demands for higher salaries in the public sector and trade union threats of general strikes. The new government is composed of the same parties that publicly supported the rise in teachers' salaries. It is not clear if they will follow their own populist rhetoric from the election campaign.

Unlike the Euro area, which succeeded in halving its budgetary deficit between 2003 and 2006 (from 3.1% to 1.5%), Romania missed the opportunity given by its economic growth in the last few years and increased its deficit. Investment spending of the public administration reached €3.2 billion in the first seven months of 2008, more than double the amount invested during the same period of the previous year. Personnel spending also went up 34% to almost €5.5 billion, not taking into consideration the last political scandal surrounding teachers' wages.

As regards the distribution of wealth, Romania has a Gini index of 31, not far from the average EU Gini index of 30.7. However, it is worth noting that the Gini index emphasises declared income and excludes the informal economy, which is an important part of the Romanian economy.

## **Issue: Inflation**

Romania ended the troubled period of the late 1990s with hyperinflation. The Central Bank and the governments adopted anti-inflationary policies which succeeded in bringing inflation down to less than 10% in 2004, for the first time after 1989. This created conditions for credit expansion, which saw a real explosion in the last few years. The sums contracted by Romanians for periods longer than five years were six-fold higher in

December 2007 compared with the same month in 2005. But the higher wages and increasing budgetary deficit drove annual inflation to a three-year high of 9% in July 2008, raising concerns about a new inflationary cycle. The high rate of inflation forced the Central Bank to raise its key interest rate to 10.25%, currently the highest in the EU. The National Bank of Romania estimates that the annual rate of inflation will be 6.7% in December 2008 and 4.5% in December 2009. The new government has set a target of 5% for 2009 and a gradual decrease to 3% by 2012.

### **Issue: Labour market**

Altogether 30% of the Romanian population are employed in agriculture and primary production, one of the highest rates in Europe. Most Romanians work in full-time jobs, with only 9.7% of employees having part-time contracts, while the EU-27 average is 18.1%. Just 2.7% of Romanians in employment had a second job in 2006, while the EU-27 average is 3.7%. The unemployment rate was 4.2% in March 2008, with a male unemployment rate at 4.4% and a female rate at 4.1%. In June the unemployment rate decreased to 3.8%, a record low in the last 16 years, but increased to 4.4% in December 2008. Unemployment will increase as Romania starts to feel the effects of the global financial crisis. French manufacturer Renault temporarily closed its Romanian plant, Dacia, as demand for its no-frills model, Logan, decreased worldwide. The ArcelorMittal Hunedoara steel plant announced plans to suspend production for approximately two months due to the economic crisis. Oltchim, one of the largest chemical companies in Romania, also decided to cut production by up to 40% in November and said 550 workers would be laid off in December. Another chemical company, Azomures, will send all its 2 000 employees to temporary unemployment, given the sudden decrease in fertiliser demand. Alro Slatina, the largest aluminium producer in Central and Eastern Europe, plans to cut aluminium production by up to 25% in 2009 and has announced collective layoffs. Alro's plans have already triggered social unrest in Slatina, a city dependent on this major employer.

The unemployment rate in Bucharest and the West of the country tends to be lower than in other regions. Despite the low overall figures, the economy is facing a lack of skilled workers in certain sectors. Migration to Western Europe, especially Spain and Italy, has led to a labour shortage in certain domains such as tourism, construction, clothing and leather goods industry, agriculture. Entrepreneurs have already started employing Asian workers especially in construction and the clothing industry, but this practice is somewhat experimental, the numbers reaching only several thousands.

### **Issue: Salaries**

The minimum monthly salary is around €150 while the average gross nominal salary is around €480. The guaranteed minimum wage increased

by 39.3% between 2004 and 2007. Between 2004 and 2006 the average wage increased by 40.6%. These figures are well above the economic growth and it is expected that wage growth will slow in 2009 in the new economic context.

There are major differences between the regions, with employees in Bucharest earning 120% more than employees in the North-East (the poorest region in the EU in terms of standard of living). The difference between the capital city and the second-ranking region in terms of earnings is also significant – around 30% –making Bucharest a real economic engine as compared with the rest of the country.

### **Issue: FDI flows**

Foreign direct investment increased by 32% in the first eight months of 2008 compared to the same period of the previous year, reaching €6.5 billion. Romania's FDI level is one of the highest in Central Eastern Europe and covers a great part (65%) of the current account deficit. It was estimated that FDI would rise to about €10 billion by the end of 2008. But this optimistic expectation may remain unfulfilled in the context of the financial crisis, with investors more reluctant to engage in long-term projects. Romania's poor infrastructure is one of the main obstacles to foreign investment and a public scandal broke out recently when Mercedes announced it preferred Hungary over Romania for a new production plant given the better roads there.

### **Issue: Regulatory business environment and rating of the country in terms of business environment, economic freedom, competitiveness**

According to the 2008 Index of Economic Freedom, Romania's overall economic freedom score is 61.5, which ranks the country 68th in the world in this respect. Even though its score is 0.3 higher than in 2007, Romania is ranked 30th out of 41 countries in Europe and its overall score is below the regional average. Its high levels of business freedom, fiscal freedom, and trade freedom are above the world average but labour freedom, property rights, and freedom from corruption are below the world average and have lowered the country's score.

According to the World Bank Doing Business 2009 report, an index that measures the ease of doing business, Romania ranks 47th out of 181 economies.

### **Issue: Adoption of the Euro and economic convergence with the EU**

As an EU member, Romania is obliged under the Accession Treaty to join the Eurozone but in order to do that it must comply with specific

The government has set the target of joining the Eurozone in 2014, but without strong political will and more coherent policies it is certain that this goal cannot be achieved

monetary requirements (the Maastricht or convergence criteria). Romania met the criterion for annual budgetary deficit (below 3%) in the last eight years but it lost this advantage in 2008, with the official figures for the end of the year already exceeding the threshold. The gross government debt to GDP (13%) satisfies the Maastricht condition, but the inflation and interest rates are still too high. The government

has set the target of joining the Eurozone in 2014, but without strong political will and more coherent policies it is certain that this goal cannot be achieved.

### **Issue: Export and import**

Romania's exports increased in 2008 by 18.4% year on year. The National Prognosis Commission estimates that exports will reach €34.8 billion (FOB) by the end of 2008 while imports will be around €54.1 billion (FOB), a 15.3% increase over 2007. Thus, Romania will experience a trade deficit of €9.3 billion (FOB-FOB) or 14% of GDP.

Altogether 70% of Romania's exports go to the EU. Thus, the state of the Western economies has a direct impact on internal production and this is the main concern for the future, as the growing rate is expected to decrease sharply in 2009-2010 in the context of the global economic crisis. In the first seven months of 2008, Romania's main export partners were Italy (15.9%), Germany (15.9%), Turkey (7.8%), France (7.5%) and Hungary (5.2%). In the same period Romania imported mainly from Germany (16.5%), Italy (12%), Hungary (6.8%) and energy from Russia (6.6% of total imports). In the first seven months of 2008, Romania registered trade deficits in its relations with economies such as Germany (€2.2bn), Russia (€1.8bn), Kazakhstan (€1.5bn), Austria (€1.2bn), Hungary (€1.1bn) and China (€1.1bn), and a trade surplus of €793 million with the Middle East and Africa. Romania's main export items include: chemicals, agricultural products, footwear, vehicles, mineral fuels and oils, machinery, metal products, and textiles. Romania mainly imports machinery, mineral fuels and oils, vehicles, electric and electronic equipment, and plastics.

### **Conclusion**

The European Commission warned Romania about its increasing budgetary deficit. Joaquin Almunia, Commissioner for Economic and Monetary Affairs, stated that "we will have to take measures against Romania, according to the Stability Pact. I wouldn't want to see this

happening, which is why I call on Romanian authorities to make the necessary decisions.” The necessary decisions were not made and the 3% threshold was surpassed in November 2008. The European Commission is entitled to open the Excessive Deficit Procedure against Romania, according to the Maastricht Treaty. But the Ecofin Council cannot implement the last step in this procedure and impose fines on Romania since only Euro-area member states that do not take sufficient measures to correct a budget deficit exceeding 3% of GDP can be subject to sanctions. Nevertheless, the Council may decide to impose other types of sanctions, such as reducing the available EU funding, as the Governor of the Romanian Central Bank warned at a public conference in December 2008. This is still a remote possibility for the moment and most probably the Commission will watch Romania carefully, waiting to see if the new government will pursue its target deficit for 2009 (1.7%).

Following the economic crisis, some European voices have raised the possibility of a relaxation of the Maastricht criteria for entering the Eurozone, in order to facilitate the integration of the CEE states. Protection of a strong currency has proved to be an efficient umbrella in financial crises. Under the current Maastricht criteria, Romania has small chances to reach its 2012 target. The newly established government is ambivalent, combining budgetary targets with largesse in social promises. The best solution would be a “road map” to bring Romania into the Eurozone, commonly agreed between Bucharest and the EU, with the possibility for some of the Maastricht criteria to be relaxed (these criteria were politically suited to fit the old EU in the particular conditions of the early 1990s). Such a road map could be agreed with each of the new member states which still has difficulties in moving close to the Euro adoption criteria. The alternative is to leave these governments to face alone the economic crisis and at the same time to proceed with the reforms necessary to meet the Maastricht criteria. But unilaterally assumed plans do not provide real political incentives. The Romanian public, for instance, could be convinced more easily to accept budget restrictions by a road map agreed with the EU (reproducing the EU conditionality/reward model accepted during the accession negotiations).

Regarding the financial crisis impact, it is most likely that Romania will not need to make use of the economic emergency fund of the EU or an emergency loan from the International Monetary Fund, as was the case with Hungary. However, if the banking sector remains blocked due to international depression, such an eventuality cannot be definitively excluded.

Romanian authorities are reluctant concerning the French proposal for a sort of “economic government”, even though the country is not in the Euro area yet. President Basescu took a surprisingly harsh position before the European Council against the idea to create a European agency for regulating the banking area, stating that the Romanian Central Bank is the only actor which may regulate the internal sector. Basescu played symbolic

politics in this case, since the Central Bank will anyhow lose some of its powers once the country enters the Eurozone. Being totally dependent on exports to the EU and on European investments, Bucharest will most probably follow the lead of big member states in respect of new economic mechanisms.

# Welfare System and Social Inclusion

## Summary

Romania is a country of deep contrasts. The grey homogeneity of the communist period was replaced during the transition by a largely fragmented and divided picture. The capital and the big cities enjoyed much better new opportunities than the Eastern regions and the small cities. Access to infrastructure and social services is way below the European average, especially in rural areas. While at the beginning of the transition the pensioners were neglected, the last few years have seen a significant increase in their pensions. This was a political decision and it tried to repair past injustices. But the rapid pace and populist methods jeopardise the stability of the pension system, which would go bankrupt without regular funding from the state budget. The EU leverage in social issues is soft and limited, given the EU's own institutional design. Much depends on Romania's capacity to use the Open Coordination Method. But the country needs assistance to develop internal capacity in that direction.

## Issue: Employment

At the end of 2008, Romania had 4.8 million employees, 5.7 million retired persons and 340 000 unemployed (4.4% unemployment rate). As retired persons outnumber employed persons, the public pension system is unbalanced, with populist pressures making things even worse. The retirement age is 65 for men and 60 for women. The former government proposed a plan to equalise the retirement age either by raising it to 65 for women or by introducing an intermediary variant of 62-63 for both sexes. Considering the current deficit of pension funds, most probably the choice will be 65 for both sexes. Informal employment is widespread in Romania, representing more than 30% of total labour force occupation according to recent OECD studies. The sectors most prone to informal employment are construction, agriculture and tourism. In these and other sectors there are firms that hire workers without labour contracts and workers who under-declare their wages

and receive cash payments ("envelope payments"). Some of the factors that lead to informal employment are: complicated and strict regulations, lengthy administrative procedures, high payroll taxes and social security contributions.

## **Issue: Access to services**

While in urban areas the quality of and access to services has increased, in rural areas access remains difficult. Romania's total road network is estimated to be 198 817 km long, out of which 60 043 km are paved and 138 774 km are unpaved. Romania has one of the largest railroad networks in Europe with a total of 11 380 km of railway network, of which 3 971 km are electrified, and a total track length of 22 247 km (8 585 km electrified).

Only 52% of Romanians have both running water and access to the sewage system, 16% have only running water and 32% have neither. Only 11.5 million Romanians (out of a total population of 22 million) have access to the 18 381-km-long sewage system, including 10 million in towns and 1.5 million in the countryside. Forty-seven Romanian towns, including Bucharest, dump untreated sewage into rivers and 63% of sewage treatment plants do not operate properly.

Altogether 46% of Romanian households have access to the natural gas network; 74.7% of households in urban areas but only 9% in rural areas have access to this type of service. A quarter (25%) of households in rural areas and 70.3% in urban areas have access to a landline telephone. Mobile phone growth has outpaced landline growth, and mobile usage is widespread with 1 062 mobile phones per 1 000 inhabitants. Romania has a very high penetration rate for cable television, with over 79% of all households watching television through a CATV network in 2007. The satellite broadcasting market is also developing rapidly (in 2008 it covered nearly 2 million households). There are 5.8 million connections to the Internet, out of which 3.2 million are broadband (end of 2007). It is estimated that there are 7 million Internet users.

## **Issue: Housing**

Romania has a very high percentage of ownership of dwellings, with 90% of the population owning their houses. This is a result of the early 1990s policy to sell cheaply the apartment blocks previously owned by the state. Increased earnings, the arrival of foreign nationals on the housing market and a broader level of housing loans have led to the Romanian housing market experiencing a boom in the last few years. However, in 2008, the growth was more moderate and in some sectors the market stagnated. Some of the problems facing the housing sector are the lack of infrastructure in rural areas, the degradation of the existing buildings, the insufficient number of social houses, the difficult access to a house for disadvantaged categories (young people, socially disadvantaged, people with disabilities). More than 50% of all apartments in Romania need heating rehabilitation. The governmental scheme to support special loans taken by owners' associations for this purpose has had limited effect due to administrative bottlenecks and the reluctance of people to associate for such goals.

Because in Romania the average habitable area per dwelling is below the EU average, the government has introduced minimum floor area requirements for the apartments being built. But the chaotic administrative system which grants construction permits makes this measure difficult to implement.

The current pension system faces serious problems due to the demographic changes

### **Issue: Pensions**

The current pension system faces serious problems due to the demographic changes. A negative natural population growth and a series of early retirements in the 1990s (masking the structural unemployment caused by the bankruptcy of the socialist industry) led to the present situation, where Romania is the only EU country that has more pensioners than employees. This demographic pressure, coupled with poor management of the state pension system, led the government to launch a private pension system in 2007. Under this system, more than 3 million Romanians under 35 have opted for one of 14 private pension funds. Starting from 2008, two percent of every employee's income is redirected from the state pension fund to the private funds. This contribution is subject to an increase in the following years, while the contribution to the state system is due to decrease accordingly.

In the second half of 2008, the government decided to increase pensions by 20% as of 1 October. The increase was scheduled for next year but the government and the opposition Social Democratic Party decided to apply the measure before the 30 November 2008 elections. Under this measure some 5.5 million pensioners will see their pensions increased. The average pension in Romania was around €153 and will increase to around €184. The measure is likely to further inflame inflationary pressures. In November 2008 President Basescu caused a stir by declaring that the pension system was on the verge of collapse. Although the wording was too strong, the fact remains that over €1 billion were transferred in 2008 from the state budget to the pension fund and this sort of subsidy will remain necessary in the future.

### **Issue: Social security system**

Romania has one of the highest overall contributions to the social security system in the EU. Recently the government increased the taxation base by eliminating pension caps for employers and including the entire gross income of employees. Romanian citizens are entitled to a minimum guaranteed income as a form of social assistance. The number of people receiving minimum guaranteed income decreased from 383 671 in December 2005 to 284 798 in 2008.

## **Issue: Social services**

In December 2005, the Romanian government approved a National Strategy for the Development of Social Services and an action plan for its implementation in the 2006-2013 period. The strategy aims to bring social services closer to their beneficiaries by sharing responsibilities at the regional and local levels. Some of the strategy's objectives are to integrate families better into the local community by providing family counselling, to increase protection against ill treatment and abuse in the family, to integrate children and youth that leave social institutions, to provide accommodation for the elderly in nursing homes, and to introduce protection measures for disabled people.

Some of the problems faced in this area are the gap between the expectations of beneficiaries and the available resources, the uneven distribution of services, differences between different categories of beneficiaries, and poor management and lack of trained personnel. Institutions that provide care and accommodation for the elderly or for persons with disabilities offer often inappropriate living conditions and have a high number of beneficiaries per institution/room.

## **Issue: Roma/other minorities' integration and citizenship issues**

Romania has the largest Roma population in Europe. While the 2002 census recorded 535 140 ethnic Roma, it is believed that the official census underestimates the size of this minority, since they tend to avoid the social stigma by declaring themselves Romanians. Roma have a double minority status. They are an ethnic community and most of them belong to the socially disadvantaged groups of society. They are still subject to discrimination and marginalisation. The best integrated among them are the members of the economic elite and the ones with a secondary level of education. But only 9.6% of Romania's Roma finish secondary education and only 1% of them are enrolled in tertiary education. School abandonment creates conditions for the failure of the social integration of the Roma minority. In an effort to increase the number of Roma who complete their studies, the government has taken affirmative action-type measures, such as quotas in high schools and universities. These measures have slightly increased the number of Roma students but are far from solving the problem of the integration of the Roma.

In 2004 the government established a National Agency for the Roma, a body that aims to improve the social and economic situation of this minority. It also adopted measures and programmes aimed at improving their situation. However, the results are far from the hoped targets. Unlike the Hungarian minority, the Roma are politically fragmented and are represented by only one MP in the Chamber of Deputies, as all other ethnic minorities.

The Romanian government supports a comprehensive European policy for the Roma minority, including the establishment of a European Agency for Roma and a special unit within the Commission. Romania's argument stated that their high mobility rate gave the Roma the special status of a European minority, especially after Romania's accession. But this idea was reluctantly received by other member states fearing a precedent that could be used by other minorities, such as

The Romanian government supports a comprehensive European policy for the Roma minority, including the establishment of a European Agency for Roma and a special unit within the Commission

the Muslim minority in Western Europe. Such member states opposed "communitarising" the Roma problem. Romania's initiative was a failure, and the only significant outcome was to raise the issue on the agenda. Despite the symbolic gestures and nice words, the Commission did not agree upon the Europeanisation of the Roma problems, although it promises support for Romania and other countries that have to deal with Roma issues.

### **Issue: Poverty**

The economic growth rates registered after 2000 have led to a reduction of the poverty rate, which had reached very high levels in the second half of the 1990s (41% in 1999). However, poverty remains a problem in Romania, with 13.8% of the population living below the poverty line according to the World Bank poverty assessment (as of 2006). Two thirds of Romania's poor live in rural areas. Although Romania converges in income and living standards towards the EU, the gap remains large.

### **Conclusion**

Romania has the social structure of a backward country trying to catch up. There are several regions and some economic sectors that constitute the engines of the development process, but also some black holes remain. The North-East and South-East regions are dominated by poverty and stagnation while the agriculture sector employs a large share of the uneducated and poor rural population. The EU Structural Funds are expected to help Romania to pull out such regions from their backwardness. Despite its ambitious goal concerning a "social Europe", the EU itself has only soft leverage to influence social issues in member states. Pensions, education, health system are all areas of action for national governments, with only some inter-governmental instruments from the EU. The Open Method of Coordination is a complex instrument that requires active involvement and strategic initiative from the member states that want to benefit from the experience and assistance of other EU countries. The Romanian authorities' lack of experience within EU activities has made Bucharest a

reluctant and inactive participant in the OMC. Following the streamlining of the OMC on Social Protection and Social Inclusion, Romania released in September 2008 its own "Strategic National Report Regarding Social Protection and Social Inclusion, 2008 – 2010" in order to adapt common EU objectives for social inclusion, pensions and health systems. The report is a useful description of Romania's social situation but it lacks objectives and initiatives to use the OMC to the country's advantage. For the time being, Romania participates in two social projects within the OMC framework, one of them addressing social services for vulnerable groups (Romania is project manager) and the other one addressing the prospects of youngsters leaving the child protection system (Romania is a partner in this project). This is way below the OMC's potential for a country with such social needs. Our recommendation is for the EU to try to assist Romanian authorities in developing internal expertise for identifying social needs that can be addressed within OMC and networking capacities in the same framework. Romania has gotten used to expecting EU inputs for common projects. This was the way things functioned during the negotiations process, with the EU identifying the necessity and proposing twinning-projects and other forms of assistance. That stage has ended, but the Romanian institutions still expect external input. Without a change in attitude, Romania will not benefit from the opportunities created by the OMC.

# H Health System

## Summary

The quality of Romania's health care system and its health care sector status indicators are well below the EU and regional average.

Although the entire population formally has universal access to basic health services and some reforms were introduced after 1989, many people still have inadequate access to health services because of formal and informal charges. The amount allocated from the state budget to the state health system doubled between 2004 and 2007. Although this was a welcome change for doctors' wages, the quality of the system has remained low and the impact for ordinary patients has remained limited. The structural deficiencies of the system – centralised, unaccountable, and politically controlled – has limited the effects, constituting a lesson: increasing funding cannot be a substitute for real reform of the health system.

## Issue: Access to health care services

The Romanian health care system is characterised by a sharp contrast between ambition and possibilities. It tries to cover the entire population but the quality of the services is poor and pay-back schemes are dominant. Formally the system covers 96% of the urban population and 89% of the rural one. A total 145 100 inhabitants of villages are not registered at all with a family doctor. But the actual access to services is lower, with Romania having only 1.9 doctors per 1 000 inhabitants or far below the European average of 3.8 doctors per 1 000 inhabitants. Even these statistics may not be accurate, as medical school graduates are also included in the total 59 000 doctors. The Romanian Doctors' Council statistics show that there are 47 000 doctors, of which 7 500 are interns. Almost one third of the medical specialties are not entirely covered countrywide.

## Issue: Human resources

Adding further to this dire situation is the growing phenomenon of Romanian doctors' migration to Western European countries. Doctors migrate at a rate that exceeds 2%, a fact which is termed as code red by the World Health Organisation (WHO) and which can have long-term effects on the health care system. Four percent of Romanian doctors have requested

Doubling the amount of funding in three years has not significantly improved the situation and quality of the system

documents allowing them to leave the country to work abroad. In the first nine months of 2008, a total 957 doctors requested the Romanian Doctors' Council to issue them certificates of moral integrity in order to be able to work abroad. Romanian doctors leave the country because of low wages, poor

conditions and lack of modern technology in Romanian hospitals.

### **Issue: Quality of health care services and corruption**

Due to the low wages in the sector, bribery (gift-giving) is widespread in the public health care system. Gift-giving has become common if one wants to receive quality care. Even though the infant mortality rate declined substantially from 1994 (26.9 per 1 000 live births) to 2006 (14.9 per 1 000 live births), the levels are still above those of the EU and the average for the countries in the region. Most infant deaths are caused by prenatal conditions and malformations (57%), but high proportions are also due to diseases of the respiratory system (37%).

Parliament passed in 2006 a new package of health laws designed to improve the quality of services. The laws are based on principles, such as accessibility, universality, solidarity in funding health services, incentives for effectiveness and efficiency as well as service delivery linked to health care needs. The laws separated the management of public hospitals from the medical personnel and activities. Parliament also introduced a so-called "tax on vice" meant to fight excessive consumption of tobacco and alcohol products. Funds levied are used to finance investment in the health care system and other national health programmes.

The Ministry of Public Health also launched a national health care evaluation programme in order to determine the health risks of the entire Romanian population. The programme is ongoing, with the first results published in August 2008.

### **Issue: Financing**

Health care is funded by the state budget for public health programmes and the social insurance-based system. Funding has increased since the insurance-based system was introduced. The former government sharply increased funding from the state budget, with the funds allocated to primary health care increasing by 50% in 2007 compared with the previous year. In net amounts, the public health care system received €4.3 billion in 2007, compared with €2.1 billion in 2004. Although it looks impressive on paper, doubling the amount of funding in three years has not significantly improved the situation and quality of the system. The major part of this increase went for the much-needed pay raises for medical personnel. Despite

this, at least half of all users of health services report making additional payments. The increased funding was swallowed by the unreformed and centralised system, with politically appointed hospital directors who are not accountable to their public.

### **Issue: Hospital privatisation**

Hospital privatisation is a long-term goal of the reform programme of the Romanian health care system launched in 2005. While certain hospital services have been privatised, entire hospitals have not been privatised so far. Although the former government came to power with promises to differentiate the efficient hospitals from the inefficient ones and to privatise some of the latter, the consequent laws were less ambitious. It seems that the powerful unions and doctors' associations opposed further steps. Although very pro-market in its political statements, the Liberal government failed to introduce a market-like mechanism in the sector. It increased spending without reforming the essential socialist health system and as a result patients have felt little change. That is why Romanians are keen to avoid using the services of the public health system and those earning enough actually do so by using private facilities, which are totally ignored by the state.

### **Issue: Private health insurance funds**

The private medical service system in Romania accounts for 6-8% of a market that was worth €350 million in 2007 and is expected to exceed €400 million in 2008. The number of subscriptions for private medical services stands at 400 000. However, the private health insurance market has only 14 000 clients. The difference between the two numbers is significant: many Romanians pay directly for private medical services but do not take out private health insurance. This is a rational decision since all Romanians are obliged to pay for public health insurance but refuse to benefit from the public health care system.

The Romanian authorities continue to increase the funding of the state system and to completely ignore the developing private market. In 2007, the private health insurance market was worth €10 million and it is expected to double in the next five years. Health insurance premiums are deductible for employers up to the limit of €200 per year per person. A package of insurance usually exceeds this level, therefore employers are reluctant to offer this benefit. Some employers prefer to offer annual subscriptions to private medical centres instead. This system typically includes a free GP check-up and an appointment with a specialist, but not surgery or treatment. There is unfair competition between the universal health-care system which is corrupt and inefficient, and the private system, which is more competitive but expensive. As all employees contribute to the state system, in fact those people pay twice: once for a public system which they do not use and once more for a private one.

## Conclusion

The “Strategic National Report Regarding Social Protection and Social Inclusion, 2008 – 2010” was issued in September 2008 by the Romanian government to respond to its obligation under the OMC social protection and social inclusion framework. It lists several priorities regarding the health system’s accessibility, quality and financing. All of them propose small corrections of the health system, revealing a bureaucratic mentality based on centralism and institutional control. Although it includes some vague references to EU health care standards, the report fails to propose some actions within the OMC framework or to advance creative ideas to use the European experience in reforming health systems. We consider this section of the report totally inappropriate, given the intention of the document to analyse the Romanian health system in a European perspective. The EU should assist Romanian authorities in drafting a real strategy to attract EU assistance and funding in reforming the local system.

Unfortunately, the EU lacks real leverage in this sector, as the health system is subject to national policy. But a creative approach from Brussels should consider providing political and financial incentives for Romania to place its health system reform in a European context, including by conducting real changes in its old-fashioned policies.

# Educational System

## Summary

Romanians tended to believe that their educational system was a well-performing one and took pride in the results of some high-performers in international competitions, especially in mathematics and sciences. But the average level has been constantly decreasing in recent years, due to structural problems: low wages of teachers, permanent and confusing reforms, political indecisions, lack of funding, and brain drain. Put in an international context, the quality of the Romanian school system ranks in one of the last places in Europe. The difference between urban and rural areas is substantial, with a shockingly small percentage, just 1%, of all pupils born in villages going on to university. Romania is not even close to the Lisbon agenda benchmarks and a coherent strategy is needed if the country is to succeed in adapting its educational system to meet the challenges of the new economy.

## Issue: Reform of the education sector (all levels of education from primary to higher)

The Romanian education system went through several reforms after 1989, but the basic features of centralisation and short-sightedness remained deeply entrenched. Every new government had new ideas about reforming education, but they left the structural problems basically unchallenged. For example, the examination system that allows a student to gain access to high school was changed four times in eight years.

Compulsory schooling was changed from Grade 8 to Grade 10, but this policy was not followed by a proper implementation strategy. Decentralisation was limited and incoherent. Following the reforms made in 1999, the local government councils now own the school buildings and facilities and pay for maintenance and development. But it is the central government that establishes the standards and the curricula, decides on the state of teachers and salaries that are then merely transferred to the local level.

Several measures were taken to adapt the school curricula to the various needs identified by the labour market, but these attempts met with resistance from teachers. In 2005 the government launched a pilot programme in eight counties, designed to transfer to school level the

decision-making, mandates and resources for the organisation and funding of schools.

The government also adopted social measures, such as introducing a limited rural transportation service, subsidising the purchase of computers, and offering scholarships for socially disadvantaged students. More than €190 million were invested in the rehabilitation of school buildings. The government created 82 Schools of Crafts and Trades especially in the rural areas.

### **Issue: Quality of higher education**

Romania makes efforts to align its higher education system to the Bologna process and in 2004-2005 introduced the three cycles of higher education qualification. Two agencies have been created to deal with the management of the quality of education: the Romanian Agency for Quality Assurance in Pre-University Education (ARACIP) and the Romanian Agency for Quality Assurance in Higher Education (ARACIS).

The number of students has increased rapidly (there are now as many places in universities as there are students graduating from high school), but the quality of higher education has not improved. Private universities have also proliferated but, at the same time, academic standards have declined. According to the Shanghai University's Academic Ranking of World Universities, no Romanian university is included in the top 500 universities worldwide.

There is an important rural-urban divide, with students in rural areas receiving lower-quality education. Rural students generally score less in various assessments. The situation is dramatic when it comes to rural students accessing university, with only 1% of them succeeding in entering university.

### **Issue: Student-per-teacher ratio**

Contrary to the regional trends, literacy rates are falling in Romania and high-school dropout rates are rising. At the same time, students are dropping out at an earlier age. The country generally ranks in the middle of the list in terms of student-per-teacher ratio. While staffing levels have remained more or less the same, due to a negative population growth the number of students at the primary and lower-secondary level has decreased. This leads to a better student-per-teacher ratio but also to decreased teaching loads and thus lowered salaries. At the tertiary level the situation is the opposite. In the last four years, the student-per-teacher ratio at the tertiary level has increased by 20% (from 21 students per teacher in 2004 to 28 students per teacher in 2008).

Deterioration of the social status of teachers has led to deterioration of the quality of the people wanting to become teachers, as indicated by the results from the national examinations for tenured teaching positions.

School life expectancy (the total number of years of schooling which a child of a certain age can expect to receive in the future) in Romania (14 years) is generally lower than in the other EU member states. The rate of school abandonment has increased during the last four years, reaching 19.2% in 2007. Romania has a very high rate of school abandonment compared with countries such as Slovenia (4.3%) and Poland (5%) or with the EU-27 average rate of 14.8%. Migration partly explains this increase in school abandonment. Home tutoring has increased throughout the last decade, basically forming a parallel system to the state educational system.

### **Issue: Student performance and outcomes**

Romanians have taken the quality of their educational system for granted for a long time. This was encouraged by a limited number of elite schools that produced good results in international competitions, especially in mathematics and natural sciences. However, this is to change as a general trend of deterioration of the education system is gaining ground. The sense of urgency is supported by results from external evaluations. According to the most recent PIRLS (Progress in International Reading Literacy Study) survey, Romanian fourth-graders rank 36th out of 45 participant countries. In 2001 the country ranked 22nd out of 35th. The average score registered (489 points out of 1000) places Romania after Russia (558 points) or Hungary (551 points) and on the same rank as Trinidad, Iran, Indonesia or South Africa. The PIRLS tests the capacity to interpret, deliver and integrate information after reading a text or various fragments of the text. Romania ranked 47th out of 57 participating countries in the 2006 OECD-PISA ranking, having obtained lower scores than in 2001 when it ranked 34th out of 43. Among the participating EU countries, Romania registered the highest proportion (53.3%) of pupils in the lowest reading level. Girls scored higher than boys (with the exception of mathematics) and pupils attending urban schools had higher average scores than those attending rural schools.

In the last Trends in International Mathematics and Science Study (TIMSS) assessment, Romania ranks 25th out of 38 participating countries, again with better results in urban areas. Although the rate of participation in all levels of education of people under 29 has constantly increased over the last few years, Romania ranks last but one (Bulgaria) in Europe in the TIMSS assessment. Romania has also one of the lowest rates of lifelong learning in Europe. These external evaluations have generated debates in the Romania media, since the country was proud in the past with its mathematics and science standards, but the general decrease in quality registered in recent years has affected this area too.

### **Issue: Teacher training and career**

At the primary level of education, the proportion of certified teachers (those having a teacher diploma) has continued to decrease, reaching

93.5% in 2007-2008. Qualified teachers are being replaced by high-school graduates, which affects the quality of the educational process, especially in remote rural areas unattractive for qualified staff. However, the downward trend is slowing. A slightly negative trend (-0.2%) is registered also in post-secondary non-tertiary education. At the other levels of education (primary, secondary, vocational), there is a 0.5-2% increase in the proportion of qualified teachers. At the tertiary level, all teaching staff are certified. At the European level, 14% of pupils/students study in schools that have a shortage of certified teaching staff. The Romanian educational system has ageing human resources. The average age of teachers is 40 years for females and 44 years for males. Altogether 72.6% of all teachers are female; the highest proportion is registered at the primary level of education and the lowest at the tertiary and vocational levels of education.

### **Issue: Governance and school management**

School principals have a low negotiating power at local and county level. Some of them do not have the necessary competences, while others do not communicate efficiently with decision-makers. Since it is the local councils which allocate money for repairing school buildings and for educational material, the school principals' ability to convince local decision-makers is becoming more and more important. But many of them are used to waiting passively for money from the state, therefore the distribution process suffers from the tendency to consider schools as a system separated from the local communities. There is also a lack of trust in local governments in rural areas, where many local officials do not hold a university (or even high-school) degree.

### **Issue: Financing of education**

The education budget increased annually from 3.5% of GDP in 2005 to 4.3% in 2006, to 5.5% in 2007 and 6% in 2008. In 2008 the education budget increased by 27% as compared with the previous year. In 2007, altogether 17% of all public spending was on the educational system. In 2001 teachers' salaries (the main part of primary education spending) were re-channelled through the local government budgets. However, the system is still controlled centrally since the local governments receive and distribute the salaries according to strict rules established by the Ministry of Education. The local governments cannot increase or decrease the sums and they cannot hire people.

The educational finance system is fragmented, as maintenance costs are financed by the local governments while salaries are financed by the central government through earmarked grants to the county level and then to the municipality level. Other spending items, such as costs of textbooks and costs related to teacher training and student scholarships, come under the responsibility of the national budget. At the same time, costs related to

the free meals programme in primary schools are distributed at the county level. The list of schools included in the recent national programme of investments was established at the central level, and in the first part of the programme the Ministry tried to control the allocation, management and work supervision before leaving it to the local level. The maintenance part of the school finance system is decentralised while the salaries part is strictly centralised.

The maintenance part of the school finance system is decentralised while the salaries part is strictly centralised

The Ministry of Economy and Public Finances has the main responsibilities for teachers' salaries while the local governments are responsible for maintenance costs and they do not report to the Ministry of Education. Thus, the Ministry of Education has little influence over the ways funds are allocated while it is in theory politically responsible for the way resources are spent in the educational sector.

Basic financing of state-owned universities is provided according to the number of students enrolled. Universities have other sources of financing, such as fees, services, research contracts and other types of activities, therefore the funds coming from the state budget represent 65-80% of their total budgets. Private universities use self-funding. Although after their accreditation they are entitled to receive state funds, this does not happen in practice.

## Conclusion

EU leverage in the field of education does not match the ambitious targets set in the Bologna and Copenhagen processes. Romanian universities have made efforts to change towards the Bologna targets and most of them have succeeded, but this has not improved in practice their comparative performance. Many voices in universities even consider Bologna a missed opportunity that has substituted formal transformations for real reforms. Further attention should be focused on eliminating the divide between rural and urban areas, especially in raising the percentage of rural youngsters who succeed in going on to university. This is an unexplored opportunity for Romania within the OMC framework.

# Justice and Home Affairs

## Summary

When Romania started accession negotiations in 2000, corruption was a marginal issue, given the lack of specific *acquis communautaire* and the EU's lack of experience in dealing with corruption in member states. Faced with the lack of political will and even open counter-reaction, the EU developed in several years a series of conditionalities that basically put Romania's anti-corruption policies on automatic pilot. In order to ensure the continuation of this track after accession, the European Commission invented specific benchmarks in this field for Romania. But the post-accession verification mechanism has failed in the face of a strong reaction from Romanian politicians who previously enjoyed immunity from prosecution. It is time for the EC to decide in 2009 if the verification mechanism will be maintained and if so to change its stick-and-carrot incentives.

## Issue: General JHA sector reform

Corruption has been a problem for Romania throughout the accession process. While the country shares with Bulgaria the last places in independent evaluations made by Transparency International and Freedom House, the EU insists that Bucharest pass laws, create institutions and prove its political will to fight corruption. New institutions have been created under pressure from the European Commission and a new generation of prosecutors working within these institutions have initiated investigations against high-level politicians. A couple of years ago, it was hard to imagine that the drive against corruption would go so far as to charge eight ministers. This is a major breakthrough, considering the traditional obedience of Romanian prosecutors towards politicians. In the context of EU pressure and growing internal animosity towards corruption,

the newly created National Anticorruption Directorate (DNA) started high-profile investigations in 2005-2006. A slow counter-reaction from the political parties followed and a real anti-anti-corruption coalition was formed in parliament. Most of the political class mobilised to change the legislation empowering prosecutors, and the government even attempted to close down the DNA in 2007. As it is the President of Romania who appoints top prosecutors, a vicious fight erupted between the President and parliament. Some observers even blame this factor as the main cause of political crises. Between

2004 and 2007, the European Commission was theoretically able to postpone Romania's accession and maintained its leverage over the Romanian government. The EC openly supported the reformist Justice Minister Monica Macovei in her conflicts with the majority in parliament and with the autonomous Superior Council of Magistracy (CSM), a body dominated by judges from the old generation. The EC repeatedly criticised the CSM for blocking reforms. As an act of defiance, in 2006 parliament rejected prosecutors' request for a warrant to search the house of former prime minister Adrian Nastase, accused of receiving bribes during his term in office. The case continued spectacularly and in 2008 the legislature voted to stop the prosecution (after the Constitutional Court extended the immunity of incumbent government ministers to former government ministers as well).

Once EU accession was secured, an open assault started against Macovei and the anti-corruption measures agreed with the European Commission. The Senate voted a motion against her. There was no constitutional procedure for parliament to dismiss a government minister in Romania except by dismissing the entire Cabinet. The accusations against Macovei were simply embarrassing for Romania, because they concerned the legislation passed following Romania's commitments to Brussels in order to gain entry into the EU. The European Commissioner for Justice and Home Affairs made public statements supporting Macovei, which brought protests against the Commission for allegedly interfering in internal politics. As ministers from the Democrat Party refused to continue without Macovei and the opposition threatened to bring down the whole government, the Prime Minister dismissed all his former allies from the government. The conflict between the Prime Minister and the President (informal leader of the Democrat Party) became irreconcilable. A new Justice Minister was appointed from the Liberal Party and he immediately tried to sack the deputy chief of the DNA but subsequently failed because of opposition from the CSM and the President. The targeted prosecutor was the head of Section II of the DNA, which handles most of the cases concerning incumbent and former dignitaries.

The President of the Chamber of Deputies, Bogdan Olteanu, summoned prosecutors to parliament to report on the state of investigations against MPs, but the General Prosecutor appealed to the CSM, which ruled that this was a breach of the separation of powers. The Liberal Party (upset by the investigations against incumbent ministers) and the Social Democrat Party (upset by the investigations against former ministers) strongly cooperated in parliament in order to change the laws under which prosecutors acted. A new law was passed in late March 2007, decriminalising certain aspects of

New institutions have been created under pressure from the European Commission and a new generation of prosecutors working within these institutions have initiated investigations against high-level politicians

bank fraud previously under the jurisdiction of the DNA. Another law simply forbade prosecutors to tap communications without the knowledge of the prosecuted persons. This came against the simple evidence demonstrated by a report of the American Bar Association that Romanian legislation was already weak concerning the powers of prosecutors to investigate corruption, compared with the American and European standards. The European Commission commented that "these amendments would seriously limit the potential of the investigators in collecting evidence, particularly when tackling well established criminal groups or powerful governmental representatives deeply involved with corruption". Reminding of the old times when the diplomats accredited in Bucharest were astonished by the practices of a highly Byzantine political class, the American ambassador publicly condemned the new legal provisions, saying they were not proper for a modern state, member of the EU. Bogdan Olteanu, President of the Chamber of Deputies and one of the "young Turks" in the Liberal Party, replied that the ambassador should mind his own business, because he himself was a political appointee of the Bush administration. To make the whole story even more embarrassing, the British ambassador commented that he supported the position expressed by "the American government". These positions reflected the clear disillusionment of foreign actors (the USA, EU, UK) involved in the transformation of Romania with what happened after accession. These ambassadors participated later in a quasi-secret meeting with members of the parliament's judicial committee in order to convince them to drop their battle against the prosecutors, but with little effect.

Romania, together with Bulgaria, were admitted to the EU in 2007 on the condition that they accept a "Cooperation and Verification Mechanism" (CVM). This was meant to ensure that the two countries would continue reforms after accession. The European Commission maintained the option to activate some safeguard clauses. There are two such clauses, one concerning the internal market (agriculture being the potential risky area in the case of Romania) and the second one on JHA (judicial reform and anti-corruption). Once the safeguard clause on Justice is activated, there are no obligations for other member states to recognise the Romanian judicial decisions. The EC established four benchmarks to judge Romania's progress in judicial reform:

1. Ensure a more transparent, and efficient judicial process notably by enhancing the capacity and accountability of the Superior Council of Magistracy. Report and monitor the impact of the new civil and penal procedures codes.

2. Establish, as foreseen, an integrity agency with responsibilities for verifying assets, incompatibilities and potential conflicts of interest, and for issuing mandatory decisions on the basis of which dissuasive sanctions can be taken.

3. Building on progress already made, continue to conduct professional, non-partisan investigations into allegations of high-level corruption.

4. Take further measures to prevent and fight against corruption, in particular within the local government.

The last three benchmarks directly address corruption issues. Neither one of them was met in a satisfactory way until the EC's last assessment report released in July 2008. The National Integrity Agency (ANI) created with EC cooperation was politically blocked throughout 2007, the law regulating its operation was modified and it was stripped of some of its initial powers. The ANI announced its first investigation against a member of the Senate only in July 2008. The case had a depressing start, as the lawyer representing the investigated person was also a political appointee in the ANI's supervisory board. The lawyer made public threats against the investigators, but the Senate (which appointed her under the law) refused to dismiss her. While praising efforts made by DNA prosecutors, the EC criticised other institutions and noted in two reports released in 2008 that not a single case of high-level corruption was finalised. All the cases started against former and current ministers were blocked by parliament or by the Supreme Court of Justice, which sent them back to the prosecutors.

### **Issue: Internal security situation (crime rate, organised crime, terrorism risk)**

The average homicide rate in the 2004-2006 period was 2.17 per 100 000 inhabitants, compared to an EU-27 average of 1.46. However, the overall crime rate is decreasing.

The overall crime rate in Romania stood at 304 per 100 000 in 2005, 263 in 2006, and 214 in 2007. In 2008 there were no contract killings or bank robberies, while violent crimes decreased from 1 688 in 2007 to 1 570 in 2008. Violent crimes represent only 0.4% of all offences committed. Romanian organised crime groups are not big but they are expanding in dimension and scope. They are involved in cross-border drug trafficking, human trafficking and credit/debit card fraud. Romania's EU accession has facilitated the movement of Romanian organised crime groups in the EU.

The current National System for Terrorist Alert threat level is set to Moderate. The Romanian Intelligence Service has determined the existence of a guarded risk of terrorist attacks.

### **Issue: Functioning and reform of the justice system**

The Romanian justice system is widely criticised for its lack of accountability, predictability and transparency. During the accession negotiations, the European Commission pushed for the creation of an autonomous body to oversee the careers of judges and prosecutors. The Romanian government accepted to create the Superior Council of Magistracy (CSM) but it set the rules to favour the conservative establishment within the profession. Thus, only the heads of the tribunals and the prosecutors' office are allowed to run in the internal election for CSM members. Before the reform was implemented, the then Justice Minister took care to staff all the new bodies with politically selected magistrates. Thus, Romania

rushed to grant formal independence to the judiciary before reforming it, allowing the conservatives within the system to set the new rules. This proved to be a disastrous mistake, soon to be regretted by the European Commission itself. Thus, the EC reports constantly criticise the CSM for opposing real reforms. The majority of CSM members are in a flagrant conflict of interest because they prefer to cumulate offices for material gains. Independent professional associations (which tend to attract young open-minded magistrates) put public pressure on the CSM to establish clear and transparent criteria for career advancement, but their appeals have little impact since the CSM members prefer to control the process. The most criticised practice is to appoint magistrates not in permanent positions but in temporary ones, with the possibility to replace them at any time without proper justification. This practice leaves magistrates' careers to the discretion of CSM members, which tend to take decisions in closed sessions and to refuse to provide proper reasoning of their decisions. Another practice is to substitute the legal way of entering the profession (by written exam) with the so-called "interviews", with candidates facing the CSM members in unprepared discussions. Although this is meant to be an extraordinary procedure, the CSM has abused it. In 2007, the CSM admitted 139 to become magistrates through interviews, almost equal the number of those accepted by the regular procedure (159).

### **Issue: External border management and Schengen agreement implementation**

Romania is set to implement the Schengen agreement by 2011. On 17 September 2008, Romania officially received the Schengen Questionnaire, the second stage of the Schengen evaluation process, after remitting the Declarations of Readiness regarding accession to the Schengen area in June 2007 and June 2008. In December 2008, Romania presented the answers to the questions in the Schengen Questionnaire.

The next step for Romania will be the evaluation visits due to start in March 2009, when European experts will verify the stage of implementation of the Schengen *acquis* in the fields of police cooperation, personal data protection, visa, sea borders, air borders, land borders and Schengen Information System – Supplementary Information Request at the National Entry (SIS/SIRENE). According to the Accession Treaty, Romania will be allotted €559.8 million under the Schengen Facility and Cash-flow Facility until 2009. Considering the regular migration between Romania and Western Europe, Schengen accession is an important political target for every Romanian government. The process seems to be working on schedule, with mostly technical difficulties to be overcome. The exception is the introduction of biometric passports in accordance with Council Regulation No 2252/2004. Some extreme-right groups with the backing of part of the Romanian Orthodox Church have protested against this measure. The media have reported the spectacular claims of some clerics that the new passports represent just the beginning of an apocalyptic plan to conquer

the Romanian nation under “666” or “the number of the beast”. Such claims have produced some fuss in the media, with mainstream opinion-makers condemning the tolerance of the Church for such political interventions by its members.

## Conclusion

What happened in the anti-corruption field represents a major failure for EU post-accession conditionality and tools for leverage. Corruption was a problem for Romania from the very beginning of the negotiations and remained problematic even after accession. The political will to include Romania in the EU prevailed and the decision remains controversial even in Brussels. In 2004, the Commissioner for Enlargement, Günter Verheugen, decided to close the negotiation chapter on Justice and Home Affairs despite the negative recommendation of DG Justice (according to interviews made by the author of this report with Commission officials). The EU’s strategy functioned after the 2004 elections when political will in Bucharest matched foreign pressure. The EU empowered the reformists in Bucharest and gave them space to breathe in an otherwise hostile environment. But once accession was secured for 2007, the Commission strategy proved its limits. Foreseeing this situation, the Commission tried a compromise solution: it accepted the accession but established a post-accession monitoring mechanism. The experts interviewed for this report unanimously consider this mechanism to be inefficient because it has not prevented Romanian politicians from attacking and almost dismantling the anti-corruption mechanisms established before 2007. The main threat attached to the CVM – that sentences passed by Romanian courts would not be recognised in other member states – could be costly for Romanian emigrants and may induce business costs for Romanian and European investors, but it would not affect the politicians who have more immediate interests to defend. Implicitly recognising its failure, the Commission has not activated this safeguard clause despite all the above-mentioned facts and its own exasperation with the situation. Some independent reports note that the EC is considering extending the verification mechanism and attaching more “sticks” to it, such as suspending some EU funds, and delaying the country’s accession to the Schengen area and Eurozone. Such measures would inflict costs precisely on the most mobile citizens, those travelling abroad and those applying for EU funding, but they would not make a serious difference in decision-making. Our recommendation for the EC is to make a decision after carefully analysing the concrete measures of the new government and the new majority in parliament. If they remain as hostile as the former ones, the EC should try to inflict maximum costs on decision-makers. Maybe some symbolic gestures, such as open condemnation of Romania by the next European Council for its corruption problem, would be more relevant for politicians than the measures currently considered in Brussels. Limiting the EU’s response to the area of technical aspects is a mistake: the problem is political and it should be addressed by political means.

# Migration

## Summary

Migration in and out of Romania was marked by the country's accession to the European Union.

A wave of Romanians migrated to Western Europe for a job and the savings they sent home was one of the main revenues for the country (estimated to be up to 5% of GDP).

Emigration has had certain positive effects, such as reduction of unemployment and poverty, especially in rural areas or in those affected by the restructuring of the economy in the 1990s. But in the long term, emigration creates new problems for a country with an ageing and declining population. Romania lost 4.9% of its population between 1992 and 2002 and this figure does not include the temporary migration to Spain and Italy, visible mostly after 2005. With the economic crisis hitting Spain, many expected a massive return of those migrants. But it seems they prefer to wait for new opportunities there rather than to return to a life they had run away from. According to some estimations, only around 10% of the Romanians working in Italy and Spain are seriously considering returning home because of the economic crisis.

## Issue: General demographic trends

Romania has a total population of 22.2 million (data for November 2007). The long-term trend is downward, with a 4.9% total decrease in population between 1992 and 2002. According to an official estimation, Romania's population will decrease to 16 million by 2050, at current birth rates. Following the pro-birth measures taken in the Ceausescu period, Romania currently has one of the highest shares of young adults in Europe. If the present pension system is not changed significantly, this wave of adults will create serious problems when they exit the labour market. Romania also has the largest share of rural population in Europe, 44.8%, most of them living in small unproductive farms. The average life expectancy is 69 years, significantly more for women than for men (73 versus 66 years). Romanians constitute 89% of the population, with Hungarians (6.6%) being the most numerous and compact minority. The Roma population

is officially estimated at 2.5%, but unofficial estimates speak of at least double this figure.

## **Issue: Outgoing migration**

Exact data are not available, but the unofficial estimate is that around 1.5 million Romanians have gone to work abroad. Countries such as Spain and Italy (the main destinations for Romanian emigrants) show a strong increase in immigration from Romania in 2006, followed by an even larger increase in 2007. Romania is now the most important country of origin for immigration into Spain, with the number of Romanians entering Spain almost tripling between December 2006 and December 2007. According to World Bank estimates, remittances from migrant workers account for as much as 5% of Romania's GDP. Some started returning home in late 2008 after the economic crisis hit Spain, but the number of returning Romanians is still low. The associations of Romanians working in Spain and Italy estimate that about 10% are seriously considering returning home. The Romanian media report that many of the migrants would rather wait in Western Europe for better times than return home, since they are sceptical about the opportunities offered in the country.

## **Issue: Illegal immigration and asylum seekers**

Given the discrepancy in living standards between Romania and the West, Romania is not a target for emigration from other EU countries. It largely remains a transit country for immigrants heading towards Western Europe, but this may change with the catching-up process. The Ministry of Interior and Administrative Reform estimates that the annual number of immigrants will increase to 15 000-18 000 and could even reach 25 000-60 000 after 2010. Officially, several hundred illegal immigrants enter Romania every year – in 2006-2007, for example, there were show 697 illegal entries in the country, most of them from Moldova, Turkey and Ukraine.

Between 1991 and July 2007, the Romanian authorities registered 15 965 asylum seekers and offered protection to 2 723 of them. At the end of July 2007, there were 810 foreigners enjoying the protection of the Romanian state (549 adults and 261 children). Most of the asylum seekers came from Iraq (43.2%), Iran (12%), Palestine (8%) and the Democratic Republic of Congo (7.1%). Of the total, 72.5% had refugee status while 27.5% had other forms of protection. Most of them were young (77% are under 45 years old) and male (75.6%). Altogether 25% had finished their studies in Romania and 64.5% had a job. Those who speak Romanian well or very well made up 79%, and 48.5% had arrived in Romania more than 10 years ago. These numbers are still far below those in Western countries and it is not clear to what extent Romania is prepared to become a destination country in the coming years.

## **Issue: Regulated immigration**

Regarding regulated immigration, there were 54 000 foreigners with valid permits in 2006, a number that constitutes only 0.2% of Romania's

population. The most important part of immigration consists of repatriations involving citizens of the Republic of Moldova. Romania formally grants citizenship to the Moldavians who were Romanian citizens before 1945 (when what is now the Republic of Moldova was part of Romania) and their descendants. Since the Moldavian Constitution forbids dual citizenship, the exact numbers are not available, but some estimations speak of 500 000 Moldavians obtaining Romanian citizenship after 1989. As an obligation assumed for EU accession, Romania has become more selective in the last few years and has created administrative barriers to granting citizenship to Moldavians.

The government created in 2007 a new central authority under the control of the Ministry of Interior and Administrative Reform – the Romanian Office for Immigration, which unites a series of previously separate bodies, including those dealing with labour force. This body deals with issues related to granting of visas, asylum applications, employment authorisation and gathering data about foreigners.

In 2007, several changes were introduced into Romania's work permit scheme. A new residence permit for work purposes was introduced under this scheme, replacing the two separate work and temporary residence permits. In addition, EU citizens and their family members are no longer required to have a work permit. The government also significantly raised the fines for businesses employing foreign nationals without a work permit.

At the beginning of the economic transition, de-industrialisation created a migration trend from cities to villages, with some of the former peasants brought to cities by the communist authorities choosing to move back. This was especially common among poorly educated persons with little opportunities in the new economy. However, this trend was reversed in 2006, the first year after 1989 that saw an increase in urban population. Out of the Romanians going to Western Europe in search of better jobs, an estimated three quarters come from villages and from the eastern regions which have the highest poverty and unemployment rates.

## **Conclusion**

Given the fact it is not a target country for external migration, Romania showed limited interest in the negotiations concerning the European Pact on Immigration and Asylum. Romanian officials insisted on a clear differentiation between free movement of EU citizens within the EU borders and migration from non-EU states. This was meant to ensure that the Romanian citizens' right to travel and work in the EU would not be affected by the new European policies. Concerning the Blue Card directive, Romania tried to underline the "community preference" principle granting its citizens priority in regard to third states. As in Romania, unlike in Western Europe, there is no public debate on migration, the country has limited incentives to participate in common policies in that area.

# R Research and Innovation

## Summary

The Romanian R&D system faces a dilemma similar for all state-dominated sectors: funding has risen in the last few years but results are yet to be seen. The situation in the health care and education systems is the same. As the state budget increased due to economic growth, politicians increased public funding but failed to make the necessary reforms. Thus, research funds doubled in 2007 compared with 2004. However, they are spent on old-fashioned state-owned institutes isolated from the real economy and dominated by nepotism and excessive bureaucracy.

In these conditions, Romania will continue to be a technology importer and a provider of cheap workforce for western employers such as Nokia, which has a new plant in Transilvania. The good news is that the brain drain estimated after accession did not have the expected proportions, educated Romanians preferring to take advantage of the opportunities brought by local economic growth.

## Issue: Model of R&D investment and generation

Research and development expenditure constituted 0.7% of GDP in 2008, almost double that in 2004 (0.38%). Despite this increase, R&D funding is well below the 3% target established in the Lisbon Strategy. Even those limited funds are not spent efficiently, as most R&D activities take place in old-fashioned state-owned research institutes, with little connections to the real economy. The public/private funding ratio is 2:1, with private funding amounting to just 0.3% of GDP. Only 20% of all private companies in Romania – well below the 42% EU average – invested in research in 2007.

The level of innovative culture is rather low in both the academic and business fields. Innovation at the entrepreneurial level has never been consistently supported by a functioning system of technological transfer, and risk capital can be considered absent.

Approximately 41 035 persons were involved in the R&D sector in 2005, out of which 29 608 were researchers. Research and development activities continue to take place mainly in the public sector (around 60%). Although an infrastructure for research does exist – 753 units with research and development activities, out of which approximately

Only 20% of all private companies in Romania – well below the 42% EU average – invested in research in 2007

389 research institutes and centres and 79 accredited institutions of higher education, and also specialised researchers (in approximately 50 scientific and technological fields, including high technologies such as electronics, medicine, pharmaceutical

industry, aeronautics) – the discrepancy between Romania and the EU is still severe: at the human resources level, Romania has 3.31 researchers per 1 000 working force (2004), as compared with an EU average of 5.4 per 1 000; at the technological level, the gap is considered to be as large as five to ten years.

### **Issue: Brain drain**

Many voices warned Romania that EU accession would imply a severe brain drain towards the West once freedom of movement for workers created new opportunities for educated Romanians. With the particular exception of the health care sector, these warnings have proved to be exaggerated. Indeed, the majority of the Romanians who have taken the opportunity to work abroad are low-skilled, since their living standards in Romania were low and they had no positive expectations. As for the skilled workforce, the impact has been limited. EU accession happened in a period of high economic growth and the average wage has more than doubled in the last four years. The principal beneficiaries are skilled people working in big cities and in the new economy: services, the banking sector, IT. The credit boom created new incentives and capacities for long-term plans. An internal evaluation made by the IT industry associations shows that workers in this field stopped leaving Romania after 2006-2007, and that some who had gone to work abroad are now returning home. The average monthly salary of project managers at big IT firms in Romania exceeds €2 500, which in comparative terms and prices is better than that of their counterparts working abroad. Doctors and qualified medical staff are the big exception in this positive picture. Four percent of all Romanian doctors have requested documents to leave the country to work abroad. Considering that Romania's medical system still remains largely unreformed and centrally controlled, Romanian doctors find few incentives to stay in the country, especially young doctors who encounter serious barriers to entering the system. The pay raise ordered by the government in the last two years has not significantly improved the incentives, because it has not affected career patterns.

### **Conclusion**

As in the other sectors, Romania is not ready to use the opportunities offered by the OMC in R&D. The old network of research institutions are not connected with the real economy and have no incentive to change,

especially given the increase in funding in the last few years. The Romanian government should start a process of deregulation in the sector, giving newly created NGOs the opportunity to compete for state funds. The entire philosophy of R&D funding should be changed, from direct subsidies paid to state research institutes simply to continue their existence to project-based funding, for which state and private must compete. There is no formal EU leverage in the area of institutional framework, but Romania could start OMC partnerships with EU countries well advanced on this path. The EU itself should try to facilitate this sort of partnerships.

# Agriculture and Rural Development

## Summary

Romanian agriculture is split between two clear realities. On the one side are the small farmers owning 2 hectares on average, and producing for subsistence and outside the market; on the other side are the large industrial farms concentrating average areas bigger than the medium-sized farms in most EU countries. The EU subsidy structure further increases the gap between the two categories, helping disproportionately larger farms. Subsistence agriculture covers up deep social problems, providing a way for survival to large categories of unskilled and poorly educated peasants who otherwise would not be able to find jobs in the urban economy. Thus, Romanian agricultural policies have deeper social implications than in other countries. Romania is interested in the Common Agricultural Policy both as a subsidy recipient but also as a beneficiary of the rural development funds, given the underdevelopment of its rural areas.

## Issue: Socio-demographic trends in rural areas (including income disparity, etc.)

Romania has the largest share of rural population in the European Union. Altogether 9.7 million people live in 12 946 villages, accounting for 45% of Romania's total population (a record high in the EU) and 87% of its territory. The average GDP per capita in villages is three times lower than in cities; while the average GDP per capita in Romania is 30% of the EU-15 average, the figure for rural areas is 9%. In the last rural census (2005), 30% of the total population were employed in agriculture. As the largest share of these people were employed in subsistence farming, agriculture provides a livelihood for many people who otherwise would be on welfare. Generally speaking, there are two separate agro-economies in Romania: a subsistence one – disconnected from the market, cultivating small plots of land, with low productivity; and the market one – dominated by large farms, even by EU standards.

## Issue: Vitality of the agricultural sector; consolidation of land

The average size of individual farms was 2.15 ha in 2005, making them totally unprepared to face market competition. Farmland consolidation is

a slow process in the current situation – an independent report calculated that at the current pace, the average size would increase by 1 ha in the next 20 years. Many subsistence farmers do not have an alternative; they lack education and money to move on to cities or to work in other sectors. The problem is only worsened by the demographics: the rural population is ageing rapidly, 19% being aged over 60 (compared with 11% of the urban population). Many villages have been depopulated in the last few years as a result of external migration, with mostly young males going to work in the West – which further jeopardises the already low productivity in the sector.

### **Issue: Economic significance of agriculture and rural areas**

The contribution of agriculture to Romania's GDP is around 12%, the highest in the EU, although this percentage is on a descending pattern due to the economic growth, triggered mainly by the urban economy.

State intervention in agriculture was reformed in the last years before EU accession. The traditional production-based subsidies were replaced by decoupled payments (per area) following the model imposed by the CAP reforms after 1993. Given the dimension of the sector in Romania, the support for agriculture could be as high as 6% of GDP, far above the OECD average (1.1%). Reluctant to extend the already expensive CAP payments to the new members, the EU imposed during the accession negotiations a gradual introduction of common direct payments for new member states (25% of old EU level in 2007, 30% in 2008, 35% in 2009, and so on).

Unlike the direct support, the rural development funds are fully available for new member states after accession. The new member states were allowed to supplement the direct payments received from the EU from their national budgets, without exceeding the EU-15 level. The Romanian government chose to pay €47/ha, thus the total amount (CAP + national payments) received by farmers is around €98/ha. In February 2008, altogether 1.2 million farmers applied for these funds, with a total eligible area of around 9.4 million ha. The total amount to be distributed in 2008, both from CAP and national budget, stands at around €915 million.

### **Issue: Effectiveness of EU funds and subsidies**

The general EU-level discussion about the imbalances of direct subsidies is even more acute in Romania. In the EU-15, altogether 50% of beneficiaries received in 2005 only 3% of the total amount. In Romania, 50% of the farms received around 1% in 2007. The large farms are clearly advantaged, which distorts the CAP objective to support rural family income. Although 1.2 million farmers applied for the payments, the 790 farms working over 1 000 ha received 17% of the total amount.

Romania entered the EU with a special "Cooperation and Verification Mechanism" for the two sectors in which the country was lagging behind: Justice and Agriculture

The poor infrastructure and access to public services in the rural areas make the rural development funds even more important than subsidies. The EU 2007-2013 budget allocates around €8 billion for Romanian local communities. The recently adopted National Rural Development Plan establishes as funding priorities:

- Diversification of the rural economy to non-agricultural activities (25% of the total amount);
- Protection of the environment, sustainable use of land, promotion of agro-environment (23%).

Romania entered the EU with a special "Cooperation and Verification Mechanism" for the two sectors in which the country was lagging behind: Justice and Agriculture. Unlike the political problems of the Justice sector, the latter encountered mostly technical difficulties. The main difficulty was to register the highly fragmented agricultural plots according to EU methodology. This proved to be a huge task, since Romania never had a well-functioning cadastral registration system (with the exception of the Western part of the country, formerly part of the Habsburg Empire). The land redistribution after 1989 was based on fuzzy and hasty methods and the borders between the properties were commonly negotiated between neighbours. The traditional post-1989 subventions were based on production and did not need clear mapping of the territory. This mainly anarchic system faced the highly bureaucratic demands of the European Commission, which monitored Romania closely in order to ensure a fair and standardised distribution of the direct payments. Romanian governments made efforts to create operational payment agencies and an Integrated Administrative Control System (IACS). The EC reports revealed deficiencies and a decision was made in August 2008 to suspend temporarily rural development payments to Romania due to deficient auditing procedures. Romanian authorities insist that the problem would be remedied promptly and the payments resumed.

Most experts agree that the problems will be overcome and that there are no issues of political will in this area. Most probably, the EC will decide to end the verification mechanism next year.

The Romanian government actively acted to promote a quicker equalising of direct payments available for the new and the old EU member states. The Romanian government acted together with the Polish, Hungarian and Slovakian governments in that direction.

## Issue: Fisheries

Romania is not an important player on the fishing market and the country closed easily this chapter during accession negotiations. The

Romanian fishing fleet built during the communist period was dismantled and only small-scale industrial fishing takes place in the Danube delta and the Black Sea. Romanian fishermen protested about being obliged to comply with EU quotas while their competitors in the Black Sea from non-EU countries have no such obligations. Thus, as a response to the proposals of the French Presidency concerning the reform of the common policy, the Romanian government supported that the fishing quotas should be decided by the subsidiarity principle.

## **Conclusion**

With its large and complex agricultural sector, Romania will be an important player in the CAP debates in the near future. The dominant opinion among the Romanian stakeholders is that the EU should maintain its subsidy policies. But given the state of the Romanian rural areas, the country is also interested in increasing the rural development funds. Most probably, Romanian governments will adopt a dual strategy, trying to maintain subsidies and to increase rural developments at the same time. The EU subsidy system provides further incentives for freezing the structure of Romanian agriculture. Equalising subsidies for farmers in the new and old member states will provide small farmers in Romania with new reasons to continue working in their underproductive facilities.

Romania should seek innovative policies to encourage the transformation of these small farmers and should use the experience of other EU countries in this area. First of all, the new policy should address both the social and economic components of the problem. The European Commission should acknowledge the efforts made by the Romanian governments in registering land in order to ensure standardised distribution of direct payments. Although some problems remain, they are caused not by political will but by real technical difficulties.

# R Regional Development

## Summary

Romania has inherited major regional discrepancies, with the capital city Bucharest and Western regions taking the lead in development and the South-East and North-East bringing up the rear. Moreover, the North-East development region is the poorest region in the European Union. The tardiness in accessing EU funds is partly due to the way regional development was designed. At the EU's request, Romania created out of the blue some development regions, often merging counties with no historical links and common interests.

Thus, the so-called "regional development" is a bureaucratic creation – the real functional unit remain the old counties, each of them trying to grab a larger slice of the pie at the expense of other counties in the same region.

## Issue: Trends in social and economic development of the country's regions

Aware of the discrepancies between the different regions of the country and also of the urban-rural gap, the Romanian authorities have elaborated a "strategic concept of space development" that looks at the existing trends in urban development but also at the unexploited capacities in connection with major European transport corridors which could potentially contribute to regional development. In this context, there are metropolitan centres of international importance, such as Bucharest, the capital of the country, which is expected to be followed by cities such as Timisoara, Constanta, Cluj and Iasi, (all of them with more than 300 000 inhabitants), all of them centres with a high

economic level, a well-defined cultural and historical identity and, according to the governmental strategy, with influence at the European level. When considering their development it is also worth noting that, together with Brasov, Craiova and Galati, they are all university centres where regional institutions have their headquarters.

Around these cities an ongoing project for developing the metropolitan area has been launched. The metropolitan areas identified so far are: Bucuresti, Bacau. Brasov, Braila & Galati, Cluj-Napoca, Craiova, Iasi, Timisoara. The political statements are however the only criteria all of them have met, while others such as the existence of a common strategy, of a

common territorial plan, common investment or ongoing joint projects are lacking in numerous cases.

### **Issue: Cohesion and convergence**

According to the European Spatial Development Perspective, the authorities should consider a new urban-rural relation, equal access to infrastructure and knowledge and wise administration of natural and cultural heritage, looking at sustainable and coherent development.

The above-mentioned cities that are to be metropolitan areas are spread throughout the country, with a slight advantage in terms of population in the Western part of the country, should one exclude the capital, Bucharest, which is already considered a metropolitan area with more than 2.1 million inhabitants. But traditionally, the map of Romania has always shown regional disparities, with a variable depth.

However, in terms of infrastructure the different regions of the country are doing equally bad, the worst notable case being that of the regions northeast of the Carpathian Mountains. There have been many allegations in the media about preferential allocation of funding for infrastructure in regions where various governments have had the strongest electoral support. The general state of roads and railways is rather poor and constitutes a strong impediment for development.

The Eastern part of the country, namely the counties bordering Ukraine and the Republic of Moldova, have traditionally been considered to be the poorest. Indeed, the North-Eastern counties have a poverty rate almost double that in the North-Western ones. The Southern part of the country scores averagely, with the notable exception of Bucharest and the surrounding area – the richest region of the country.

A closer look could however notice intra-region disparities, as there are less-developed counties within regions considered to be wealthy – as is the case of Salaj county in the North-Western part of Romania. Once again, another exception is worth considering, and that is the county of Brasov, one of the most urbanised counties of Romania which “benefited” from heavy industrialisation plans during the communist regime. As usual, Bucharest is once again a notable exception in terms of human development.

The capital of Romania has good connections in terms of road transport and railway transport with all regions of the country, and one may note that the regions “on the way to Bucharest” also have good transport connections. That leaves the connections between regions such as South-West or North-East with poor infrastructure.

### **Issue: Decentralisation and sub-national governance**

Some legislative steps were taken in 2006 towards decentralisation, a goal promised by various Romanian governments after 1989. The so-

called “decentralisation package”, proposed by the government in 2006 and adopted by parliament in July that same year, took some – but not bold enough – steps in the right direction and suffered in the implementation phase. The new laws granted more space for local authorities to function without central supervision and regulated the central funds transfers through some technical criteria for redistributing the money among counties and localities. Other pieces of legislation aimed at simplifying the career path for civil servants and at limiting the political migration of local elected officials between various political parties. The government later breached the good principles of the new legislation when it grossly abused the redistribution system. In order to avoid the legal criteria, the government limited the money distributed by regular procedures and increased the so-called emergency funds which are distributed at its discretion. This was a political move meant to advantage the mayors of the Liberal Party at the expense of the officials belonging to other parties. This strategy was particularly applied in 2008, an electoral year, when the government ministers took the opportunity granted by the new constituency-based electoral system to offer pork-barrel money to the localities where they were running for election.

Presidents of county councils were directly elected for the first time in the spring 2008 local elections. They were previously elected by the county councils, and the new procedure made them directly accountable to the public. The new system triggered a series of changes in the internal life of Romanian parties, with local officials becoming more powerful and some of them being able to secure the appointment of their own nominees for some ministerial positions in the negotiations that followed the general elections. For example, the powerful president of the Constanta County Council secured the appointment of a local figure as Environment Minister. Constanta County thus got its revenge on this central institution after years of conflict in which the central authorities opposed some expansion plans developed by the local authorities for the Black Sea resorts.

### **Issue: Ability to absorb SF on local and regional level, and administrative capacity**

The distribution of EU funds on regional level further empowered local authorities. The so-called development regions in Romania were created at EU request, on an arbitrary basis, without historical traditions or common interests. Thus, some neighbour counties were merged and this resulted in local officials distributing the regional competences accordingly with their political power and connections with the central government. Presidents of the county councils must approve most of the projects seeking EU financial support and in many cases they tend to overrule the decisions of the independent evaluators. This is one of the main causes for the inefficiency of the Romanian administration in accessing EU funds. The situation is complicated further by local corruption. The National Anti-corruption Office has started prosecutions against an entire local council concerning a project

which used public resources for a private business, and media reports show that such cases are common.

The accession programmes are still in progress, therefore an overall analysis cannot be fully relevant. SAPARD (agriculture) ends in 2009, having been extended by one year. PHARE projects for the 1998-2003 period have been completed and their absorption rate is 90%, with the maximum rate for the civil society component (mainly because it is administrated by a private non-profit entity and not by the state). PHARE 2004-2006 projects are still ongoing. Given the multi-annual functioning of Structural Funds, the available data at the end of 2008 are not fully relevant.

### **Issue: Public-private partnerships**

Romania had a chaotic legal framework for public-private partnerships (PPPs) until 2006. The 1998 Concession Law and the 2002 PPP Act overlapped and created major confusions. The new public procurement law adopted in 2006 clarified the situation and at the same time brought the Romanian legislation in line with the EU requirements. Despite this formal progress, there are no significant PPPs in what concerns EU funds. The former government announced in 2008 a programme to build 3 000 km of highways through PPP schemes in ten years' time, co-funded by the European Commission. This programme remained on paper until the change of government in December 2008. The new Minister of Transport publicly declared that Romania should use PPP more actively in infrastructure projects as the state-funded projects used until now show little progress.

### **Conclusion**

Having some of the most undeveloped and poor regions in the entire EU, Romania is theoretically a good destination for cohesion funds. Although it is still early to assess the outcome of the 2007-2013 budget allocation, some warning signals are already clear. The performance in the pre-accession period and the poor results for 2007 make EU assistance necessary in order to improve Romania's results. A government initiative to form a working group with Spain, the best performer in attracting EU development funds, has remained on paper. The EU should facilitate such exchanges. Moreover, the EU should reassess its regional methodology. Distributing EU funds following the current regional map means continuing an old mistake. The so-called development regions exist only to absorb EU funds and do not have a life, experience and public of their own. They often represent nothing more than a negotiations structure between central authorities and the county level.

The Romanian authorities should launch a public debate on changing the current administrative framework. The current 41 counties (judete) are too small to complete major EU projects. At the same time, the so-called

“development regions” have failed to concentrate real decisions and to promote cooperation between counties. It is necessary to:

- Reshape the regions according to the historical affinities (the centralistic governments in Bucharest created the current “regions” in such a way as to overlap the nineteenth-century regions, bringing together areas with very different traditions and cultural heritages).

- Create directly elected institutions at regional level and give them real powers in attracting EU funds, without supervision by the central government in Bucharest.

# Level of Absorption of EU Funds and Their Impact

## Summary

Romania has limited capacity to absorb EU funds and the pre-accession period proved that. Insufficient technical capacity and a deficient set of incentives for the human resources involved in the projects' preparation led to poor results. The situation remains largely unchanged after accession. Accessing EU money is a complicated process, or at least this is the common viewpoint of applicants. They usually complain about the complicated procedures and the hard conditions imposed upon them. More than 20-30 additional documents are requested to be submitted with the application itself. The capacity for self-financing (which reaches up to around 50%) is one of the major factors considered when applying for funding.

Despite all these, EU-financed projects have been successful considering the overall number of applications. EU Structural Funds for Romania comprise of seven operational programmes. In addition to this, financing is available in the field of rural development, where there is also fierce competition between applicants.

## Issue: Level of absorption

Romania had a mediocre performance in absorbing EU pre-accession funds. In what concerns the ISPA projects, the country absorbed €887 million out of the €2.04 billion available from the EU. The other two pre-accession instruments, PHARE and SAPARD, had higher absorption rates. Romania was allocated €3.6 billion under the PHARE pre-accession instrument and €1.1 billion under SAPARD (2000-2006). Due to insufficient technical capacities, often the selection of projects by the Romanian authorities was problematic. This led to incomplete projects being sent to Brussels and to delays. Another problem was the deficit of qualified human resources, and a high employee turnover caused by the small salaries in the public institutions dealing with EU projects. Even after the government raised the salaries of staff working with EU projects, the average time spent by a qualified employee in a public institution dealing with EU funds is less than three years. After gaining experience in this area, a great

number of employees move to the private sector, to the consulting companies writing EU projects. Romania was also confronted with a lack of expertise for the certification of payments for ISPA, SAPARD and (partly) PHARE.

Some of the above-mentioned problems still decrease the country's capacity to absorb EU money. When it comes to the Structural Funds, 281 projects were approved by 30 June 2008, with an estimated value of €2.5 billion, out of which €1.8 billion from the EU, the rest being domestic contribution. From the total number of 281 projects, for 23 a contract of financing existed by 23 June, the rest being at different phases of finalisation. According to the Minister of Economy and Finances, the total number of applications was 1 297. These figures show a 20% success rate, a relatively low performance caused by:

- The bureaucratic limitations imposed on different financing lines in various periods of time;
- The quality of the projects submitted, which often do not meet the necessary requirements, causing an early rejection of the project.

Within the rural development programme there were (until the June deadline – where data are available) 2 900 projects submitted, double than all the rest. The successful applications were 1 103, one third of the total. The large number of applications shows tough competition between rural authorities, as Romania has one of the lowest rates of rural development in Europe.

The most successful programme in terms of project approval was the special financing line for Human Resources Development, which received 588 projects until September 2008. The success rate here is around 40-45%. Experts consider this field to be an easier one to spend money in, as human resources development activities are easier to implement (organising trainings, conferences, etc., which is not the case with large infrastructure projects where implementation is much more difficult). There are still additional explanations regarding the bureaucratic process when it comes to this programme. The authorities eliminated some of the complicated procedures of submitting official documentation. The request for financing can be made online; also the electronic platform makes it impossible for the evaluators to know the identity of the applicants, eliminating suspicions of corruption and subjectivity, which, in some cases, caused delays or led to judicial complaints. This programme can be considered a best practice in the field and electronic-based application should be adopted by other lines of financing as well.

The environment sector proved to be also competitive in attracting European funds. Six large infrastructure projects (for sewage systems and water pipelines) have already been approved by the Commission. With €800 million contracted in the field, Romania ranks within the first among the new EU members. It is also true that it registers a big deficit in the field, as shown in a previous chapter.

The Regional Operational Programme is well underway, although the projects are not yet under implementation. By October 2008, 17 financing contracts had already been signed, amounting to €270 million; the submitted applications amounted to €2 billion. The Minister for Public Works, who manages this programme, estimates that contracts totalling

€800 million will be signed by the end of the year. In this field, there was an avalanche of local and regional infrastructure projects. To be more precise, the call for application had to be stopped, as the overall value of the projects submitted was overlapping the financial allocation projected for 2013. In this programme, which is decentralised, there are some problems identified at the level of the Agency for Regional Development, where the evaluation process can take as much as six months. Within the Transport Operational Programme, no major project has been approved so far, but ministry officials show optimism, considering the fact that all contracts for highways will be signed by 31 March 2009 and during the next year between €350 million and €500 million will be absorbed.

### **Issue: Effectiveness of the public administration in managing the SF, and capacity to generate and manage projects**

In some cases, the authorities delayed the launching of financing lines. The Increase of Economic Competitiveness Programme managed by the Minister of Economy and Finances launched in October 25 financing lines out of a total number of 35. Even in these conditions, there were 2 218 applications submitted, amounting to an estimated €2.5 billion. In a recent press release, the Ministry blames the delay on the lack of proper preparation of the applicants, who often submit incomplete projects or projects containing expired documentation, which makes administrative control difficult. Still, the examples from other fields show that the authorities could also take steps for facilitating the process. In some cases, during the application stage applicants need to request the issuance of new taxation/liability documents, which usually expire within a very short period of time, therefore they cannot be blamed in those cases.

The problem is deepened by the unfortunate distribution of institutional responsibilities. Part of the above-mentioned projects have to be submitted to one department within the Ministry for SME, Commerce and Tourism. This department used to function as an independent agency until last year, and the reorganisation created new problems and lowered the administrative capacity.

There is public concern in Romania about the delay in EU financing of major projects. The press pointed out in a number of cases that Romania's contribution to the EU budget for 2007 was larger than the amount of funds absorbed. This widespread perception is not valid. It is true that during the first post-accession year Romania was a net contributor, but the EU budgeting process is scheduled for a period of time until 2013. The first year was mostly spent on launching procedures and preparing financing lines. The approvals and the financing itself are supposed to take place mainly in the following years, 2008 and 2009. This is partly true for 2008 and it is expected that the EU funds available for Romania in 2009 will largely exceed the country's contribution to the EU budget. However, this concern

There is public concern in Romania about the delay in EU financing of major projects

is justified when looking at the apparent bureaucratic blockages and the many difficulties the applicants are facing. For some large programmes, especially infrastructure, the EU is very careful in checking and preventing potential fraud

and corruption. Even if this intense scrutiny further delays the process, our recommendation for the EC is to continue this policy, since the Romanian administration has an awful record concerning the proper management of public spending.

### **Issue: Mismanagement and corruption practices**

Between 2005 and 2007, the Fight against Fraud Department (DLAF) identified 121 cases of possible fraud involving European funds. As of February 2008, altogether 53 cases were finalised by the authorities and criminal procedures were initiated in 30 cases involving 39 people. At the beginning of 2009, the European Commission blocked the SAPARD funding because it found irregularities in the reporting system of the Romanian Payment Agency. The problems involve payments made in 2004-2005, and Romania could be forced to return €13 million.

### **Conclusion**

The large number of projects applying for EU funds is a good sign, but Romania's overall capacity to absorb the money in practice remains problematic. The absorption ratio calculated for the first year after accession remains unusually low for Romania (21.7%), compared with previous candidate countries (Poland had 42%, the same as Hungary and Slovakia). Although this figure is not relevant by itself since the EU works with multi-annual budget procedures, the comparative perspective raises some concerns. It is clear that Romania needs EU assistance if the country is to use the opportunity offered by EU development projects. This assistance should focus on eliminating administrative bottlenecks, reducing the contribution expected from applicants and ensuring more coherent human resources in the Romanian public sector.

## References

Batali, Alexandru, "Multinaționalele, locomotiva cercetării private", *Market Watch*, No. 106, June, 2008

Cindrea, Ioan, "The Crisis on the Labor Market in Romania", *Theoretical and Applied Economics*, Vol. 4(509), Issue 4(509), 2007, pp. 25-28

Clean Justice Initiative, *Raport privind starea justitiei si lupta impotriva coruptiei* (Report on the Justice System and the Fight Against Corruption), July 2008

Decade of Roma Inclusion webpage, *International Comparative Data Set on Roma Education – 2008* [http://www.romadecade.org/portal/downloads/Education%20Resources/table\\_2008.pdf](http://www.romadecade.org/portal/downloads/Education%20Resources/table_2008.pdf)

Drechsler, Denis and Theodora Xenogiani, "The Two Faces of Informal Employment in Romania", *Policy Insights*, No. 70, 2008, OECD Development Centre

Eurobarometer 69, 2008, *Public Opinion in the European Union. First Results*

EUROPOL 2008, OCTA 2008, *EU Organised Crime Threat Assessment*

Eurostat, Crime and Criminal Justice webpage [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=3073,67701349,3073\\_69767077&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=3073,67701349,3073_69767077&_dad=portal&_schema=PORTAL)

Fight Against Fraud Department (DLAF), [http://www.antifrauda.gov.ro/ro/despre\\_noi/rapoarte/](http://www.antifrauda.gov.ro/ro/despre_noi/rapoarte/)

Government of Romania, *Raport asupra îndeplinirii prevederilor programului de guvernare 2005 – 2008 (Report on the Accomplishment of the Governing Programme Goals 2005-2008)*, 2008

Group of Applied Economics, *5th Gea Report on Romania and the Lisbon Agenda – The role of regional competitiveness*

Gută, Marius, "România, în topul creșterii investițiilor străine", *Capital*, 16 October 2008

Ilie, Razvan, "Fara o restructurare din temelii a institutelor de cercetare, nu putem vorbi despre viitor in R&D, concluzioneaza oamenii de afaceri", 2008, Standard.ro, available at [www.standard.ro/articles/pdf/68884](http://www.standard.ro/articles/pdf/68884)

"In 2008, in Romania s-a comis o crima zilnic", 20 January 2009, Ziare.com

Medrega, Claudiu, "Deficitul bugetar revine la 1%, dupa 8 luni", *Ziarul Financiar*, 10 October 2008

Ministry for Small and Medium-Sized Enterprises, Commerce, Tourism and Liberal Professions, Romanian Trade Promotion Centre, *Sinteza privind evolutii in comerțul international al Romaniei in perioada 01.01 - 31.07.2008 (Synthesis Concerning Romania's International Trade 01.01 - 31.07.2008)*, 2008

Ministry of Administration and Interior, *Migratia si Azilul in Romania (Migration and Asylum in Romania)*, 2006

Ministry of Administration and Interior, The Authority for Aliens, *Analiza statistica asupra principalilor indicatori de activitate (Statistical Analysis of the Main Indicators of Activity)*, 2007

Ministry of Transport, Construction and Tourism, *Country Report on Housing and Human Settlements*, 2007

National Agency for Roma, *The Decade of Roma Inclusion 2005-2015, One Year of Romanian Presidency July 2005-June 2006*, 2006

National Bank of Romania, *Annual Report 2007*, 2008

National Bank of Romania, *Report on Inflation*, Year 4, No, 13, 2008

National Institute of Statistics, *Monthly Statistical Bulletin*, No. 8, 2008

National Institute of Statistics, *Romanian Statistical Yearbook 2007, "Labour Market"*, 2008

National Institute of Statistics, *Romanian Statistical Yearbook 2007, "Health"*, 2008

National Institute of Statistics, *Romanian Statistical Yearbook 2007, "Education"*, 2008

National Prognosis Commission, *Proiecția Principalilor Indicatori Macroeconomici pentru Perioada 2008 – 2013 (The Projection of the Main Macroeconomic Indicators for 2008 – 2013)*, 2008

National Institute of Statistics webpage, <https://statistici.insse.ro/shop/?lang=en>

OECD Development Centre, Working Paper No. 271, *Report on Informal Employment in Romania* by Jante Parlevliet and Theodora Xenogiani

Open Society Institute, *Monitoring Education for Roma, A Statistical Baseline for Central, Eastern, and South Eastern Europe*, 2006

Open Society Institute, *Equal Access to Quality Education for Roma Monitoring Report 2007*, 2007

Open Society Institute, *Left Out: Roma and Access to Health Care in Eastern and South Eastern Europe*, 2007

"Private health insurance market estimated at 14,000 clients", *Ziarul Financiar*, 30 June 2008

Romanian Academic Society, SAR Policy Brief No. 32, *Lights and Shadows in the Romanian Schools*, 2008

Romanian Ministry of Education, Research and Youth, *Raport asupra stării sistemului național de învățământ (Report on the State of the National Education System)*, 2008

Romanian Office for Immigration, *Raport anual privind situația străinilor care au obținut o formă de protecție în România (Annual Report on the Aliens that Received a Form of Protection in Romania)*, 2007

Romanian Police website, [http://www.politiaromana.ro/prima\\_pagina/index.aspx](http://www.politiaromana.ro/prima_pagina/index.aspx)

Romanian Government, *Schengen Action Plan*, 2008

The Anti-Fraud Department, Romanian Government, *Raportul Anual de Activitate (Yearly Activity Report)*

Schengen Romania page on the Ministry of Administration and Interior webpage, <http://www.schengen.mira.gov.ro/English/index.htm>

Statistical Office of the European Communities, *Eurostat Yearbook 2008*

The National Agency for Employment webpage, <http://www.anofm.ro>

The Presidential Commission for analysis and elaboration of policies in education and research, *România Educației, România Cercetării (Romania of Education, Romania of Research report)*, 2007

The Wall Street Journal, The Heritage Foundation, *2008 Index of Economic Freedom*, available at <http://www.heritage.org/index/Ranking.aspx>

Transparency International 2008, *Corruption Perceptions Index*

UNDP Romania, *National Human Development Report 2007*, "Making EU Accession Work for All", 2007

Wilen Hakan Eurostat, *Statistics in Focus*, "Science and Technology, R&D Expenditure and Personnel", 2008

World Health Organization, *Romania Country Cooperation Strategy at a Glance*, 2007

World Bank, *ECA Poverty Team's Quarterly Newsletter with highlights from recent activities and analytical work on poverty/gender issues in the ECA countries*, October 2007

# C

## onclusions and Recommendations

Policy Area	Need for EU Leverage	Existing Types of EU Leverage	Recommendations for Problem-Solving on National Level	Recommendations for Problem-Solving on EU Level
Political Development and Governance	Yes	<p><b>Cooperation and Verification Mechanism (CVM)</b></p> <ul style="list-style-type: none"> <li>Active, country-specific, soft, significant, non-effective EU leverage</li> </ul> <p><b>Oversight and management of EU funds</b></p> <ul style="list-style-type: none"> <li>Active, hard, significant, effective</li> </ul> <p><b>Activation of Article 7 (suspending Romania's voting rights in the Council)</b></p> <ul style="list-style-type: none"> <li>Non-active leverage, potentially effective EU leverage</li> </ul>	<ul style="list-style-type: none"> <li>Concentrate more on policies than on politics</li> <li>Change the Constitution to make clear the separation of executive powers between the Prime Minister and the President</li> <li>Improve the enforcement of the legislation and the transparency of the national and EU decision-making process</li> </ul>	<ul style="list-style-type: none"> <li>Continue close monitoring of anti-corruption commitments</li> </ul>

Economic Development	Yes	<p><b>Lisbon process</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Common market rules</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul> <p><b>Euro Area Accession</b></p> <ul style="list-style-type: none"> <li>■ Passive, significant, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Pay attention to the budget balance</li> <li>■ Develop infrastructure, the lack of which becomes a barrier for investments</li> </ul>	<ul style="list-style-type: none"> <li>■ Attach some concrete “sticks and carrots” to the Lisbon Strategy, maybe by conditioning access to EU funds</li> <li>■ Determine clear criteria for the ERM II membership or automatic entry for NMS</li> </ul>
Welfare System and Social Inclusion	Yes	<p><b>OMC</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Lisbon Strategy</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Public opinion and the media in the EU</b></p> <ul style="list-style-type: none"> <li>■ Passive, soft, significant, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Meet national targets under the OMC and ensure adequate monitoring and evaluation of progress</li> <li>■ Ensure better coordination between policies for economic growth and employment (in the framework of the Lisbon agenda) and social inclusion policies</li> </ul>	<ul style="list-style-type: none"> <li>■ Expand the scope of the OMC and make it more detailed by setting specific national targets, common objectives and indicators in new fields, monitoring and reporting requirements</li> <li>■ Develop common standards for guaranteeing sustainable and adequate pensions, paying attention to the system’s financial sustainability</li> </ul>

Health System	Yes	<p><b>EU Regulations for public health services</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul> <p><b>EU standards in the realm of patients' rights and care for vulnerable groups</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Adopt an effective national strategy to follow OMC targets</li> <li>■ Reform the state system by introducing market-like incentives and money-distribution mechanism</li> <li>■ Create incentives for the market of private insurance in order to avoid the current system in which people trying to avoid the state system pay only for services in the private system</li> <li>■ Revise the profile and optimise the number of hospitals in the country (privatisation, adoption of the health map, identification of the population's real needs based on reliable medical statistical data)</li> <li>■ Reformulate the existing package of services into basic services to match the available funds and implement complementary insurance</li> </ul>	<ul style="list-style-type: none"> <li>■ Further develop a common framework for access to care, sustainable financing, and compatible and reliable information/statistics</li> </ul>
---------------	-----	--	--	--

Educational System	Yes	<p><b>OMC in education</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Bologna and Copenhagen processes</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, effective</li> </ul> <p><b>Horizontal EU programmes</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, effective</li> </ul> <p><b>EU Structural Funds and especially the Social Fund</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, still limited, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Adopt an effective national strategy for the areas where social mobility has decreased, especially in rural areas</li> <li>■ Adopt clear and transparent criteria for fund distribution for schools, and ensure proper implementation</li> <li>■ Increase public investment in mobility both by direct support for travelling, and investing in language training and transferability of qualifications and skills</li> </ul>	<ul style="list-style-type: none"> <li>■ Refine the OMC towards more detailed common indicators and benchmarks (standards), definition of country-specific targets and more rigorous monitoring and reporting</li> <li>■ Define standards for sustainable funding, including requirements for allocating a certain minimum share of GDP</li> </ul>
Justice and Home Affairs	Yes	<p><b>Police and judicial cooperation in criminal matters</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, effective</li> </ul> <p><b>Cooperation and Verification Mechanism (CVM)</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, country-specific, significant, non-effective</li> </ul> <p><b>Schengen membership</b></p> <ul style="list-style-type: none"> <li>■ Passive, significant, effective EU leverage</li> </ul>	<ul style="list-style-type: none"> <li>■ Create political conditions to allow the anti-corruption mechanisms to function properly</li> <li>■ Continue reforming the justice system to make it more efficient and accountable</li> <li>■ Meet the requirements for entry in the Schengen area in due time</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue close monitoring of anti-corruption commitments but change “sticks and carrots” to acquire real leverage</li> </ul>

Migration	Yes	<p><b>EU policy on immigration and asylum – potential common policy</b></p> <ul style="list-style-type: none"> <li>■ Active, hard EU leverage in progress</li> </ul>	<ul style="list-style-type: none"> <li>■ Form capacity for active participation in the development of this Community policy</li> <li>■ Ensure institutional capacity of the national bodies dealing with migration flows and generation of relevant data and analysis for outflow and inflow migration as well as its public accessibility</li> <li>■ Apply measures for the attraction of well-educated third-country nationals based on labour market needs</li> <li>■ Create the necessary economic, social, political and cultural conditions for the integration of refugees and third-country migrants</li> </ul>	
-----------	-----	--	---	--

<p>Research and Innovation</p>	<p>Yes</p>	<p><b>OMC</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Lisbon Strategy</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Set national targets for innovation and research and foster overall R&amp;D funding base</li> <li>■ Reform the state-owned scientific institutions and change the funding mechanism in order to enhance competition between research bodies, either state-owned or private</li> </ul> <p>Introduce public-private partnerships and innovation incentives for SMEs</p> <p>Take measures to ensure active and informed participation in the OMC and the free movement of knowledge in Europe</p>	
<p>Agriculture and Rural Development</p>	<p>Yes</p>	<p><b>Quality and health safety products requirements</b></p> <ul style="list-style-type: none"> <li>■ Active, hard EU leverage, significant, effective</li> </ul> <p><b>EU subsidies and funds</b></p> <ul style="list-style-type: none"> <li>■ Active, hard EU leverage, significant, non-effective</li> </ul> <p><b>CAP</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Adopt an effective strategy for land consolidation, paying attention to the massive social effects for the entire rural area</li> <li>■ Improve the administrative capacity of direct payment agencies</li> </ul>	<ul style="list-style-type: none"> <li>■ Adopt payment of subsidies independently from the volume of production</li> <li>■ Apply restriction of support for big farms</li> <li>■ The NMS should ally and push for a faster levelling of direct payments for their farmers at old EU level</li> </ul>

Regional Development	Yes	<p><b>Structural Funds (especially the European Regional Development Fund, the European Social Fund and the Cohesion Fund)</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, potentially effective EU leverage</li> </ul> <p><b>EU competition rules (procurement and concession regulations and state aid)</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue and strengthen the capacity for planning and implementation on sub-national, especially the municipal level</li> </ul>	<ul style="list-style-type: none"> <li>■ Simplify delivery mechanisms for EU funds and apply clear quality criteria to programmes and projects</li> </ul>
Level of Absorption of EU Funds and Their Impact	Yes	<p><b>Funds blockage</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul> <p><b>EU monitoring system on the Structural Funds (based on the quarterly reports submitted by all member states)</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, potentially effective</li> </ul> <p><b>System for forecasting financial implementation (LOTHAR)</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, country-specific, significant, potentially effective EU leverage</li> </ul>	<ul style="list-style-type: none"> <li>■ Improve the administrative capacity on central and regional level</li> <li>■ Ensure full transparency of the process and access to information</li> <li>■ Improve national and regional planning while guaranteeing the participation of all stakeholders and potential beneficiaries</li> <li>■ Improve communication with European institutions</li> <li>■ Simplify the paper workload of the application and evaluation procedures, and ensure English translation of all application procedure documents</li> </ul>	<ul style="list-style-type: none"> <li>■ Make further efforts to facilitate the fund distribution process, lifting some of the bureaucratic barriers encountered by applicants</li> </ul>

---

**Other publications of the OSI European Policies Initiative:**

- *Not Your Grandfather's Eastern Bloc  
The EU New Member States as Agenda Setters in the Enlarged European Union*
  - *Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World*
- available at: <http://eupi.eu>
- 

**“The Unfinished Business of the Fifth Enlargement Countries”** publication is comprised of ten national reports and a comparative analysis. The national reports describe and analyze the post accession state of affairs in the ten new member states (NMS) from CEE. The comparative analysis identifies that five years (or two and a half, in the case of Bulgaria and Romania) following accession, the ten central and eastern European states of the fifth enlargement continue to deal with the “unfinished business” from their transition agenda in the context of EU membership and the global economic and financial crises. The biggest challenges in the post accession period concern the political systems, which are characterized by fragmentation of existing political parties and temptation to employ populism and nationalism. The fragmented political parties with short-term political lives are unable to commit to long-term and consistent reforms in the policy spheres that are of crucial importance for the citizens (health, education, social protection etc.) thus leaving those structural reforms largely incomplete. This lack of progress further increases the mistrust in the political establishments thus diminishing the already low citizens’ trust in the institutions of representative democracy, which might cause already fragile political systems to become increasingly vulnerable.