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GLOBAL INDEX OF  
ECONOMIC OPENNESS



# Economic Openness

Romania Case Study

2019

# CREATING THE PATHWAYS FROM POVERTY TO PROSPERITY

## ABOUT THE LEGATUM INSTITUTE

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The Legatum Institute is a London-based think tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People.

We do this in three ways:

Our **Centre for Metrics** which creates indexes and datasets to measure and explain how poverty and prosperity are changing.

Our **Research Programmes** which analyse the many complex drivers of poverty and prosperity at the local, national and global level.

Our **Practical Programmes** which identify the actions required to enable transformational change.

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## FOREWORD



**Baroness Stroud**  
CEO, Legatum Institute

The Legatum Institute's mission is to create the pathways from poverty to prosperity, and our work is focused on understanding how prosperity is created. To that end, with the generous support of the Templeton World Charitable Foundation, we are creating a Global Index of Economic Openness to rank countries' ability to interact with, and benefit from, both domestic and international commerce. This is one of multiple in-depth country reports, which analyse performance on the key characteristics of openness to trade, investment, ideas, competition, and talent.

Our report highlights many reasons to be optimistic about Romania. Since the fall of Communism in 1989, Romania has built a multi-party democracy, raised living standards from the abysmal levels of the Ceausescu era, and achieved membership of NATO and the EU. These events in Romania's modern history mark the significant progress made towards greater Economic Openness and are solid foundations for stronger and inclusive growth.

Romania enjoys the advantages of a strategic geographical position as a key trade gateway between Western Europe and Asia, access to the single market with no trade tariffs within Europe, and ample natural resources including offshore gas and fertile agricultural land. A pipeline of multi-country infrastructure projects could significantly boost its transport infrastructure and, in turn, the scale of domestic and international trade. With the right policies in place, Romania's future path to prosperity has the requisite building blocks and looks bright.

Yet, Romania faces a huge challenge of endemic and long-standing corruption, and it has made little progress in eliminating it since joining the EU. Corruption is holding back Romania and obscuring the path to prosperity, eroding confidence in its future among its public-spirited citizens, among potential international investors, and the EU. Several million people have moved abroad since 2007, equivalent to more than a fifth of the workforce including many of the brightest young Romanians, and, like those left in the country, they desperately want Romania to be well governed, free of corruption, and prosperous.

The other big challenge that Romania faces requires an attitudinal shift, and a new mentality of enterprise. Romania is in a transition from state-led to market-based growth, but compared to benchmark Central European countries, like Poland and Czechia, who transitioned rapidly out of Communism into market-based free enterprise economies, Romania is still at an earlier stage in its development. State-Owned Enterprises (SOEs) are still dominant in some sectors, and the privatisation programme of SOEs has been relatively slow. Historically, state-owned banks have made subsidised loans to loss-making state enterprises, as well as individuals connected to political parties, which resulted in an inefficient allocation of funding, denying investment to more worthwhile enterprises. The effects of this communist hang-over persist, and Romania still lacks the hallmarks of a

modern, open European democracy: market discipline, entrepreneurship, and the availability of funding – all of which are essential to building a dynamic private sector.

Romania could tap a much larger quantum of EU funding for its development, and also attract higher levels of foreign direct investment, including private equity and venture funding, to boost private enterprises and build an alternative source of innovation and employment, distinct from the state. However, corruption and weak processes are big disincentives for foreign investors including the EU. Since the coalition took office in January 2017, three prime ministers have come and gone, six economy ministers, seventy ministers and three people in charge of EU affairs. Moreover, many ministers are promoted from local politics, without training or a proper vision and lacking knowledge of due process in dealing with civil society, business, and foreign countries. Bureaucracy can also act as a disincentive to apply for EU structural and investment funds, and some Romanian firms that could deliver projects do not want the level of financial scrutiny that such external funding brings.

This lack of market discipline may help explain why Romania has secured little of the €30.8 billion in EU cash earmarked by Brussels over 2014-2020 to build roads, railways, metro lines and boost the economy in what remains one of the EU's poorest countries. To date, projects worth €5.8 billion (a mix of EU and Romanian funds) have been approved by Brussels, prompting criticism from opposition politicians that the government is failing to reap the benefits of EU membership. Notwithstanding these challenges, EU funds are helping to finance and grow Romania's relatively nascent wine industry, for example, and further foreign investment could open this industry to international markets. Unfortunately, poor governance has limited appetite from funds. SOEs have also been criticised for not taking full advantage of available EU investment to modernise key sectors and infrastructure.

SMEs and entrepreneurs make up over 99% of Romanian businesses and employ two thirds of Romania's workforce, yet access to credit and equity funding is very limited and has resulted in an over-reliance on bank debt and personal sources of finance. Romania ranks 95<sup>th</sup> in terms of the ease of setting up a business, and this weak position is reflected in Romania's relatively under-developed entrepreneurial ecosystem, despite the number of entrepreneurs and small businesses. The biggest consequence of outward migration is a skills-gap that is also holding back business growth.

However, there is potential for entrepreneurialism to thrive in Romania and drive long-term growth, underpinned by innovation and new ideas. Romanians attribute a high social status to entrepreneurship, and one in four Romanians believe they have the capabilities to set up a business. Relatively strong economic growth provides a supportive environment for entrepreneurial activity, and a high concentration of home ownership offers a safety net to potential entrepreneurs. There are also significant tax incentives for potential investors

and entrepreneurs and there is the potential to develop entrepreneurial hubs in cities. For example, the Cluj Innovation City project has already brought together universities, businesses, and local authorities to create the 'Transylvanian Silicon Valley'.

Romania also has a large potential pool of entrepreneurs in its migrant, expatriate population, who have developed skills, ideas, and contacts while abroad - mostly in Western Europe. Studies show that Romanian migrants are more likely to become entrepreneurs than non-migrants, but only if they return home, that will depend on there being a thriving business environment to make it financially worthwhile and a culture free of corruption, encouraged by supportive government policies.

Two handwritten signatures in black ink. The first signature on the left is 'Philippe' written in a cursive style with a large, sweeping initial 'P'. The second signature on the right is 'Stuart' written in a cursive style with a large, looping initial 'S'.



## EXECUTIVE SUMMARY

This report is part of a series of case studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness. We have chosen Romania as the focus for this report, as it is both an example of an economy in transition, but also one very much under the spotlight, as the country holds the rotating Presidency of the EU in the first half of 2019.

We assess the extent to which they have four fundamental characteristics of open economies:

- **Market Access and Infrastructure**, such that products and services can be easily produced and delivered to customers;
- **Investment Environment**, such that domestic and foreign sources of finance are widely available;
- **Enterprise Conditions** that ensure markets are contestable and free from burdensome regulation;
- **Governance** that is underpinned by the rule of law, as well as government integrity and effectiveness.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity (see the Global Index of Economic Openness). This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

This report explores this link in more detail for Romania, whose overall rank in the Global Index of Economic Openness is 47<sup>th</sup>. Following the end of Communism in 1989, Romania faced a difficult transition to democracy. However, driven by preparation for its accession to the EU in 2007, Romania has made significant progress towards greater economic and social wellbeing. Romania's prospects for prosperity are promising, given strengths such as its plentiful oil and gas reserves, ultra-fast internet broadband and enviable geographical position that allows it to be a key gateway for goods traffic between Western Europe and Asia.

However, Governance, including corruption, remains Romania's biggest challenge for future prosperity. It affects all of the areas highlighted in our Index because effective and efficient governance is at the heart of an open and strong economy. Real progress will require a cultural transformation – away from corruption and towards a greater adherence to the rule of law. Addressing it head on would lead to significant economic and social gains and help secure Romania's pathway to prosperity.



## MARKET ACCESS AND INFRASTRUCTURE (ROMANIA RANK: 52<sup>ND</sup>)

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- Based on our Index, Romania performs well in terms of overall Market Access and Infrastructure. It sits in the top third of countries globally, and above the average of countries in the South East Food Hub. However, it lags behind countries in the Entrepreneurial Sea and Industrial Hinterlands and the rest of the EU, which suggests there is scope for Romania to realise gains to its prosperity by addressing the challenges highlighted below.
- Communications infrastructure increases people's access to new ways of working and technology, boosting productivity and economic growth. Romania's performance is relatively poor compared to other central and eastern European countries, including Poland and Bulgaria, reflecting, in part, Romania's relatively low internet usage. However, Romania has several underlying strengths on which to build, such as its widely available ultra-fast broadband, which is the second most available in the EU.
- Romania's strengths lie in low average tariffs as well as the relative speed and low cost of complying with border regulations. These strengths reflect the benefits of Romania's access to the single market through its EU membership and the concentration of its trade within the EU.
- A well-functioning transport network is vital for trade. Large parts of Romania's transport infrastructure is relatively underdeveloped and in need of upgrading; however, a pipeline of planned investment projects such as the Via Carpathia would improve Romania's infrastructure and its access to markets in Central and Northern Europe. Realising these opportunities will require action to address existing challenges with governance, administrative capacity and leadership.
- Affordable access to electricity is crucial for enabling businesses to thrive. Despite Romania's well-balanced energy sector and its near energy self-sufficiency, Romania performs very poorly on the ease of setting up an electricity connection. Connections are expensive and take time due to high levels of bureaucracy, which is constraining the ability of businesses to set up and grow.

## INVESTMENT ENVIRONMENT (ROMANIA RANK: 35<sup>TH</sup>)

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- Access to finance in Romania, especially for small and medium sized firms, is relatively constrained, and limited financing options means there is an overreliance on bank debt.
- Romania is reducing hurdles for foreign investment, given competitive capital controls and relatively unrestrictive rules and regulations for foreign direct investment.

- Romania's position on global indices measuring Property Rights has started to increase, and its performance is broadly similar to the average in the South East Food Hub and Entrepreneurial Sea regions of Central and Eastern Europe. This partly reflects its relatively strong set of rules and regulations and improvements to the process for registering property. However, enforcement of regulations, particularly intellectual property rights, remains a challenge.
- Romania performs very well in terms of Contract Enforcement, above countries in the EU such as Germany and Austria. This reflects its good global performance on the accessibility, impartiality and effectiveness of alternative dispute resolutions (23<sup>rd</sup>) and quality of judicial administration (7<sup>th</sup>).

## **ENTERPRISE CONDITIONS (ROMANIA RANK: 70<sup>TH</sup>)**

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- Romanian firms face a relatively challenging business environment, due in part to high burdens of regulation, extensive bureaucratic processes, and poor access to finance. As a result, Romania performs poorly on our global index in terms of its business creation environment (121<sup>st</sup>) and the burden of regulation (114<sup>th</sup>), and sits well below the average of all our comparator country groups.
- There are signs of structural challenges in Romania's labour market, with high inactivity rates and skills shortages due to significant past net migration, while past labour market reforms have challenged the culture of trust between employers and employees.
- Romania has the fundamental elements necessary for effective market competition, but in reality, markets are often dominated by a small number of businesses.
- However, an underlying enthusiasm for entrepreneurialism, tax incentives, access to ultra-fast broadband and potential pool of entrepreneurs within Romania's large migrant population offers potential for entrepreneurialism to thrive in the future.

## **GOVERNANCE (ROMANIA RANK: 47<sup>TH</sup>)**

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- Romania sits in the top third of all countries in terms of Governance overall, which reflects its progress in adopting EU rules and standards in the run up to its EU accession. However, recent actions have sought to undermine past progress, while key challenges with corruption and the effectiveness of government spending remain.
- Romania performs relatively well on our Index in terms of its executive powers, due to a clear separation of powers between the executive, judiciary and legislature. However, its overall global position is at risk of deteriorating. The extent to which the executive powers can be effectively limited by the other branches appears to be under threat, given the increasing use of 'emergency ordinance' and recent changes to the justice laws that risk undermining the independence of the judiciary.
- Romania also performs well in terms of Political Accountability, reflecting its democratic nature, growing civil society groups and effective complaint mechanisms regarding Government performance. However, trust in institutions and leaders remains low as well as civic engagement, which enables corruption and collusion between businesses and the state.



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Real progress in improving Romania's governance will require a cultural transformation

- Romania ranks 43<sup>rd</sup> for its Government Integrity, though this masks its poor performance in terms of corruption and transparency of government policy. Corruption is a key challenge in Romania, which has lowered productivity and performance, particularly amongst Romania's high concentration of state-owned enterprises. Progress on tackling corruption has been slow, and, according to the EU, recent past progress may have been unwound by changes to the judicial laws and penal codes, which decriminalised some forms of bribery and pardoned many politicians convicted of corruption.
- Romania also performs relatively poorly in terms of Government Effectiveness. A culture of short-termism and challenges with coordinating policies across ministries results in inefficient government spending. Unpredictable government decision-making creates uncertainty, and so makes it difficult for businesses to operate effectively.
- In terms of the quality of regulation, Romania performs relatively poorly, due to inefficiencies in the legal framework for challenging regulations and delays to administrative proceedings.
- Real progress in improving Romania's governance will require a cultural transformation – away from corruption and towards greater adherence to the rule of law.

# INTRODUCTION

The Legatum Institute's mission is to create the pathways from poverty to prosperity, by fostering open economies, inclusive societies and empowered people. Our work is focused on understanding how prosperity is created, and providing the research, ideas and metrics to help leaders make informed choices. We believe that prosperity is the result of economic and social wellbeing working together. This report is part of a series examining Economic Openness around the world, based on the Legatum Institute's Global Index of Economic Openness. Our definition of Economic Openness in this report is broad and has been developed from decades of established academic theory and in conjunction with leading thinkers on this issue.<sup>1</sup>

We have chosen Romania as the focus for this report, as it is both an example of an economy in transition, but also one very much under the spotlight, as the country holds the rotating Presidency of the EU in the first half of 2019. The analysis of Romania's performance in this report focuses on what we consider to be the foundations of Economic Openness across the world:

**Market Access and Infrastructure** measures the quality of the infrastructure that enables trade (Communications, Transport and Resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure, few barriers to trade, and smooth border clearance, trade can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, commercialised, and ultimately benefit consumers, through a greater variety of goods at more competitive prices.

**Investment Environment** measures the extent to which investments are protected adequately through the existence of Property Rights, Investor Protections and Contract Enforcement, and also the extent to which domestic and international capital (both debt and equity) is available for investment. The more a legal system protects investments, for example through Property Rights, the more that investment can drive economic growth.

**Enterprise Conditions** measures how easy it is for businesses to start, compete and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

**Governance** measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's Governance has a material impact on its prosperity. The Rule of Law, strong institutions and Regulatory Quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

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1. We have benefitted from the input of 40+ advisors. Full details can be found on [www.li.com](http://www.li.com).

## A country in transition

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Romania's transition from Communism to democracy was relatively slow and difficult.<sup>1</sup> In particular, Romania's populist approach with "...little attention to market discipline..."<sup>2</sup> contrasted sharply with Poland, where hard budget constraints and increased openness of the economy led to productivity gains. More broadly, in the early 1990s, there was limited privatisation of state-owned companies, while state-owned banks continued to make "...subsidized loans to loss-making enterprises...as well as individuals connected to political parties".

The delay to economic reforms, signified by these factors, allowed special interests to gain strength and secure economic rents, which enabled them to successfully oppose subsequent liberalisation measures. As a result, in 2002, Romania was considered to be ten years behind Poland in terms of economic prosperity.<sup>3</sup>

However, a period of relatively disciplined economic and fiscal policy then followed, which helped build the way for Romania's accession to the EU in 2007. In the run up to, and immediately following, its accession, Romania made significant progress towards adopting EU standards and rules. For example, Romania

introduced measures to increase the independence of the judiciary and to reform the fiscal responsibility framework.<sup>4</sup> EU membership also brought access to the European single market, which continues to stimulate competition and support Romanian trade.

Romania's macroeconomic position is relatively strong. Low government debt,<sup>5</sup> an abundance of international reserves and a flexible exchange rate mean it has cushions to guard against potential adverse economic shocks.<sup>6</sup> Household debt is also relatively low, at just 14% of GDP,<sup>7</sup> and Romania has the highest rate of home ownership in the EU. On the other hand, income inequality in Romania remains high, particularly between rural and urban areas. Inequality of opportunity is also high, whereby the structure of "...employment, education and social services prevents disadvantaged groups from escaping poverty".<sup>8</sup>

Together, this means that there is a significant opportunity for government economic policy to ensure all parts of society benefits from Romania's growing prosperity. This is the context in which we assess Romania's Economic Openness.

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1. De Menil, Georges. "History, policy, and performance in two transition economies: Poland and Romania." *In search of prosperity: Analytic narratives of economic growth*, (Princeton: Princeton University Press, 2003).

2. Ibid.

3. Ibid.

4. IMF. "Romania," *IMF Country Report*, no. 18/148 (June, 2018).

5. The ratio of government debt to GDP, at 35 percent, is below the rate in advanced EU countries, such as the UK and Germany; "Romania government debt to GDP," *Trading Economics*, last updated May, 2019, <https://tradingeconomics.com/romania/government-debt-to-gdp>.

6. IMF. "Romania," *IMF Country Report: 2018 article iv consultation – press release; staff report; and statement by the executive director for Romania*, no. 18/148 (June, 2018).

7. IMF. "Household debt, loans and debt securities," *IMF DataMapper*, last accessed May 12, 2019, [https://www.imf.org/external/datamapper/HH\\_LS@GDD/CAN/GBR/USA/DEU/ITA/FRA/JPN/ROU](https://www.imf.org/external/datamapper/HH_LS@GDD/CAN/GBR/USA/DEU/ITA/FRA/JPN/ROU).

8. Ibid.

## ANALYSIS OF ROMANIA'S PERFORMANCE

This report considers each of the four pillars outlined above. Full details of these can be found in our Global Index of Economic Openness, and a summary of the component parts of each pillar is provided in the relevant section.

MARKET ACCESS AND INFRASTRUCTURE	INVESTMENT ENVIRONMENT	ENTERPRISE CONDITIONS	GOVERNANCE
<ul style="list-style-type: none"> <li>• Communication</li> <li>• Resources</li> <li>• Transport</li> <li>• Border Administration</li> <li>• Import Tariff Barriers</li> <li>• Open Market Scale</li> <li>• Market Distortions</li> </ul>	<ul style="list-style-type: none"> <li>• Property Rights</li> <li>• Investor Protection</li> <li>• Contract Enforcement</li> <li>• Financing Ecosystem</li> <li>• Restrictions on International Investment</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic Market Contestability</li> <li>• Environment for Business Creation</li> <li>• Burden of Regulation</li> <li>• Labour Market Flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Executive Constraints</li> <li>• Political Accountability</li> <li>• Rule of Law</li> <li>• Government Integrity</li> <li>• Government Effectiveness</li> <li>• Regulatory Quality</li> </ul>

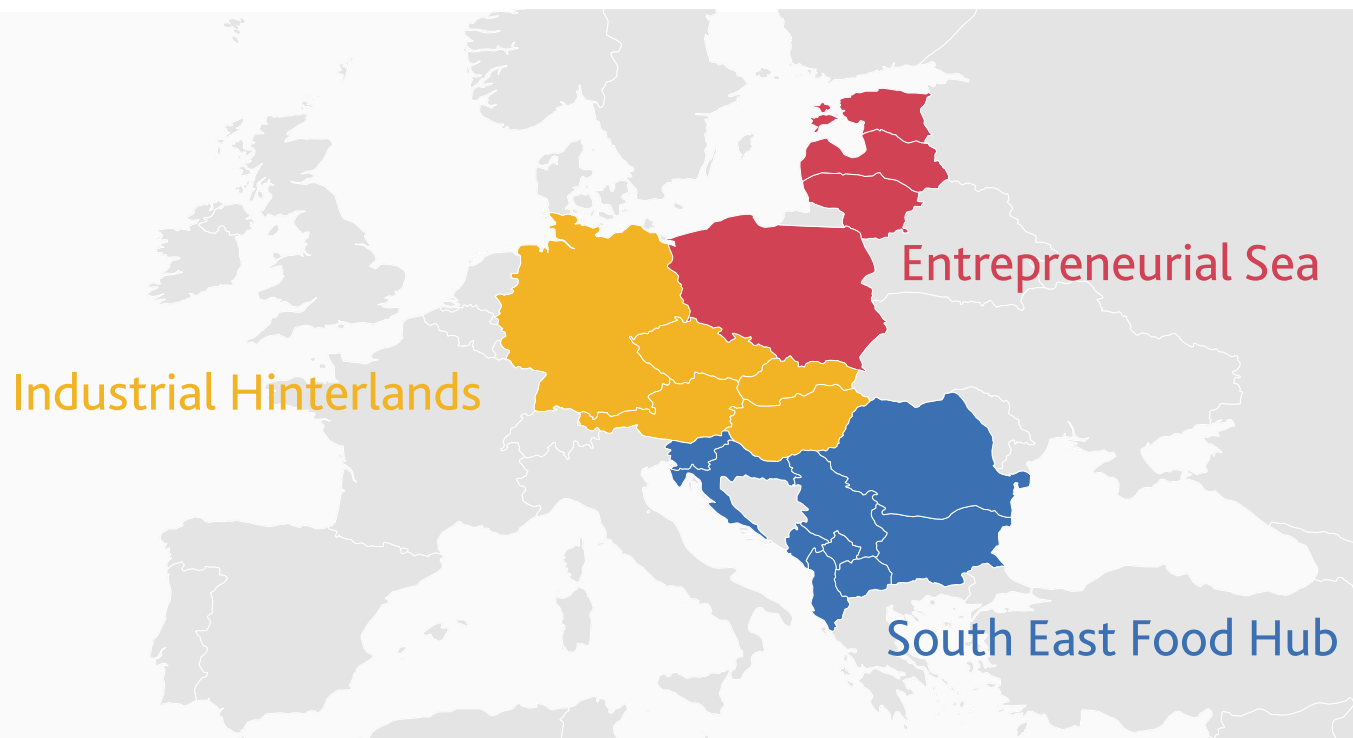
Our assessment of Romania's performance is based on Romania's rankings in global datasets from sources such as the World Bank, World Economic Forum and the International Monetary Fund. For a full list of sources, please see the appendix.

This report provides briefing for *Aspen Europe Next* conference, held in Bucharest in June 2019. Given the nature of the conference, we include comparisons against the European Union and country groupings within the Central and Eastern European region throughout the report. Previous analysis of a wide range of indicators points to Central and Eastern Europe being three distinct regions, of which Romania sits within the South East Food Hub:<sup>2</sup>

2. James Sproule et al; "Central and Eastern Europe prosperity report: Smart strategies to improve economic and social wellbeing," *Legatum Institute* (September, 2018).

- **Entrepreneurial Sea** – Where the Baltic Sea washes, entrepreneurship seems to flourish.
- **Industrial Hinterlands** – German industry has been eager to make the most of the neighbouring highly-skilled, but lower-cost, countries of central Europe.
- **South East Food Hub** – South Eastern Europe is, through the Danube river basin, blessed with extensive and fertile agricultural lands.

These groupings allow us to compare and contrast the strengths and weaknesses of Romania. Our aim is that this data and analysis can be used to help guide improvements within Romania and serve as an example for other countries, to help identify their own paths to prosperity.





## MARKET ACCESS AND INFRASTRUCTURE (ROMANIA RANK: 47TH)

An environment supportive of trade and commerce will allow new products and ideas to be tested, funded, commercialized, and delivered easily to customers. Our Market Access and Infrastructure pillar comprises both the critical enablers of trade (Communications, Transport, and Resources) as well as the inhibitors (Border Administration, Open Market Scale, Import Tariff Barriers, and Market Distortions).

The benefits of free trade are often explained in terms of Ricardian comparative advantage and enhancing consumer choice. Trade empowers individuals and encourages competition. Offering choices to consumers and businesses about which products, services, and ideas they can buy domestically and internationally is at the core of free trade.

Equally important is the role that trade provides in communicating new ideas and raising productivity.<sup>1</sup> Competition from international trade ensures that even when a business does export, it is forced to respond to new ideas from the increased competition in domestic markets.

Romania SWOT Analysis of Market access and infrastructure

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• EU customs union membership - relatively advantageous terms of trade especially as many imports originate within EU (and so are tariff free)</li> <li>• Second highest availability of ultra-fast broadband in the EU and cheap access (in contrast to low penetration rates)</li> </ul>	<ul style="list-style-type: none"> <li>• Poor road, rail and air infrastructure due to political interference and lack of professional capacity to manage large projects</li> <li>• Poor provision of digital public services and low internet penetration</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Consolidation and commercialisation of the agriculture sector and possibility of moving up the value chain</li> <li>• Constanta (the main port) is largest port on the Black Sea and connects to the Danube – key transit node for landlocked countries</li> <li>• Via Carpathia road infrastructure project should improve links in Romania to Central and Northern Europe</li> <li>• Large oil and gas reserves, which could be used to support a sovereign wealth fund, and large potential for wind power</li> </ul>	<ul style="list-style-type: none"> <li>• Lose confidence from rest of EU, given concerns over liberal democracy, which risks Romania losing EU funding that's vital for infrastructure projects</li> <li>• Gas production may be stymied by new legislation to tax offshore drilling for gas and ensure half of output is reserved for domestic market (despite current lack of infrastructure to consume it)</li> </ul>

1. Edwards, Sebastian. "Openness, productivity and growth: What do we really know?" *The Economic Journal* 108, no. 447 (1998): 383-398.



## Evaluating Market Access And Infrastructure

The infrastructure that enables trade and commerce to operate can be measured by both the critical enablers of trade, predominantly infrastructure, and also inhibitors to access to markets.

The first enabler of trade is **Communications**, including fixed line and mobile telecoms and internet penetration, which facilitate mass participation in the formation, ownership, and monetisation of ideas.

The second enabler of trade is **Resources**, which includes water and energy. We measure both the availability and reliability of these critical elements.

The third enabler of trade is **Transport**, which makes possible both physical trade in goods and trade in services, which often requires the movement of people.

In addition to the enablers of trade, we also assess the policies and procedures that inhibit trade.

The first inhibitor to trade is **Border Administration**, which measures the financial and time cost of the documentation necessary to move goods across a border.

The second inhibitor to trade is **Open Market Scale**, which measures the size of the market to which providers of goods and services have privileged access. Countries with greater access to other markets trade more than those that do not.

The third inhibitor to trade is **Import Tariff Barriers**, which we measure in terms of the trade weighted average tariff goods face when coming into a given country.

The fourth inhibitor to trade is **Market Distortions**, which includes subsidies, taxes, and regulatory barriers.

In the following sections, we review the performance of Romania in each of the distinct elements of Market Access and Infrastructure, from Communications through to Market Distortions.

## COMMUNICATIONS (ROMANIA RANK: 58<sup>TH</sup>)

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Our measure looks at a wide range of forms and measures of communication, from fixed line and mobile telecoms to broadband speeds and penetration rates. In our measure, Romania's global position, at 58<sup>th</sup> on our index, reflects an improvement in performance over the last decade. However, Romania's improved performance happened at a slower pace than other countries, and so its global position sits below the average performance in each of our country groupings, including the EU and the South East Food Hub.

Mobile network coverage in Romania is comprehensive, and while mobile penetration rates are lower than in other EU countries, they are steadily increasing. This is largely due to the increasing coverage of rural populations, which have historically been overlooked in terms of infrastructure development. This helps to explain Romania's improved performance over the last decade. According to the Global System for Mobile Communications Association, the proportion of the population using SIM cards has grown significantly over the last three years. Romania has also improved its 3G and 4G coverage, now ranking 38<sup>th</sup> in our Index, and there

has been strong growth in the number of mobile phones that have broadband - 73% of mobile phones now have 3G and 4G capabilities.<sup>1</sup>

Another strength is in broadband, where Romania's broadband infrastructure is among the best in the world, and the availability of ultra-fast broadband is the second highest in the EU.<sup>2</sup> Internet prices are also relatively low.<sup>3</sup> This demonstrates that at times it can be an advantage not to have embedded legacy systems. In 1990, Romania's existing telecommunications system was relatively limited and ineffective. However, as it transitioned from Communism to democracy, the state of technology permitted both a cost-effective installation of a new state-of-the-art telecommunications system and operators of local area networks to leapfrog the normal progression of internet infrastructure, straight to fibre-optic connections.

However, Romania performs relatively poorly on the Digital Economy and Society Index (DESI),<sup>4</sup> an EU index that tracks the progress made by member states in terms of digitization. Romania's low-score on the DESI partly reflects the failure to integrate its sophisticated telecommunication technology into the commercial sector, and so have a positive impact on business and trade. It also reflects relatively low internet penetration compared to the rest of the EU – it ranks 66<sup>th</sup> in our Index for internet usage. This is particularly true in rural areas, where 45% of the population live, which is the result of infrastructure gaps.<sup>5</sup> In 2017, only 60% of the population in Romania used the internet regularly, compared to an average of 80% across the EU, and only a quarter of the population had basic digital skills, compared to nearly 60% in the EU. It is therefore perhaps not surprising that Romania scored last on the use of internet services, such as internet shopping and online banking.<sup>6</sup> This is matched in the public sector, where online government services and digital public services provision for businesses is low compared to the rest of the EU, making it relatively more difficult to set up and run a business.<sup>7</sup>

## RESOURCES (ROMANIA RANK: 67<sup>TH</sup>)

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Our measure of Resources aims to capture the quality, reliability and affordability of a country's water and energy networks. Romania's global position of 67<sup>th</sup> compares well to the South East Food Hub average, but again, sits below the average in all of the other three comparator zones of Eastern Europe.

Romania has a well-balanced energy sector, and it is nearly energy self-sufficient, producing 78% of its own energy – much higher than other European countries such as Germany

1. "Romania country dashboard," *GSMA Intelligence*, <https://www.gsmaintelligence.com/markets/2859/dashboard/>.
2. Iliana Ivanova et al. "Broadband in the EU Member States: despite progress, not all the Europe 2020 targets will be met," *European Court of Auditors*, 2018, <http://publications.europa.eu/webpub/eca/special-reports/broadband-12-2018/en/>.
3. "Romania has 9 of the world's top 15 cities with fastest broadband internet," *Romania Insider*, April 22, 2015, <https://www.romania-insider.com/broadband-internet-romania/>.
4. Paul Foley et al. "International digital economy and society index 2018," *European Commission* (2018).
5. Iliana Ivanova et al. "Broadband in the EU Member States: despite progress, not all the Europe 2020 targets will be met," *European Court of Auditors*, 2018, <http://publications.europa.eu/webpub/eca/special-reports/broadband-12-2018/en/>.
6. European Commission. "Use of internet services," accompanying the *DESI report 2018*, last accessed May 12, 2019, [http://ec.europa.eu/newsroom/dae/document.cfm?doc\\_id=52241](http://ec.europa.eu/newsroom/dae/document.cfm?doc_id=52241).
7. European Commission. "Digital public services," accompanying the *DESI report 2018*, last accessed May 12, 2019, [http://ec.europa.eu/newsroom/dae/document.cfm?doc\\_id=52244](http://ec.europa.eu/newsroom/dae/document.cfm?doc_id=52244).

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Romania has a well-balanced energy sector, and it is nearly energy self-sufficient

(37%) and France (54%).<sup>8</sup> While it relies mainly on coal, which comprised nearly a quarter of Romania's energy generation in 2015<sup>9</sup> - Romania also uses a higher proportion of renewable energy than the EU average,<sup>10</sup> and there is scope to expand production. There are also extensive gas reserves, and expected production means it should be well placed to meet demand from the EU, as countries increasingly look to reduce their reliance on Russian gas and supply from other countries, such as Britain and Norway, is forecast to fall.<sup>11</sup> Large oil and gas reserves also offer an opportunity to develop a sovereign wealth fund, which could support future social and economic projects.

Romania's gas exports will also be bolstered by the new BRUA gas pipeline, which will connect Bulgaria, Romania, Hungary, and Austria, to existing pipelines.<sup>12,13</sup> However, gas production may be stymied by new legislation which introduced a tax on offshore drilling and a requirement that half of all output is reserved for the domestic market, despite a current lack of infrastructure to consume it.<sup>14</sup>

Romania's electricity infrastructure, where it is available, is broadly comparable to other EU countries in terms of the quality and reliability of the supply, on which Romania ranks 29<sup>th</sup>. However, it ranks 155<sup>th</sup> in our Index for the ease of setting up an electricity connection, which reflects the high costs and long waiting times due to bureaucratic processes. On average, it takes 174 days to access electricity in Romania, one of the longest durations in the world. Electricity connection costs for businesses are also high – the second highest in the EU – and are largely driven by the cost of submitting connection contracts from the connection agency, *e-distributie Muntenia*. This makes it difficult for businesses to operate, but if addressed could help spur on entrepreneurial activity.

## TRANSPORT (ROMANIA RANK: 73<sup>RD</sup>)

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The Transport component is a measure of the quality, diversity and penetration of all forms of Transport within and between countries. On our measure, Romania's global position on Transport (73<sup>rd</sup>) is the weakest-performing of all the elements within our Market Access and Infrastructure pillar. It scores relatively poorly, behind the average of the EU area and all three of our country groupings in the Central and Eastern European region, including countries in the South East Food Hub.

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8. "Overall energy self-sufficiency (%)," *IEA Atlas of Energy*, last accessed May 12, 2019, <http://energyatlas.iea.org/#/!tellmap/-297203538>

9. "Romania, *Euracoal*, last accessed May 12, 2019, <https://euracoal.eu/info/country-profiles/romania/>

10. "Focus on Romania: The energy union tour," *European Commission*, last modified September 26, 2017, accessed May 12, 2019, <https://ec.europa.eu/energy/en/news/focus-romania-energy-union-tour>

11. Rick Noack. "Eastern Europe is trying to break its dependence on Russian gas. Western Europe is doing the opposite.," *The Washington Post*, October 17, 2018, [https://www.washingtonpost.com/world/2018/10/17/eastern-europe-is-trying-to-break-its-dependence-russian-gas-western-europe-is-doing-opposite/?noredirect=on&utm\\_term=.07ac2ee82e7f](https://www.washingtonpost.com/world/2018/10/17/eastern-europe-is-trying-to-break-its-dependence-russian-gas-western-europe-is-doing-opposite/?noredirect=on&utm_term=.07ac2ee82e7f).

12. "Update 1-Gas pipeline through central Europe to go ahead as planned – Romania," *Reuters*, September 28, 2017, <https://www.reuters.com/article/romania-pipeline-eu/update-1-gas-pipeline-through-central-europe-to-go-ahead-as-planned-romania-idUSL8N1M93LS>.

13. Sam Morgan. "Central-Eastern European pipeline gets go-ahead," *Euractiv*, September 29, 2017, <https://www.euractiv.com/section/energy/news/central-eastern-european-pipeline-gets-go-ahead/>.

14. Mihaela Rodina. "Romania could challenge Russian grip on Europe's energy," *Yahoo! news*, November 18, 2018, <https://news.yahoo.com/romania-could-challenge-russian-grip-europes-energy-043005071.html?guccounter=1>.



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Despite having the 14<sup>th</sup> largest rail network in the world, about 65% of tracks require renewal

Romania's relatively poor position on this measure reflects the state of Romania's Transport infrastructure. Romania ranks 132<sup>nd</sup> in terms of the quality of its roads. The poor quality of the road network poses problems for the rural population, especially Romania's large number of small-scale farmers, as it constrains their access to local markets. Poor inland infrastructure also prevents Romania realising the large potential benefits from Constanta, its main port and the busiest port on the Black Sea.<sup>15</sup> Constanta plays an important role as a transit node for landlocked central and South-Eastern EU countries, given its connection to the Danube. However, Romania ranks 76<sup>th</sup> in terms of its liner shipping connectivity, which suggests there is scope for this to improve. Another key example is in rail infrastructure where, despite having the 14<sup>th</sup> largest rail network in the world, about 65% of tracks require renewal, and according to the Ministry of Transport, 70% of rolling stock is outdated.<sup>16</sup>

Part of the problem is poor Governance, particularly in Romania's SOEs in the energy and Transport sectors, as it constrains effective delivery in infrastructure programmes. According to the executive director of Pro Infrastructure (an NGO which promotes the development of Romanian Transport infrastructure): "...the vast majority of the issues and problems in the infrastructure sector stem from the authorities, from political involvement in the various agencies and beneficiaries all the way to gross incompetence, poor administrative capacity

15. Andrew MacDowell. "Mountains and politics thwart Romania's infrastructure plans," *Financial Times*, September 29, 2017, <https://www.ft.com/content/9d312dce-632f-11e7-8814-0ac7eb84e5f1>.

16. Marc Thomas. "Romania's general transport master plan and rail system: In-depth analysis," *European Parliament's Committee on Transport and Tourism*, June, 2015, [http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/540376/IPOL\\_IDA\(2015\)540376\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/540376/IPOL_IDA(2015)540376_EN.pdf)

and project management, heavy bureaucracy, poor leadership and, sometimes, a complete lack of responsibility in taking decisions and following through with those decisions.<sup>17</sup>

However, there are signs of change; several pipeline investment projects exist which, if implemented successfully, offer significant opportunity to make large and much needed improvements to the infrastructure network. For example, in 2015, the EU announced €9.5 billion funding to support Romania's General Transport Master Plan.<sup>18</sup> This aims to increase the capacity to carry goods on inland waterways, increase the volume of cargo handled in intermodal terminals, and decrease travel times in road and rail networks by 2023. The government is also looking to increase its use of public-private partnerships to help fund major investment projects, including a new airport in the South of Bucharest.<sup>19</sup>

Planned international infrastructure projects, if implemented successfully, could result in significant improvements to Romania's Transport infrastructure and opportunities for trade. For example, the Via Carpathia project, a new cross-country road network from Lithuania down to the Greek port of Thessaloniki,<sup>20</sup> should improve access to markets in Central and Northern Europe, help to increase port-traffic and so bolster trade in enabling Constanta to act as a major access-point for Central and South-Eastern EU economies. Romania's inclusion in China's Belt and Road Initiative, which aims to improve regional integration along the route, also offers the potential for greater foreign investment and opportunities for trade.

## BORDER ADMINISTRATION (ROMANIA RANK: 30<sup>TH</sup>)

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Our measure of Border Administration considers the time and administrative cost of a country's customs procedures, distinct from tariff barriers. Based on this measure, Romania performs very well globally (ranked 30<sup>th</sup>) and when compared to the average for the South East Food Hub. This reflects its EU membership, which helps reduce and simplify the documentation and other non-tariff barriers to trade. Romania is also legally obliged to join the Schengen Area – the group of countries that has abolished passport checks at internal borders<sup>21</sup> – with some suggestions that it could join later in 2019 or soon thereafter.<sup>22</sup> By reducing border checks for individuals, this would further reduce the time it takes to trade goods and services and allow Romania to deepen its trade links with the rest of the EU.

Almost all of Romania's trade is within the EU – in 2016, just over 80% of imports and 75% of exports were within the EU – meaning Romania largely faces relatively frictionless trade.<sup>23</sup> However, in terms of the efficiency of customs clearance processes, Romania performs comparatively poorly on the World Bank global measure, ranked 83<sup>rd</sup>.

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17. Craig Turp. "Romanian transport infrastructure failures pile up," *Emerging Europe*, January 3, 2018, <https://emerging-europe.com/news/romanian-infrastructure-failures-mount-up/>

18. "EU will invest nearly €9.5 billion in Romania for transport, environment and energy," *European Commission*, July 10, 2015, [https://ec.europa.eu/commission/commissioners/2014-2019/cretu/announcements/eu-will-invest-nearly-eu95-billion-romania-transport-environment-and-energy\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/cretu/announcements/eu-will-invest-nearly-eu95-billion-romania-transport-environment-and-energy_en).

19. "Romanian government to build new airport in public-private partnership," *Romania Insider*, June 29, 2018, <https://www.romania-insider.com/romanian-government-new-airport>.

20. "Via Carpathia," *Wikipedia*, last accessed May 12, 2019, [https://en.wikipedia.org/wiki/Via\\_Carpathia](https://en.wikipedia.org/wiki/Via_Carpathia).

21. "Schengen Area," *Wikipedia*, last accessed May 12, 2019, [https://en.wikipedia.org/wiki/Schengen\\_Area](https://en.wikipedia.org/wiki/Schengen_Area).

22. "EC President Juncker suggests Romania could join Schengen Zone in 2019," *Schengen Visa Info*, December 6, 2018, <https://www.schengenvisainfo.com/news/ec-president-juncker-suggests-romania-could-join-schengen-zone-in-2019/>

23. Ricardo Hausmann et al. *The atlas of economic complexity: Mapping paths to prosperity*. (Cambridge, MA: The MIT Press, 2013).



*iStock.com/coldsnowstorm*

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Given that most of its trade takes place inside the EU, Romania largely faces no tariffs on its traded goods and services

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## **OPEN MARKET SCALE (ROMANIA RANK: 36<sup>TH</sup>)**

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The size of the economic opportunity for producers is constrained by the scale of the domestic and international markets that are open to them. Tariffs on goods faced by exporters in many countries can prevent those firms from selling goods where they are globally competitive. We measure the extent to which producers have access to domestic and international markets unhindered by tariffs, and the tariffs faced in destination markets. On this measure, Romania performs relatively well on the global index (36<sup>th</sup>).

Given that most of its trade takes place inside the EU, Romania largely faces no tariffs on its traded goods and services. Tariff-free markets and growing competitiveness have helped boost Romanian exports and enabled it to plug into European supply chains in the automotive and industrial sectors.<sup>24</sup> Furthermore, as a member of the EU and a participant in its global trade deals, the size of Romania's combined domestic and international free-trade market for goods is the 42<sup>nd</sup> largest in the world.

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## **IMPORT TARIFF BARRIERS (ROMANIA RANK: 7<sup>TH</sup>)**

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Romania performs very well on our measure of tariff barriers to trade, compared to the EU average. Typically, tariffs to trade raise the price of products and reduce the volume of trade, but as a member of the EU, Romania enjoys tariff-free trade with other member states. Over 80% of its imports come from other European Countries. This is reflected in Romania's high ranking (5<sup>th</sup>) in terms of the average tariff rate applied to imported goods.

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24. Hunya, Gábor. "Romania: Ten years of EU membership," Romanian Journal of Economic Affairs 17, no. 1 (2017): 5-15.

## MARKET DISTORTIONS (ROMANIA RANK: 45<sup>TH</sup>)

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In our measure of Market Distortions, which captures how competitive markets are disrupted by subsidies, taxes and non-tariff measures, Romania ranks 45<sup>th</sup> globally. It performs relatively well compared to the South East Food Hub and Industrial Hinterland averages, and is broadly comparable to the average of the Entrepreneurial Sea. Romania's position largely reflects positive expert views on the degree of trade liberalisation, captured in the Bertelsmann Stiftung Transformation Index.

However, Romania ranks 100<sup>th</sup> in terms of non-tariff measures, with over 600 non-tariff measures registered at the WTO. It also ranks 118<sup>th</sup> on energy subsidies as most households in Romania face regulated gas and electricity prices. Romania has the second highest share of households on social electricity tariffs in the EU, which distort the functioning of retail energy markets. According to Deloitte, the introduction of a gas price cap, again brought into legislation through an emergency decree at the end of 2018, will also reduce tax revenue and investment.<sup>25</sup> However, the government has started to phase out regulated pricing of electricity supplied to households. Thus, while virtually all Romanian households had access to regulated prices in 2016, the volume of consumption under regulated prices only amounted to 34% of total household consumption.<sup>26</sup>

## CONCLUSION

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There are significant opportunities for Romania's trade and market infrastructure to flourish, by addressing the following issues: improving the currently low rate of internet penetration; ensuring digital provision of public services to help support the spread of ideas and productivity; facilitating electricity connections and reducing the cost of electricity; and improving the Transport and energy infrastructure through stronger governance, administrative capacity, and leadership. These measures would realise significant economic benefits for Romania, in terms of creating more jobs and higher long-term growth.

Romania faces a sanction from the European Commission's new rules to "...suspend, reduce or restrict access to EU funding in a manner proportionate to the nature, gravity and scope of the rule of law deficiencies".<sup>27</sup> Romania therefore risks forfeiting EU funding that it has planned to use to improve its market infrastructure. To remedy this, the Romanian government would need to refrain from introducing legislation that undermines the rule of law and fails to address persistent corruption, which is addressed in the Governance section on page 40.

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25. Luiza Ilie. "Romania to lose \$540 mln in taxes from gas price cap, industry says," *Reuters*, February 26, 2019, <https://www.reuters.com/article/romania-energy-decree/romania-to-lose-540-mln-in-taxes-from-gas-price-cap-industry-says-idUSL5N20L4R2>.

26. Rademaekers, Koen, et al. *Study on energy prices, costs and subsidies and their impact on industry and households*. (Rotterdam: Trinomics, September 3, 2018).

27. "A modern budget for a Union that protects, empowers and defends: Questions and answers," *European Commission*, May 2, 2018, [http://europa.eu/rapid/press-release\\_MEMO-18-3621\\_en.htm](http://europa.eu/rapid/press-release_MEMO-18-3621_en.htm).



## INVESTMENT ENVIRONMENT (ROMANIA RANK: 35<sup>TH</sup>)

Ideas and businesses need investment to develop and grow effectively. Long-established businesses and new entrepreneurs alike need investment, and investors need the protection and confidence to back them. If investors do not have secure property rights, investment becomes scarce.

The growth in international financial market sophistication over the last four decades has been considerable. Economists' understanding of the role of capital in economic growth and prosperity has also grown over this period.<sup>1,2</sup>

In our measure of the Investment Environment, Romania performs relatively well – both in its absolute position in our Index (35<sup>th</sup>), and compared to other countries in the South East Food Hub. However, it sits below the other country groupings in the region: the EU, the Entrepreneurial Sea, and the Industrial Hinterlands.

Romania SWOT Analysis of Investment Environment

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Capital controls and unrestrictive rules and regulations for foreign direct investment</li> <li>• Rules and regulations around Property Rights</li> <li>• Contract Enforcement in terms of availability of alternative dispute resolutions and quality of judicial administration</li> </ul>	<ul style="list-style-type: none"> <li>• Limited access to finance for small businesses and over-reliance on bank debt</li> <li>• Limited enforcement of rules and regulations on property rights due to weak governance</li> <li>• Shareholder rights in corporate governance</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Potential for Romania to gain emerging market status (which should boost investment and capital inflows)</li> <li>• Ongoing EU integration, including Romania's potential membership of the Schengen Area</li> </ul>	<ul style="list-style-type: none"> <li>• Forfeiting EU funding in the future</li> </ul>

1. Anne O. Krueger. "Financial markets and economic growth," *IMF*, September 28, 2006, <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp092806>.

2. Stanley Fisher. "The importance of financial markets in economic growth" (speech, Campos de Jordao, Brazil, August 21, 2003), Citigroup. <https://piie.com/fischer/pdf/fischer081103.pdf>.



## Evaluating Investment Environment

The structural aspects of how to measure an Investment Environment reveal two overriding concerns: how effectively investments are protected, and whether the infrastructure to facilitate the flow of investment to opportunities is present.

We measure the extent to which **Property Rights** are protected. The more Property Rights are genuinely protected and enforced in an economy, the more that investment can drive economic growth. Where ideas are welcome and legally protected, they can be backed by investment.

**Investor Protection** is one of the key responsibilities of any government that wishes to attract any sustained investment, either foreign or domestic. Investor Protection ranges from legal safeguards to the availability and disclosure of a company's financial performance.

An investor also needs to be confident that commercial agreements can be upheld. Hence, the quality of **Contract Enforcement** is also a key concern.

We measure the quality of a given Investment Environment through analysis of a number of indicators of the health of the **Financing Ecosystem**, including the availability of equity and debt financing, and the availability and cost of bank lending.

Finally, we assess the **Restrictions on International Investment**. The benefit of international investment goes beyond supporting the accumulation of capital - it also facilitates the transfer of technology, know-how, and skills, while helping local firms access foreign markets.

In the following sections, we review the performance of Romania in each of the distinct elements of Investment Environment, from Property Rights through to the Restrictions on International Investment.

## PROPERTY RIGHTS (ROMANIA RANK: 38<sup>TH</sup>)

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Our measure of Property Rights captures the broad cultural importance of protecting the rights to incentives for the entrepreneur, investor or worker. Romania performs well in our Index (38<sup>th</sup>) and compared to the average in the South East Food Hub. Thanks to large gains in the last five years, Romania's position is now broadly comparable to the average of the Entrepreneurial Sea. It performs relatively poorly, however, compared to the average in the EU and Industrial Hinterlands.

Positively, Romania's position on global indices measuring Property Rights has started to increase, partly reflecting its relatively strong set of rules and regulations.<sup>1,2</sup> The increase in Property Rights is reflected in Romania's score on the Index of Economic Freedom,<sup>3</sup> which rose from 40% in 2015 to nearly 67% in 2019, just below the EU average (70%). However, Property Rights regulations aren't always enforced to a standard that would be attractive

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1. Levy-Carciente, Sary. "International property rights index" (2018).

2. "2019 Index of economic freedom: Graph the data," *Heritage Foundation*, last accessed May 12, 2019, <https://www.heritage.org/index/visualize?cnts=romania&type=8>.

3. Ibid.



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In more recent years, concerted efforts have been made to systematically register all real estate assets in the country

to potential foreign investors, which helps explain Romania's relatively low position on our Index compared to countries in the Entrepreneurial Sea and Industrial Hinterlands.

Romania currently ranks 34<sup>th</sup> in terms of intellectual property protection, but a 2018 report by the US Trade Representative on Intellectual Property Rights put Romania on the Watch List due to concerns that "...Romania does not sufficiently prioritize [intellectual property] enforcement".<sup>4</sup> The disparity between enforcement and defined rules and regulations is again a symptom of practical governance challenges in Romania.

Romania made relatively slow progress on physical property rights during its difficult transition from communism to democracy. In 1991, land reforms tried to restore property to Romanians seized under communism, but they failed as they were "...derailed by inefficiency, red tape and scams".<sup>5</sup> However, the reforms were revised in 2003 and now include guarantees on the right to hold private property.<sup>6</sup> In more recent years, concerted efforts have been made to systematically register all real estate assets in the country. As of March 2017, under the "New National Land Book and Cadastre Programme for 2015-2023", 9.5 million (24%) of real estate assets were registered.<sup>7</sup> In terms of the procedures to register property, Romania's ranking has improved over the last decade and now ranks well, at 24<sup>th</sup>, meaning that Romania has simplified the process to transfer property.

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4. Office of the US Trade Representative. *2018 Special 301 report* (Washington, D.C.: USTR, April, 2018).

5. Radu Marinas. "Romania moves toward closure on compensating communism's victims," *Reuters*, April 17, 2013, <https://www.reuters.com/article/us-romania-restitution-idUSBRE93GON920130417>.

6. "Romania – 5 – Protection of Property Rights," *export.gov*, last modified July 11, 2017, <https://www.export.gov/article?id=Romania-Protection-of-Property-Rights>.

7. *Ibid.*

## INVESTOR PROTECTION (ROMANIA RANK: 51<sup>ST</sup>)

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On our measure of Investor Protection, which covers a range of indicators that gauge investor protection, from expropriation risk to minority shareholder rights, Romania sits at 51<sup>st</sup> place. Romania's performance is just above the average of the South East Food Hub, but below other country groupings in the Central and Eastern European region.

Positively, Romania performs well in terms of the strength of its insolvency framework (15<sup>th</sup>), and it has improved its financial auditing and reporting standards (now ranked at 58<sup>th</sup>). There have also been recent reforms to strengthen corporate governance. For example, the Bucharest Stock Exchange (BVB) has taken steps to improve and reform its corporate governance codes, which has improved Investor Protection. Evidence shows the positive impacts that a move towards stronger corporate governance can have on companies. For example, Electrica, a Romanian power company, has increased its distribution of electricity, as its commitment to bring its corporate governance to international standards led to increased investment from the European Bank of Reconstruction and Development (EBRD), its majority shareholder.<sup>8</sup>

However, despite these reforms, Romania performs relatively poorly on the World Bank's measure of shareholders' rights in corporate governance (61<sup>st</sup>); and the EBRD suggests there are still some critical areas within the corporate governance code that need reform. These include the disclosure of non-financial information and addressing inconsistencies in the code, particularly differences between private companies and SOEs.<sup>9</sup> As noted above, stronger corporate governance within SOEs would lead to much needed improvements in their performance and in turn, improvements in trade and energy infrastructure. Yet, progress towards stronger corporate governance in SOEs is at risk given recent changes to the law, which would result in even greater disparities between SOEs and private companies.<sup>10</sup> Romania also performs relatively poorly (78<sup>th</sup>) on the World Bank's measures of the shareholder recovery rate.

## CONTRACT ENFORCEMENT (ROMANIA RANK: 12<sup>TH</sup>)

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In our measure, which captures both the efficacy and efficiency of a country's system to enforce the rights of a contract holder, Romania performs very well, ranking 12<sup>th</sup> in our global Index. Romania's performance also compares well to all of our comparator country groups, above countries such as Germany, Denmark and New Zealand.

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8. Olga Rosca. "Romania's Electrica starts trading in Bucharest and London," *European Bank for Reconstruction and Development*, July 4, 2014, <https://www.ebrd.com/news/2014/romania-electrica-starts-trading-in-bucharest-and-london.html>.

9. Cigna, Gian Piero, Yaryna Kobel, and Alina Sigheartu. "Corporate governance in transition economies: Romania country report," *European Bank for Reconstruction and Development*, December, 2016.

10. Rachisan, Paula Ramona, Cristina Bota-Avram, and Adrian Grosanu. "Investor protection and country-level governance: crosscountry empirical panel data evidence." *Economic research-Ekonomska istraživanja* 30, no. 1 (2017): 806-817.

Romania's relatively strong performance is driven by its ranking on the accessibility, impartiality and effectiveness of alternative dispute resolutions (23<sup>rd</sup>) and quality of judicial administration (7<sup>th</sup>). For example, Romania ranks 17<sup>th</sup> on the "Enforcing Contracts" section of the World Bank Doing Business indicators, only slightly below the United States. Romania also ranks above the OECD high-income country average in most sub-indicator categories (Alternative dispute resolution, Case management, and Court structure and proceedings), though not Court Automation. Romania also scores relatively well in terms of the pecuniary and time cost of filing claims: compared to the average for high income countries in the OECD, the time cost is slightly lower, but Romania has a slightly higher percentage cost. As a result, Romania ranks 74<sup>th</sup> on legal costs (which average just under 9% of the value of the claim).

## FINANCING ECOSYSTEMS (ROMANIA RANK: 68<sup>TH</sup>)

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Our Financing Ecosystem measure captures the availability of capital for investment, from banking to corporate debt and more sophisticated financial markets. Romania's global position of 68<sup>th</sup> is below the average for all country groupings, including the South East Food Hub. It performs poorly on venture capital availability (136<sup>th</sup>) and the financing of small and medium enterprises (SMEs, 133<sup>rd</sup>). This is supported by other data: according to the World Economic Forum's Global Competitiveness Index, venture capital is not widely available, and unlike Bulgaria, Romania's relatively low position on the index has been in decline since the global recession in 2008. Local equity financing is in a similar position, and so a lack of alternative funding options leads to an over-reliance on bank debt.

This over-reliance constrains the ability of entrepreneurs and SMEs – which make up over 99% of Romanian businesses and employ two thirds of Romania's workforce<sup>11</sup> – to set up and grow, as they often struggle to raise sufficient collateral or cash flow needed to debt-finance it.<sup>12</sup> Most entrepreneurs and SMEs are therefore forced to rely on their own sources of finance.<sup>13</sup>

This challenge has, to some extent, been recognised, as the Government has acted to improve access to finance for start-ups and SMEs. In 2016, the Government set up a de minimis aid scheme to incentivise individual investors to support SMEs that conform to certain preconditions set by the European Commission.<sup>14</sup> Another recent scheme, Start-up Nation – Romania, aims to encourage the creation of new SMEs through granting aid of up to RON 200,000 (EUR 44,500) to up to 10,000 beneficiaries per year.<sup>15</sup> In its first year, grant applications for Start-up Nation significantly outstripped supply. These schemes, in

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11. European Commission. *2017 SBA fact sheet: Romania*, last accessed May 12, 2019, <https://ec.europa.eu/docsroom/documents/29489/attachments/24/translations/en/renditions/native>.

12. European Commission. *2018 SBA fact sheet: Romania*, last accessed May 12, 2019, <https://ec.europa.eu/docsroom/documents/32581/attachments/24/translations/en/renditions/native>.

13. Andrez, Paolo, Daria Tataj, Jean-Michel Dalle, and Jari Romanainen. "Start-ups, scale-ups and entrepreneurship in Romania" *European Commission* (2017), doi: 10.2777/617756.

14. "De minimis aid scheme for stimulating investment by individual investors - business angels," *Finantare.ro*, December 9, 2016, <https://www.finantare.ro/schema-de-ajutor-de-minimis-pentru-stimularea-investitiilor-efectuate-de-catre-investitori-individuali-business-angels.html>.

15. Zamfirescu Racoti. "Start-up Nation - Romania - New de minimis aid program, addressed to small and medium-sized businesses," *Lexology*, February 23, 2017, <https://www.lexology.com/library/detail.aspx?g=5f25fd47-43cf-430c-9dad-1ef1cdbc60ed>.

addition to measures such as "... loans (e.g. European Fund for Strategic Investments (EFSI) financing), guarantee funds, tax incentives[...], crowdfunding and business angels", have helped to improve access to finance for SMEs in recent years.<sup>16</sup>

However, private sector credit is relatively low. Romanian private sector credit, as a share of GDP, was just 26% in 2017 (ranked 118<sup>th</sup> globally), half the rate in Bulgaria and Poland and far below the Euro area average of 88%.<sup>17</sup> According to the IMF, total bank assets as a percentage of GDP are also very low, which constrains the ability of banks to lend. In 2016, the ratio of bank assets to GDP was just 40% in Romania, significantly below Poland (70%) and Bulgaria (63%). And despite recent gains, Romania's ratio is still only around 45%. Meanwhile, the process of getting a bank loan can be challenging due to excessive checks and slow bureaucratic processes.<sup>18,19</sup> More positively, the banking sector has witnessed some improvements in recent years - the return on bank assets rose by 20% in 2018, largely due to a significant fall in the number of non-performing loans.<sup>20, 21</sup> This is reflected in the improvement of Romania's ranking on the quality of the banking system and capital markets over the last decade, which now stands at 32<sup>nd</sup>.

## RESTRICTIONS ON INTERNATIONAL INVESTMENT (ROMANIA RANK: 59<sup>TH</sup>)

Our measure captures the encouragement and cultural affinity towards foreign investment and workers. Romania's global position is 59<sup>th</sup>, which compares well to the average of the South East Food Hub, and is broadly similar to the average of the Entrepreneurial Sea. It sits below the average in the EU and Industrial Hinterland groups.

Romania performs well on capital controls (3<sup>rd</sup>), and it has relatively unrestrictive rules and regulations on FDI (Romania ranks 25<sup>th</sup>); this is starting to be visible in economic data. While Romania's foreign direct investment (FDI) stock is still relatively low,<sup>22</sup> Romania has seen a steady inflow of FDI in recent years.<sup>23</sup> Net flows primarily went into manufacturing, followed by financial intermediation and insurance, construction, and real estate. Romania is also very close to reaching emerging market status, which would have a positive effect on investment and inflows to Romanian capital markets.<sup>24</sup>

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Romania is very close to reaching emerging market status, which would have a positive effect on investment

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16. European Commission. *2017 SBA fact sheet: Romania*, last accessed May 12, 2019, <https://ec.europa.eu/docsroom/documents/29489/attachments/24/translations/en/renditions/native>.

17. The World Bank. "Domestic credit to private sector (% of GDP)," *World Development Indicators*, last accessed May 12, 2019, <https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS?locations=RO-BG-PL-XC>.

18. European Commission. *2017 SBA fact sheet: Romania*, last accessed May 12, 2019, <https://ec.europa.eu/docsroom/documents/29489/attachments/24/translations/en/renditions/native>.

19. Nicolescu, O., Al Isaac-Maniu, I. Isaac-Maniu, C. Nicolescu, and F. Anghel. *White Paper on SMEs in Romania*. Research Report No 14, 2016.

20. IMF. "Romania," *IMF Country Report: Financial sector assessment program*, no. 18/148 (June, 2018).

21. Sorin Melenciuc. "Romania's banks post 10-year high profit rate in Q2 2018 on lower NPLs," *Business Review*, August 28, 2018, <http://business-review.eu/money/romanas-banks-post-10-year-high-profit-rate-in-q2-2018-on-lower-npls-182330>.

22. "Foreign direct investment: Development and importance in Romania," *Foreign Investors Council*, May, 2018, <https://www.fic.ro/Documents/view/Report-Foreign-Direct-Investment-Development-and-Importance-in-Romania>.

23. UNCTAD. "Country fact sheet: Romania," in conjunction with *World investment report 2018: Investment and new industrial policies* (New York: United Nations, 2018).

24. "Country assessments: Romania," in conjunction with *Transition Report 2018-19*, last accessed May 12, 2019, <http://www.ebrd.com/documents/oce/transition-report-201819-romania.pdf>.

Evidence suggests that FDI is having a positive impact on the Romanian economy, with a recent report by the Foreign Investors Council (FIC) concluding that FDI was a major contributor to "...the modernisation of the Romanian economy as well as to its integration into the European market and international production chains."<sup>25</sup> Continued EU integration and the potential for Romania to join the Schengen Area brings the opportunity of increased access for European firms to do business in Romania and so to further increases in FDI. Meanwhile, Romania's FDI, alongside an abundance of international reserves (five months import cover), low public debt and a flexible exchange rate means Romania is also relatively resilient to capital outflows.<sup>26</sup>

Romania has also benefitted from an inflow of investment. For example, EU funds are helping to finance Romania's relatively nascent wine industry, enabling it to grow. Increasing foreign investment in Romanian vineyards has the potential to open up the industry to international markets.<sup>27</sup> However, challenges with governance have limited the absorption of the available funds;<sup>28</sup> SOEs have also been criticised for not taking full advantage of such EU investment to modernise key sectors such as energy and infrastructure. Bureaucracy can act as a disincentive to applying for EU structural and investment funds, and some firms that could deliver projects do not want the level of financial scrutiny that such external funding brings.<sup>29</sup>

## CONCLUSION

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There is significant potential for Romania to develop a stronger investment environment, and so provide the investment support needed for Romanian businesses to invest and grow. The Bucharest Stock Exchange (BVB), like any national stock exchange, can play a pivotal role in developing the nation's capital markets<sup>30</sup>, enabling the privatisation of state owned enterprises as well as providing new, growing domestic companies with access to much needed sources of capital. The benefits of privatising state owned enterprises extends beyond the primary benefit of providing growth capital. Listing rules raise the standard of corporate governance, fiscal discipline and transparency; and attract strategic shareholders who bring expertise and experience. Lastly, privatisation can open up potential investment opportunities for retail investors to take a stake in the country's development and growth, creating a culture of shared ownership and prosperity.

Romania has improved its financial auditing, reporting standards and corporate governance codes, and this has enhanced both Investor Protection and how companies are run. One success story is Electrica, the Romanian power company that part privatised some of its regional branches in 2005, before completing the biggest listing on BVB (and joint listing on

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25. "Foreign direct investment: Development and importance in Romania," *Foreign Investors Council*, May, 2018, <https://www.fic.ro/Documents/view/Report-Foreign-Direct-Investment-Development-and-Importance-in-Romania>.

26. "CEE country report: Romania 2017," *Atradius*, October 10, 2017, <https://group.atradius.com/publications/country-report-cee-romania-2017.html>.

27. Jancis Robinson. "Romania's grape hopes," *Financial Times*, January 16, 2015, <https://www.ft.com/content/034827a4-9c34-11e4-b9f8-00144feabdc0>.

28. Dragos Adascalitei. "Blog: Old wine in new bottles: Romania's recurrent problem with EU funds absorption," *Center for Policy Studies, Central European University*, September 13, 2018, <https://cps.ceu.edu/article/2018-09-13/blog-old-wine-new-bottles-romania-recurrent-problem-eu-funds-absorption>

29. "EU cohesion policy 2014-2020: Will EUR 167bn of EU funds give CEE a boost?," *Erste Group*, March 11, 2014, [https://www.erstegroup.com/content/dam/at/eh/www\\_erstegroup\\_com/en/Presse/pressemitteilungen/2014/pi20140311-en.pdf](https://www.erstegroup.com/content/dam/at/eh/www_erstegroup_com/en/Presse/pressemitteilungen/2014/pi20140311-en.pdf).

30. "EBRD support for the development of local capital markets," *European Bank for Reconstruction and Development*, July, 2017, <https://www.ebrd.com/documents/evaluation/special-study-capital-markets-2017.pdf>.

LSE) in 2014, raising a record €433 million. Electrica has increased its distribution of electricity as part of a commitment to meet international corporate governance standards, resulting in increased investment from the European Bank of Reconstruction and Development (EBRD), its majority shareholder.

However, Romania still needs to further improve shareholders' rights, and the EBRD are pushing for reforms of some critical areas within the corporate governance code, including greater disclosure of non-financial information and stronger corporate governance requirements for SOEs to bring them in line with private company requirements. The latter reform, however, is at risk given recent changes to the law, which could result in greater disparities between SOEs and private companies rather than alignment. Put simply, better Investor Protection is critical to the potential of the BVB to play a transformational role in Romania's transition to a market-based growth economy by attracting significant foreign and domestic institutional investors to fund that growth.

Secondly, Romania is an economy made almost entirely of SME's and entrepreneurs who are in need of growth capital and seed funding in the absence of formal private funding beyond their own personal sources. Many of the right conditions already exist in Romania to foster more enterprise, more start-ups and more growth that will in turn be attractive to foreign investors. With new policies aimed at reversing migration outflows and incentivising expats to return home with new skills and contacts across Europe, and reducing red tape that is constraining businesses, Romania could create a more dynamic environment for entrepreneurs, led by home-grown and returning entrepreneurs. In turn, this would attract venture capital and private equity to back them. There are some tax incentives and government grants being made available to entrepreneurs, but what is required is a systematic, strategic policy drive to champion entrepreneurship by the government, and by entrepreneurs themselves. Entrepreneurs are held in high regard in Romania, and by their very nature they possess the drive and vision to make things happen. Some small encouragement of entrepreneurs could go a long way.

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Many of the right conditions already exist in Romania to foster more enterprise, more start-ups and more growth



## ENTERPRISE CONDITIONS (ROMANIA RANK: 70<sup>TH</sup>)

A healthy economy is a dynamic and competitive one, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. In contrast, an economy focused on protecting incumbents will enjoy lacklustre growth and job creation. Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases, and the number of people involved in that change rises. Given the pace of change inherent to the information age, a society's ability to react quickly to new firm- and market-level opportunities is critical to its overall Economic Openness.

Romania scores 70<sup>th</sup> on our overall measure of Enterprise Conditions. It performs relatively poorly compared to our comparator country groupings and sits just below the average for the South East Food Hub.

Romania SWOT Analysis of Enterprise Conditions

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"><li>• Flexibility of employment contracts and in terms of hiring obligations</li><li>• High social status given to entrepreneurs</li></ul>	<ul style="list-style-type: none"><li>• Government regulation and bureaucracy, including the extent and time required to comply with regulations</li><li>• Net emigration which has led to skills shortages for firms</li><li>• High economic inactivity rate</li></ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"><li>• Romanian migrants, with financial and human capital gained while abroad, could return home and set up a business if they think there are suitable economic opportunities</li></ul>	<ul style="list-style-type: none"><li>• Reduction in EU funding which, for example, is needed to improve energy and transport infrastructure and so support the business environment</li></ul>



## Evaluating Enterprise Conditions

These factors can, in part, be measured by considering the regulatory and bureaucratic impediments to starting and growing a business and the cultural attitudes of a nation's workforce. We examine the Domestic Market Contestability, the Environment for Business Creation, Regulatory Burdens, and Labour Market Flexibility.

The most critical element for Enterprise Conditions is **Domestic Market Contestability**, which measures competitiveness and openness as the essential stimulators of innovation and efficiency. While there is no such thing as a perfectly contestable market, it has long been understood that there are some basics that are of considerable help, from anti-monopoly policy to limitations on market dominance.<sup>1</sup>

The **Environment for Business Creation** captures the legislation and policies that encourage startups. A supportive business environment is critical. If the framework of enterprise is important, so too are the prevailing views and attitudes of a populace. This entails a number of key market freedoms: an entrepreneurial environment with active entrepreneurship.

We also measure the **Burden of Regulation**. In markets where there is sufficient trust and self-regulation to allow industries and services to focus on innovation and production, it is the role of a good government to ensure regulation does not generate unnecessary administration. Taxation is a necessary part of any society, but while the shape of the optimal tax system has long been debated, the manner in which the tax is raised can be critical, ideally being as simple and non-distortive as possible.<sup>2</sup>

Finally, we measure **Labour Market Flexibility**. While the debate over the degree to which labour markets might be liberalized is unlikely to ever be settled definitively, the evidence is that highly restrictive labour markets do entail costs in terms of facilitating enterprise.<sup>3</sup>

In the following sections, we review the performance of Romania in each of the distinct elements of Enterprise Conditions, from Domestic Market Contestability through to Labour Market Flexibility.

## DOMESTIC MARKET CONTESTABILITY (ROMANIA RANK 48<sup>TH</sup>)

Our measure captures how open the market is to new participants, versus protection of the incumbents. Romania performs well in our Index (48<sup>th</sup>) and compared to the South East Food Hub. But Romania sits below the EU average and the average of our other two country groupings in Central and Eastern Europe. Its global ranking reflects a combination of its level of market-based competition and anti-monopoly policy rankings (both at 40<sup>th</sup>) and its relatively poor performance on the extent of market dominance (110<sup>th</sup>).

1. Baumol, William J., John C. Panzar, and Robert D. Willig. "On the theory of perfectly-contestable markets," chap. 12 in *New developments in the analysis of market structure*. (London, Palgrave Macmillan, 1986): 339-370.

2. Mankiw, N. Gregory, Matthew Weinzierl, and Danny Yagan. "Optimal taxation in theory and practice." *Journal of Economic Perspectives* 23, no. 4 (2009): 147-74.

3. Radulescu, Roxana, and Martin Robson. "Does labour market flexibility matter for investment? A study of manufacturing in the OECD." *Applied Economics* 45, no. 5 (2013): 581-592.

Romania has a relatively young competition regime, as reforms towards a market economy following communist rule took longer to put in place compared to other central and eastern European economies.<sup>4</sup> Following EU accession, Romania extensively revised its competition legislation, bringing it closer to the EU *Acquis Communautaire* and best corporate practices.<sup>5</sup> The Romanian Competition Council (RCC) – an autonomous body aimed at protecting and stimulating competition – has taken an active role in investigating cartels and introducing measures to improve transparency and fight procurement fraud.<sup>6,7</sup>

Although state-owned monopolies were officially abolished in 1992, implementation of anti-monopoly policy has failed to prevent quasi monopolies in key sectors. According to the World Bank, Romania's high share of SOEs, their poor corporate governance and state-aid directed to declining industries undermines the efficient allocation of resources.<sup>8</sup> Moreover, some early market entrants, following privatisation in the 1990s, managed to secure preferential treatment by opposing complete liberalisation and transparency of markets and state allocations, according to BTI.<sup>9</sup> This may help explain why, despite apparently low barriers to market entry, SMEs struggle to grow in certain sectors.<sup>10</sup>

Weak governance also remains a challenge for market effectiveness. According to OECD research, criminal enforcement, especially for cartels, remains under-used,<sup>11</sup> and a European Semester Report for Romania highlighted that more than 40% of public procurement contracts awarded in 2017 were single bids. The US Department of State notes that this "... raised concerns among businesses about corruption in public procurement, which reduces competition, and decreases efficiency of public spending".<sup>12</sup>

## ENVIRONMENT FOR BUSINESS CREATION (ROMANIA RANK: 121<sup>ST</sup>)

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Our measure aims to capture the legislative and policy driven factors that encourage entrepreneurialism. On this measure, Romania's performs very poorly in our Index (121<sup>st</sup>) and below the average of our country groups in the region, including the South East Food Hub.

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4. "Competition law and policy in Romania," *OECD*, 2014, <https://www.oecd.org/daf/competition/Romania-Competition-Law-Policy-2014-EN.pdf>.

5. Bureau of Economic and Business Affairs. "2018 Investment climate statements: Romania," *US Department of State*, July 19, 2018, <http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2018&dclid=281627>.

6. Bertelsmann Stiftung. *BTI 2018 country report – Romania*. (Gütersloh: Bertelsmann Stiftung, 2018).

7. "Competition law and policy in Romania," *OECD*, 2014, <https://www.oecd.org/daf/competition/Romania-Competition-Law-Policy-2014-EN.pdf>.

8. The World Bank. *From Uneven Growth to Inclusive Development: Romania's path to shared prosperity*. (Washington, D.C.: World Bank Group, June, 2018).

9. "Romania," *Bertelsmann Transformation Index*, last accessed May 12, 2019, <http://bti2003.bertelsmann-transformation-index.de/180.0.html?&L=1>.

10. Andrez, Paolo, Daria Tataj, Jean-Michel Dalle, and Jari Romanainen. "Start-ups, scale-ups and entrepreneurship in Romania," *European Commission* (2017), doi: 10.2777/617756.

11. "Competition law and policy in Romania," *OECD*, 2014, <https://www.oecd.org/daf/competition/Romania-Competition-Law-Policy-2014-EN.pdf>.

12. Bureau of Economic and Business Affairs. "2018 Investment climate statements: Romania," *US Department of State*, July 19, 2018, <http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2018&dclid=281627>.



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There is potential for entrepreneurialism to thrive in Romania and drive long-term growth underpinned by innovation and new ideas

Romania ranks 95<sup>th</sup> in terms of the ease of setting up a business, though this low ranking may reflect Romania's relatively young entrepreneurial ecosystem. However, there is potential for entrepreneurialism to thrive in Romania and drive long-term growth underpinned by innovation and new ideas. For example, Romanians attribute a high social status to entrepreneurship, while around one in four Romanians believe they have the capabilities to set up a business.<sup>13</sup> Relatively strong economic growth provides a supportive environment for entrepreneurial activity and a high concentration of home ownership offers a safety net to potential entrepreneurs. There are also significant tax incentives for potential investors and entrepreneurs and potential to develop entrepreneurial hubs in cities.<sup>14</sup> For example, the Cluj Innovation City project has already brought together universities, businesses and local authorities to create the 'Transylvanian Silicon Valley'.<sup>15</sup>

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13. Radauer, Alfred, and Laura Roman. "The Romanian entrepreneurial ecosystem: Background report," *European Commission*, November, 2016.

14. Andrez, Paolo, Daria Tataj, Jean-Michel Dalle, and Jari Romanainen. "Start-ups, scale-ups and entrepreneurship in Romania," *European Commission* (2017), doi: 10.2777/617756.

15. Andrew MacDowell. "How Romania became a popular tech destination," *Financial Times*, September 19, 2017, <https://www.ft.com/content/a0652dba-632f-11e7-8814-0ac7eb84e5f1>.

Romania also has a large potential pool of entrepreneurs in its migrant population, who have developed skills, ideas and finances while abroad.<sup>16,17</sup> Studies show that Romanian migrants are more likely to become entrepreneurs than non-migrants,<sup>18</sup> but only if they return home, which will depend on there being a supportive business environment to make it financially worthwhile.

The government has recognised the economic importance of entrepreneurs and innovation, and has introduced schemes aimed at encouraging start-ups and research and development, including tax reforms to grant relief on R&D investment.<sup>19</sup> However, governance challenges again appear to be a challenge for entrepreneurial activity and investment.<sup>20</sup> According to an EU country report, "...cumbersome administrative procedures, slow progress on the provision of e-government solutions, complex insolvency procedures and frequent regulatory changes with limited use of impact assessment and consultation procedures weigh on the business climate".<sup>21</sup> The World Bank also notes that poor access to credit and "...the unpredictability of the business environment" remain a significant challenge to business operations.

Governance challenges also explains the relatively low level of innovation in Romania. According to the European Commission, Romania scores poorly compared to the rest of the EU in terms of new product innovation and product process innovation,<sup>22</sup> and it has the lowest rate of high-growth enterprise creation in Europe.<sup>23</sup> The World Bank notes that poor "...access to credit, customs services, and red tape seem to affect productivity performance" alongside corruption and poor governance.<sup>24</sup> Meanwhile, skills gaps and the consequences of outward migration are acting as a constraint to business growth, which is reflected in Romania's relatively poor ranking on this measure (147<sup>th</sup>).

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16. Anghel, Remus Gabriel et al. "International migration, return migration, and their effects. A comprehensive review on the Romanian case" *MPRA Paper*, no. 75528 (2016).

17. "The power of three: The EY G20 Entrepreneurship Barometer 2013, *Ernst and Young*, last accessed May 12, 2019, <http://www.citizen-entrepreneurs.com/wp-content/uploads/2018/04/EY-G20-main-report.pdf>.

18. Donato de Rosa. "Romanian migrants can make a difference back home," *The World Bank*, July 24, 2018, <http://blogs.worldbank.org/europeandcentralasia/romanian-migrants-can-make-difference-back-home>

19. "Romania – New tax incentives for research and development activities," *KPMG*, July 29, 2016, <https://home.kpmg/xx/en/home/insights/2016/07/flash-alert-2016-085.html>.

20. Andrez, Paolo, Daria Tataj, Jean-Michel Dalle, and Jari Romanainen. "Start-ups, scale-ups and entrepreneurship in Romania," *European Commission* (2017), doi: 10.2777/617756.

21. Bureau of Economic and Business Affairs. "2018 Investment climate statements: Romania," *US Department of State*, July 19, 2018, <http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2018&dliid=281627>.

22. Hollanders, Hugo, Nordine Es-Sadki, and Minna Kanerva. *European Innovation Scoreboard 2016* (Belgium: European Commission, 2016).

23. "High growth enterprises (growth by 10% or more) and related employment by NACE Rev. 2," *Eurostat*, last modified March 29, 2019, last accessed May 12, 2019, [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bd\\_9pm\\_r2&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bd_9pm_r2&lang=en).

24. The World Bank. *From Uneven Growth to Inclusive Development: Romania's path to shared prosperity*. (Washington, D.C.: World Bank Group, June, 2018).

## BURDEN OF REGULATION (ROMANIA RANK: 114<sup>TH</sup>)

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Our measure captures how much effort and time are required to comply with regulations and the administration of tax. Romania's relative position has improved since 2012, but its global position of 114<sup>th</sup> sits well below the average in the EU and other country groupings in the central and eastern European region, including the South East Food Hub.

Romania ranks relatively poorly in terms of the burden of government regulation (153<sup>rd</sup>), time spent complying with regulations (146<sup>th</sup>) and the burden of obtaining a building permit index score (143<sup>rd</sup>). These findings are supported by other data. For example, entrepreneurs perceive there to be high costs and burdens associated with obtaining permits, licences, concessions, and getting clearances from the tax office and that "...these lengthy and complex administrative procedures, blurred responsibility of the public authorities, and red tape often lead to corruptive behaviour."<sup>25</sup> And the World Bank's Product Market Regulation (PMR) indicators suggest, Romanian markets are characterized by higher levels of regulation than comparator EU member countries, due to state control and administrative burdens.<sup>26</sup> The complexity and high frequency of change in its regulations may also explain the relatively large size of Romania's informal economy.<sup>27,28</sup>

Romania ranks 68<sup>th</sup> in terms of tax payments businesses need to make (14 per year), while it also ranks poorly in terms of the complexity of financial compliance, (i.e. the ease with which companies can deal with taxes, meet reporting requirements and maintain company accounts), as captured by the TMF Group financial complexity index.<sup>29</sup>

More generally, there are concerns about the sustainability of Romania's public finances. Romanian tax revenues are low compared to other countries in Central and Eastern Europe and are in decline.<sup>30</sup> This reflects a growing compliance gap, partly due to numerous changes to the tax system – including loopholes, special tax regimes and exemptions – complicating tax administration. Romania has taken steps to strengthen tax administration and fight large-scale tax evasion: in the first half of 2017, Romania's National Tax Administration Agency (ANAF) exceeded its collection plan for the first time in its history. However, according to the IMF, further action is needed. For example, by making the ANAF more service-oriented and "...proactively encouraging accurate reporting, speeding up dispute resolution and tax refund processing, as well as obtaining taxpayer feedback on services". The IMF also recommend that a new IT infrastructure in the ANAF is needed, to support online tax filing, which is relatively low compared to countries in the region and the EU.<sup>31</sup>

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25. Andrez, Paolo, Daria Tataj, Jean-Michel Dalle, and Jari Romanainen. "Start-ups, scale-ups and entrepreneurship in Romania," *European Commission* (2017), doi: 10.2777/617756.

26. The World Bank. *From Uneven Growth to Inclusive Development: Romania's path to shared prosperity*. (Washington, D.C.: World Bank Group, June, 2018).

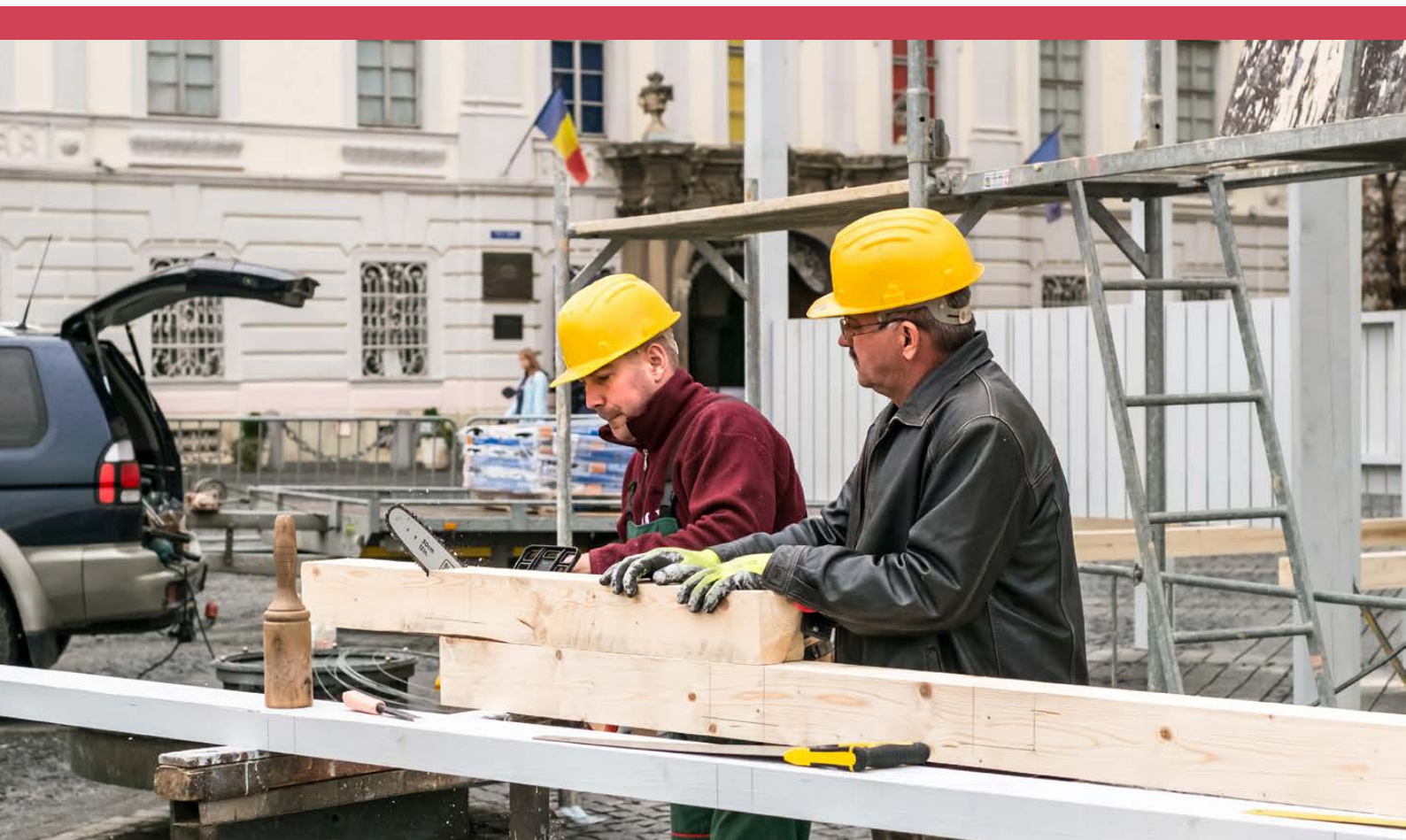
27. *Women and men in the informal economy: A statistical picture*, 3rd ed., (Geneva: ILO, 2018). <https://www.imf.org/en/Publications/WP/Issues/2018/01/25/Shadow-Economies-Around-the-World-What-Did-We-Learn-Over-the-Last-20-Years-45583>

28. Medina, Leandro, and Friedrich Schneider. *Shadow economies around the world: What did we learn over the last 20 years?* (Washington, D.C.: International Monetary Fund, 2018).

29. "Romania goes up in financial complexity index," *Romania Insider*, May 2, 2018, <https://www.romania-insider.com/romania-financial-complexity-index-2018>

30. IMF. "Romania," *IMF Country Report: Selected issues*, no. 18/149 (June, 2018).

31. Ibid.



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Romania has seen significant improvements in its Labour Market Flexibility in the last five years

According to the World Bank, measures to promote digitisation and simplification, such as simplifying VAT registration, processes for acquiring construction permits and new electricity connections, would reduce some of the administrative burdens faced by businesses in Romania.<sup>32</sup> Doing so could have a significant impact; for example, digitisation and simplification have proved effective in Latvia and Estonia, where around 99% of business activities, including payments and taxes, can be completed online.<sup>33</sup> Positively, Romania has taken initial steps towards digitisation with fully digitised property registration. The Government's 2014-2020 digital strategy for Romania also includes provisions for e-Government to reduce costs in the public sector by modernising administration.<sup>34</sup>

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## LABOUR MARKET FLEXIBILITY (ROMANIA RANK: 74<sup>TH</sup>)

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Our measure captures how dynamic and flexible the workplace is for both employer and employee. On this measure, Romania has seen significant improvements in its global ranking in the last five years, such that it is nearly comparable to all three of our country groupings in the region, as well as the EU. Romania's global position of 74<sup>th</sup> masks Romania's relatively

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32. World Bank. *Doing business in the European Union 2017: Bulgaria, Hungary and Romania*. (Washington, D.C.: World Bank, 2017).

33. "e-tax," *e-estonia*, last accessed May 13, 2019, <https://e-estonia.com/solutions/business-and-finance/e-tax/>.

34. "National strategy on the digital agenda for Romania 2020," *gov.ro*, last accessed May 13, 2019, <http://gov.ro/en/government/cabinet-meeting/national-strategy-on-the-digital-agenda-for-romania-2020>.

strong performance in terms of the flexibility of hiring practices (13<sup>th</sup>) and redundancy costs (10<sup>th</sup>). However, despite some recent improvements, there is still some way to go in terms of the flexibility of employment contracts (138<sup>th</sup>).

Romania's labour market has benefited from strong economic growth. In 2019, the unemployment rate dropped to 3.9%, its lowest level in more than 20 years.<sup>35</sup> Romania has also seen robust employment growth in the service sector, although one in five employees still works in agriculture compared to one in twenty across the EU<sup>36</sup>. There are also signs of structural challenges in the labour market: Romania has a relatively high NEET rate (not in employment, education or training)<sup>37</sup> and working age inactivity compared to the rest of Europe.<sup>38</sup> Significant net migration out of Romania has contributed to skills mismatches, particularly amongst high-skilled and skilled manual workers,<sup>39</sup> which is holding back firm investment and expansion.

Romanian wages have been relatively low, which has helped to attract foreign investment. However, Romania's national minimum wage (NMW), which is one of the highest in the region, has risen sharply in recent years; in 2017, total labour compensation growth started to outpace increases in labour productivity,<sup>40</sup> which suggests further increases could have an adverse impact on employment. Despite recent increases in the NMW, the working poverty rate in 2016 was the highest in the EU.<sup>41</sup>

## CONCLUSION

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Romania's Enterprise Conditions and competition regime are relatively young, which means there is an opportunity to develop these in a way that maximises market effectiveness, innovation and growth. Romania also has the potential to position itself as a skilled, high-tech hub in Europe, offering a large potential pool of skilled entrepreneurs amongst its migrant population, who may return home if it becomes economically and socially advantageous to do so.

However, realising these opportunities requires action on many fronts. In particular, addressing the burden of regulation that firms face as well as relatively poor access to finance and skills shortages. The relatively poor performance of Romania's state-owned enterprises also needs to be addressed, to help spur productivity and growth. Meanwhile, measures to promote digitisation and simplification of business activities offers an opportunity to bring in much needed government revenue which could be used to address some of the key challenges highlighted above.

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35. "Romania unemployment rate," *TradingEconomics*, last accessed May 13, 2019, <https://tradingeconomics.com/romania/unemployment-rate>.

36. "Employment in agriculture (% of total employment) (modeled ILO estimate)," *World Development Indicators*, last accessed May 13, 2019, <https://data.worldbank.org/indicator/sl.agr.empl.zs>.

37. "Statistics on young people neither in employment nor in education or training," *Eurostat*, last modified July, 2018, accessed May 13, 2019, [https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics\\_on\\_young\\_people\\_neither\\_in\\_employment\\_nor\\_in\\_education\\_or\\_training](https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_young_people_neither_in_employment_nor_in_education_or_training).

38. "Economically inactive people in the EU: Who are they?," *Eurostat*, July 5, 2019, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20170705-1?inheritRedirect=true>.

39. Dospinescu, Andrei, and Giuseppe Russo. *Romania: Systemic country diagnostic*. (Washington, D.C.: The World Bank, 2018).

40. "Technical note on the increase of minimum wages in Romania," *Consilium Policy Advisors Group*, November 14, 2018, [https://cpag.ro/wp-content/uploads/Minimum-Wage\\_Technical-Note\\_CPAG\\_EN.pdf](https://cpag.ro/wp-content/uploads/Minimum-Wage_Technical-Note_CPAG_EN.pdf).

41. "Romania has Europe's highest risk of in-work poverty," *Emerging Europe*, March 16, 2018, <https://emerging-europe.com/news/romania-europes-highest-risk-work-poverty/>.



## GOVERNANCE (47<sup>TH</sup>)

The importance of good governance to long run economic growth cannot be overstated.<sup>1</sup> Even when controlling for extraneous factors such as culture, there is evidence that economic institutions are one of the main determinants of differences in prosperity across countries.<sup>2</sup> Governance underpins economic activity; unless and until good governance is established, attracting investment and enterprise is nearly impossible. Investment and prosperity require the effective Rule of Law, which itself is dependent upon trust in a robust

Romania SWOT Analysis of Governance

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Good foundations – especially pre-EU accession. For example, free and fair elections and separation of powers set in the constitution</li> <li>• The DNA, when set up, was seen as a good example of an anti-corruption body</li> <li>• EU membership and pro-EU view of the population, which may mean it is more likely to hold government to account</li> </ul>	<ul style="list-style-type: none"> <li>• Corruption at the highest level, including the diversion of public resources to meet vested interests, rather than those of the wider society</li> <li>• Slow and painful transition from communism to democracy – frequent political tension and high ministerial turnover. Lack of tradition of participatory democracy</li> <li>• Low levels of public trust in institutions and low civic engagement</li> <li>• Short-termism and unpredictability of government policy</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Potential for second democratic transition – towards a socio-economic basis for democracy</li> <li>• Underlying sense of dissatisfaction with the government and past effectiveness of civil society in holding government to account could spur action with the right support</li> </ul>	<ul style="list-style-type: none"> <li>• Further net outward migration- if more Romanians lose faith in the Government due to corruption and poor governance</li> <li>• Increasingly hostile tone of government towards EU – threatens continued alignment towards EU standards and norms</li> <li>• Judicial independence and lower EU funding – recent law changes risks undermining the independence, efficiency and quality of the judiciary</li> </ul>

1. Douglass C. North. *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press, 1990.

2. Acemoglu, Daron, and James Robinson. "The role of institutions in growth and development." *Leadership and Growth* 135 (2010).



set of effective and accountable state institutions.<sup>3,4</sup> Good governance is most robust when it has been established over time through natural evolution and is essentially a codification of cultural expectations and behaviours.<sup>5</sup>

On our measure of Governance, Romania (which ranks 47<sup>th</sup>) performs well compared to its immediate neighbours in the South East Food Hub, perhaps reflecting some of the benefits of the process of preparing for EU accession. However, Romania performs relatively poorly compared to the EU overall and two of our regional country groupings: the Entrepreneurial Sea and Industrial Hinterlands.

### Evaluating Governance

Governance can be conceptually split between the structural and operational aspects of how political and administrative power is checked and how it is applied.

The first of these structural aspects of Governance is **Executive Constraints**, which includes the existence of the separation of powers and the level of checks and balances in a governing system, particularly with respect to the executive. The second is **Political Accountability**, or the degree to which the public can hold public institutions accountable. The third is the **Rule of Law**, which encompasses the fairness, independence, and the effectiveness of the judiciary (in applying both civil and criminal law), along with the accountability of the public to the law.

We assess three different ways in which administrative power is applied. The first is **Government Integrity** (e.g., transparency and the absence of corruption). The second is **Government Effectiveness**, which is the ability of government to set and implement a policy. The final area is **Regulatory Quality**, which captures the extent to which regulations are administered and enforced in a manner that supports economic activity.

In the following sections, we review the performance of Romania in each of the distinct elements of Governance, from Executive Constraints through to Regulatory Quality.

## EXECUTIVE CONSTRAINTS (ROMANIA RANK: 41<sup>ST</sup>)

Our measure captures the level of checks and balances, and separation of powers – especially with respect to the executive. Romania (41<sup>st</sup>) performs relatively poorly compared to the EU average and countries in our Industrial Hinterlands, while it outperforms the average in the South East Food Hub. Romania's relative position is broadly comparable to the countries in the Entrepreneurial Sea, but that reflects a deterioration in the position of that region in recent years.

3. O'Donnell, Guillermo A. "Why the rule of law matters." *Journal of Democracy* 15, no. 4 (2004): 32-46.

4. Haggard, Stephan, and Lydia Tiede. "The rule of law and economic growth: Where are we?." *World Development* 39, no. 5 (2011): 673-685.

5. Adkisson, Richard V., and Randy McFerrin. "Culture and good governance: A brief empirical exercise." *Journal of Economic Issues* 48, no. 2 (2014): 441-450.

Romania has a political system that directly elects a president, but who cannot otherwise make demands of or influence other branches of the government.<sup>6</sup> The separation of power is inscribed in Romania's 1991 constitution: executive power rests with the president, and government and legislative power rests with Parliament. Judicial power rests with the judicial branch, of which the High Court of Cassation and Justice is the highest court. Independence of the judiciary is invested in the Superior Council of the Magistracy (CSM), which is responsible for regulating the role of judges and prosecutors, as well as safeguarding the judiciary. Romania ranks relatively well, 31<sup>st</sup>, in terms of its lack of military involvement in politics and the rule of law; and according to the World Justice Project, an increasing number of government powers are subject to independent checks.

However, while in theory this provides strong foundations, in practice there is some cause for concern. For example, the government has increasingly used 'emergency ordinance', meaning ordinary parliamentary debates are bypassed. This was seen both in the creation of a sovereign wealth fund<sup>7</sup> and the introduction of new justice laws,<sup>8</sup> which were rushed through with minimal consultation. Many argued that this is not in line with the Romanian constitution, which states that emergency ordinances should be used only in 'exceptional circumstances'.<sup>9</sup>

Political tension between the president and the government is also common, which has been attributed partly to overlapping and vaguely defined powers.<sup>10</sup> For example, in 2007 and again in 2012, then President Traian Basescu was impeached and suspended by Parliament, only to be reinstated on both occasions (in 2012, he was reinstated after the referendum to validate his removal failed to reach the required turnout)<sup>11</sup>. More broadly, there is a concern that the Prime Minister does not have to be a Member of Parliament, and so there is a risk that someone can be appointed without a democratic mandate.

Recent trends also point to increasing constraints on the ability of the judiciary to exercise effective checks on the government. For example, in 2018, the Parliament passed amendments to the justice laws that threaten the regulatory operation of the CSM,<sup>12</sup> which the Venice Commission noted were "...likely to undermine the independence of Romanian judges and prosecutors, and the public confidence in the judiciary".<sup>13</sup> There are also suggestions that

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6. Tonescu, Camelia, and Mihaela Codrina Levai. "The principle of equilibrium and separation of powers under the Romanian constitution," *The USV Annals of Economics and Public Administration* 12, no. 1 (2012): 284-288.

7. Sorin Melenciu. "Romanian gov't issues emergency ordinance on framework for controversial Sovereign Fund," *Business Review*, November 15, 2018, <http://business-review.eu/investments/romanian-govt-issues-emergency-ordinance-on-framework-for-controversial-sovereign-fund-190993>.

8. "Romania government announces emergency ordinance on justice laws despite warnings," *HotNews.ro*, October 15, 2018, [https://english.hotnews.ro/stiri-top\\_news-22758127-romania-government-announces-emergency-ordinance-justice-laws-despite-warnings.htm](https://english.hotnews.ro/stiri-top_news-22758127-romania-government-announces-emergency-ordinance-justice-laws-despite-warnings.htm).

9. *Constitution of Romania*, Article 115(4).

10. Sedelius, Thomas, and Olga Mashtaler. "Two decades of semi-presidentialism: issues of intra-executive conflict in Central and Eastern Europe 1991–2011." *East European Politics* 29, no. 2 (2013): 109-134.

11. Pascale Joannin. "Romanian President Traian Basescu avoids impeachment once again," *Fondation Robert Schuman*, July 30, 2012, <https://www.robert-schuman.eu/en/eem/1381-romanian-president-traian-basescu-avoids-impeachment-once-again>.

12. *Report from the Commission to the European Parliament and the Council on Progress in Romania under the Co-operation and Verification Mechanism*, (Strasbourg: European Commission, 2018).

13. *Romania opinion on amendments to law no. 303/2004 on the statute of judges and prosecutors, law no. 304/2004 on judicial organization, and law no. 317/2004 on the superior council for magistracy the superior council for magistracy, adopted by the commission at its 116th plenary session*, (Strasbourg: European Commission, 2018).



Viorica Dăncilă, Prime Minister of Romania

Image credit: [www.flickr.com/people/ro2019eu/](http://www.flickr.com/people/ro2019eu/)

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Since the transition to democracy, civil society has grown significantly

elected politicians tend to appoint public officials as a reward for political support rather than merit, which limits the potential for administrative reform and results in a "...loss of legitimacy in the eyes of the citizenry".<sup>14</sup>

## **POLITICAL ACCOUNTABILITY (ROMANIA RANK: 37<sup>TH</sup>)**

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Our measure of accountability captures the degree to which the public can hold public institutions to account, through periodic elections and political pluralism. Romania ranks well in our Index (37<sup>th</sup>) and compared to other countries in the South East Food Hub. These international measures capture the more formal aspects of Political Accountability.

Romania performs well in terms of international measures of democracy. For example, it ranks 39<sup>th</sup> on there being a consensus on achieving democracy and a market economy. Romania also performs well in terms of complaint mechanisms regarding the government's performance (25<sup>th</sup>). Provisions for minority parties in Parliament are the most extensive in Europe, and since the transition to democracy, civil society has grown significantly. There are 59 women's civil society groups in Romania and more than one hundred groups dealing with minority issues. Civil society organisations have advocated for the Freedom of Information Act (2001)<sup>15</sup> and

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14. Sebastian A Văduva. *From corruption to modernity: The evolution of Romania's entrepreneurship culture* (New York: Springer, 2016): 61.

15. *Best practices in the European countries: The Republic of Romania*, (Naples: Centre for Administrative Innovation in the Euro-Mediterranean Region, 2004).

effectively used the Act to push for transparency legislation alongside leading high-profile campaigns such as to reform electoral legislation and challenge corrupt ministers.<sup>16</sup> Activism has also started to grow, leading to a renewed sense of solidarity.<sup>17</sup>

While its global ranking is in the top third, Romania performs relatively poorly in this measure compared to countries in the Entrepreneurial Sea and Industrial Hinterlands, as well as the average across countries in the EU. This reflects the strong influence self-interest of political elites and other powerful interest groups during the early phase of Romania's transition to democracy,<sup>18</sup> which became embedded in the political culture. It enabled those in power to oppose liberalization<sup>19</sup> and, as highlighted previously, govern through the use of 'emergency ordinance'.

Despite these positive signs, recent government legislation has increased the administrative burdens on non-government organisations (NGOs), and failure to meet these new requirements can result in disproportionate fines and dissolution.<sup>20</sup> Wider civic engagement also remains low: less than 3% of people in Romania belong to civic groups.<sup>21</sup> It is likely that this is driven largely by a low level of trust – in institutions, leaders, minorities and other unpopular groups, which is eroding a sense of civic responsibility;<sup>22</sup> if people feel their voices will not be heard, they may feel there is little point in civic engagement.

Limited civic engagement is, of course, a problem in the short term. However, there are also longer-term consequences, as politicians and leaders may see this lack of engagement as apathy and come to believe that the population will not hold them to account.<sup>23</sup> In turn, this enables and maintains corruption and collusion between businesses and the state. It is also unclear whether any party has the desire to change the situation: with political power shared between the president, government and Parliament, there is a tendency among each arm of the state to dismiss claims for more accountability as fuelled by partisan 'political or economic interests', rather than a desire to uphold the rule of law.<sup>24</sup>

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16. Ibid.

17. Vlad Odobescu. "How did Romanian protest culture evolve?," *Balkan Insight*, March 2, 2017, <http://www.balkaninsight.com/en/article/how-did-romanian-protest-culture-evolve--03-01-2017>.

18. Toole, James. "Straddling the East-West Divide: Party Organisation and Communist Legacies in East Central Europe." *Europe-Asia Studies* 55, no. 1 (2003): 101-118.

19. Georges de Menil. "History, policy and performance in two transition economies: Poland and Romania" chap. 10 in *In Search of Prosperity: Analytic Narratives on Economic Growth* (Princeton: Princeton University Press, 2003): 271,292.

20. "The government uses a European directive on anti-money laundering to close down NGOs," *Civic Space Watch*, March 3, 2018, <https://civicspacewatch.eu/romania-anti-money-laundering-agency-proposes-legislation-that-increases-ngo-administrative-burdens-under-threat-of-dissolution/>.

21. Bădescu, Gabriel, Paul Sum, and Eric M. Uslaner. "Civil society development and democratic values in Romania and Moldova." *East European Politics and Societies* 18, no. 2 (2004): 316-341.

22. Ibid.

23. Christian Nitoiu. "Between legality and legitimacy: Romania's fight against corruption," *Open Democracy*, March 11, 2014, <https://www.opendemocracy.net/can-europe-make-it/cristian-nitoiu/between-legality-and-legitimacy-romania%E2%80%99s-fight-against-corruption>.

24. Ibid.

## RULE OF LAW (ROMANIA RANK: 51<sup>ST</sup>)

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The EU accession process was transformational for Romania's judicial system

An independent, impartial and effective judiciary is the cornerstone of democracy, as it ensures that the law is being fairly and appropriately applied. It also means disputes are settled in an unbiased, transparent and predictable manner, which is essential for business development and investment. Our measure of the rule of law captures these elements, along with public accountability to the law. Romania's global position on our index (51<sup>st</sup>) compares well to the South East Food Hub, although below the average in the EU, the Industrial Hinterlands and Entrepreneurial Sea.

The EU accession process was transformational for Romania's judicial system. Between 1998 and 2006, the EU dedicated €90 million to the judicial sector of Romania for institutional capacity building,<sup>25</sup> which led to an increase in resources going to the CSM. Romania also established a twinning programme with the EU, including long-term secondments of EU practitioners to Romania.<sup>26</sup>

However, since accession, the external pressure to continue strengthening governance has abated. Romania has struggled to implement and enforce EU rules regarding the judiciary and rule of law. Here, one commentator notes that there is a difference between Romania's *de jure* judicial quality and capacity, and its *de facto* ability to change domestic power structures to become 'fully independent, impartial and incorrupt'.<sup>27</sup> As a result, Romania's ranking on our measure capturing the integrity of the judicial system has fallen over the last decade, and now stands at 69<sup>th</sup>.

It is no surprise that Romania remains subject to the EU's Cooperation and Verification Mechanism (CVM),<sup>28</sup> which was set up following its accession to the EU to monitor and support progress on judicial reform and tackle corruption to ensure correct application of EU laws.<sup>29</sup> Progress on the CVM has been slow, and at the end of 2018, the EU assessed that developments in Romania had reversed since January 2017.<sup>30</sup>

The Government's recent changes to the justice laws, as noted above, may make it even more challenging for the judiciary to adopt and enforce EU rules, as these changes threaten the independence of the judiciary. According to the Romanian-German Chamber of Commerce and Industry, these actions will have a negative economic impact and weaken Romania's "... position as a stable and reliable investment location."<sup>31</sup>

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25. Mendelski, Martin. "EU-driven judicial reforms in Romania: a success story?." *East European Politics* 28, no. 1 (2012): 23-42.

26. Ibid.

27. Ibid.

28. Romania is one of only two states (the other being Bulgaria) subject to this monitoring mechanism, which has led government officials to adopt an increasingly hostile tone towards the EU.

29. "Romania slams EU ahead of taking rotating presidency," *Euractiv*, December 17, 2018, <https://www.euractiv.com/section/eu-elections-2019/news/romania-slams-eu-ahead-of-taking-rotating-presidency/>.

30. *Report from the Commission to the European Parliament and the Council on progress in Romania under the co-operation and verification mechanism*, (Strasbourg: European Commission, 2018).

31. Nicoleta Banila. "Investors cancelling plans in Romania over rising social unrest – industry," *SeeNews*, February 2, 2017, <https://seenews.com/news/investors-cancelling-plans-in-romania-over-rising-social-unrest-industry-556718>.

Despite past EU investment, Romanian courts still face challenges. The court system is underfunded and faces an excessive number of property lawsuits, due to contradictory restitution legislation.<sup>32</sup> Legal aid provision is relatively limited and not actively promoted by the state, meaning that awareness of legal aid is low. Finally, although there is a trend towards more merit-based judicial appointments, the EU noted that the justice system is "...not sufficiently robust in terms of avoiding excessive political discretion in the appointments".<sup>33</sup> This has lowered public trust in the judicial system, which adds to the wider distrust in the governance system, noted above.<sup>34</sup>

## GOVERNMENT INTEGRITY (ROMANIA RANK: 43<sup>RD</sup>)

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Our measure captures the honesty of government, how likely bribes are to be expected, and the prevalence of corruption, as well as the degree to which government fosters citizen participation and engagement through open information and transparent practices. Romania again performs well compared to the average in the South East Food Hub, but below our other country groupings. While Romania ranks 43<sup>rd</sup> in the Index overall for Government Integrity, it performs poorly in terms of the transparency of government policy (130<sup>th</sup>). As far as corruption is concerned, it ranks 103<sup>rd</sup> on the extent to which public money is diverted for private gain and 50<sup>th</sup> on the World Bank's measures of the use of public office for private gain.

Corruption is a key challenge in Romania<sup>35</sup>, costing between \$37 billion and \$62 billion a year, or between 13.5% and 22.5% of Romania's GDP.<sup>36</sup> More than two-thirds of people say they have been affected by corruption, the highest in the EU, and around half of people think that corruption is on the rise<sup>37</sup>. An anti-corruption crackdown was initiated with the 2003 formation of the National Anti-corruption Directorate (DNA), one of the first anti-corruption bodies set up in Eastern Europe. However, Romania has been noticeably backsliding and reversing the progress it made on judicial reform and the fight against corruption before its ascension to the EU in 2007. These shortcomings have kept Romania under a special EU monitoring mechanism ever since.

The DNA has faced repeated attempts by the government to reduce its authority and recently dismissed its highly effective chief, Laura Kovesi, for what she described as a politically motivated campaign to neutralise her efforts to prosecute corruption in high places. She had overseen the convictions of more than 1,000 officials, businesspeople and politicians including several ministers. Effectively, she has been removed for being too good at her job.

Both Ms. Kovesi and the National Anticorruption Directorate had been beacons of hope for reformers across Europe and in the EU. The government has also recently legislated changes

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32. *Best practices in the European countries: The Republic of Romania*, (Naples: Centre for Administrative Innovation in the Euro-Mediterranean Region, 2004).

33. *Report from the Commission to the European Parliament and the Council on Progress in Romania under the Co-operation and Verification Mechanism*, (Strasbourg: European Commission, 2017).

34. "Eight out of ten Romanians have no confidence in Parliament and the Government," *Digi24*, December 20, 2017, <https://www.digi24.ro/stiri/actualitate/politica/opt-din-zece-romani-nu-au-incredere-in-parlament-si-in-guvern-848381>.

35. "Special Eurobarometer 470: Corruption," *European Commission*, (December, 2017).

36. Marco Hafner et al., *The cost of non-Europe in the area of organised crime and corruption* (Brussels: European Parliamentary Research Service, 2016): 49.

37. "Special Eurobarometer 470: Corruption," *European Commission*, (December, 2017).

in the penal code, which decriminalised some forms of bribery and pardoned many politicians convicted of corruption. The risk is what political scientists call 'state capture', whereby corrupt actors monopolise government.

This situation sends a bleak message on the progress of Romania's fight against corruption, and it suggests that insufficient pressure has been exerted by the EU to keep progressing and building on the steps taken to attain membership. The CVM is the EU programme that establishes benchmarks for reforms and monitors implementation, but it has proved ineffective in driving and policing and meaningful reform. According to the IMF, if Romania could entrench and build on the gains it made in the lead up to EU accession, it would improve government revenue, enhance spending efficiency, strengthen competitiveness and open access to future EU funds.

Corruption also exists amongst Romania's large number of SOEs, which are often poorly managed and difficult to monitor.<sup>38</sup> This is particularly challenging as Romania has the largest number of SOEs in Europe, and they perform poorly compared to their private sector counterparts, with higher debt to earnings ratios and some companies generating large losses.<sup>39</sup> Recent action has been taken with the aim of strengthening SOE corporate governance, but these improvements are at risk of being lost due to recent amendments in the law.<sup>40</sup> As such, strict enforcement of the legislation on corporate governance, clear mechanisms to monitor and evaluate SOEs' performance could help tackle corruption and improve the economic performance of SOEs.<sup>41</sup>

The good news is that there is growing intolerance of corruption among the citizens of Romania. This is an important cultural change that saw 50,000 protestors take to the streets last summer to protest against what they described as entrenched corruption and low wages. Many of the protestors were Romanian expatriates who returned from across Europe to voice their anger at the government. Corruption is undermining democracy in Romania, and it will take zero tolerance of corruption among citizens both in their elected leaders and everyday life, to banish corruption.

Positively, Romania has made progress to improve transparency, which supports public accountability and helps build trust in the government. For example, the World Bank argued that the Freedom of Information Act, passed in 2001, has been used to good effect and that 'state bureaucracy [...] learned that there are rules to be complied with even in domains that seemed closed to public scrutiny.'<sup>42</sup> The government also brought public consultations and debates online and introduced an online catalogue of case law.<sup>43</sup> Romania's ranking on government budget transparency has increased over the last decade, to 9<sup>th</sup>.

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38. Volintiru, Clara, Gelu Trandafir, Bianca Toma, Ana Otilia Nuțu, and Alexandru Damian. "State-owned companies in Romania preventing corruption, clientelism and state capture," *Technical Report* (2018): doi:10.13140/RG.2.2.21393.12645.

39. Helena Marrez. "The role of state-owned enterprises in Romania," *ECFIN Country Focus* 12, no. 1 (2015).

40. Volintiru, Clara, Gelu Trandafir, Bianca Toma, Ana Otilia Nuțu, and Alexandru Damian. "State-owned companies in Romania preventing corruption, clientelism and state capture," *Technical Report* (2018): doi:10.13140/RG.2.2.21393.12645.

41. Ibid.

42. *Implementing right to information: A case study of Romania*, (Washington, D.C.: The World Bank, 2012): 20.

43. "Romanian report on ATI progress," *FreedomInfo*, July 28, 2016, <http://www.freedominfo.org/2016/07/romanian-report-on-ati-progress/>.

However, proactive disclosure of information is still weak, overall transparency low, and enforcing compliance with transparency requirements is challenging.<sup>44</sup> For example, when measured in 2008, only 50% of central agencies and 25% of local agencies published information about their structure, programmes and contact information online.<sup>45</sup> More recently in 2016, fewer than 10% of Romanians reported using the internet for obtaining information from public authorities, compared to over 40% for the EU28 as a whole.<sup>46</sup>

## GOVERNMENT EFFECTIVENESS (ROMANIA RANK: 80<sup>TH</sup>)

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Our measure of Government Effectiveness includes, but extends beyond, the efficient use of resources and spending through effective government policy design and implementation, to also consider the ability of a government to enact its stated strategies and enforce regulation.

Romania ranks only 80<sup>th</sup> overall, and it performs relatively poorly compared to the EU, Entrepreneurial Sea and Industrial Hinterlands, and within the South East Food Hub. Romania's absolute and relative position has also been in decline since EU accession. This reflects the fact that Romania adopted key parts of the body of EU law prior to EU accession and maintained a level of institutional stability, such as free and fair elections, that enabled it to complete the accession process.<sup>47</sup> However, post-accession, politicians began to change the rules and norms with little consultation or concern for long-term consequences.<sup>48</sup> The external pressures no longer provided the encouragement they had pre-accession.

This is just one example of a culture of short-termism within policy-making and evidence that shows the impact this has had on the effectiveness of Government policy. For example, a recent study showed that a fall in public sector efficiency between 2008 and 2011 was in part due to government policies that were '...not based on an assessment of their effects in the long run'.<sup>49</sup> And while the government operates multi-year departmental strategies, it '...lacks an overarching long-term strategy',<sup>50</sup> with effective implementation of policies hampered by a historical fragmentation of ministries and limited co-ordination between them.<sup>51</sup> These findings are reflected in Romania's poor ranking on the efficiency of government spending (146<sup>th</sup>) and on policy coordination (94<sup>th</sup>).

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44. Adriana Iordache. "The implementation of the principle of decisional transparency in Romania," *Romanian Academic Society*, Policy Brief 64 (July, 2014):27.

45. *Implementing right to information: A case study of Romania*, (Washington, D.C.: The World Bank, 2012): 16.

46. *eGovernment in Romania*, 2nd ed., (European Commission, March, 2017), [https://joinup.ec.europa.eu/sites/default/files/inline-files/eGovernment\\_in\\_Romania\\_March\\_2017\\_v2\\_00.pdf](https://joinup.ec.europa.eu/sites/default/files/inline-files/eGovernment_in_Romania_March_2017_v2_00.pdf).

47. Ganev, Venelin I. "Post-accession hooliganism: Democratic governance in Bulgaria and Romania after 2007." *East European Politics and Societies* 27, no. 1 (2013): 26-44.

48. Ibid.

49. Zugravu, Bogdan-Gabriel, and Anca-Ştefania Sava. "Recent changes in public sector efficiency in Romania: determinants and implications." *Procedia-Social and Behavioral Sciences* 58 (2012): 423-433.

50. *OECD Public governance reviews: Romania* (OECD, 2016): 4.

51. Ibid.



Unsurprisingly, this contributes to unpredictability in government decision making, which creates uncertainty in the business environment and, according to *The Economist*, deters foreign investors.<sup>52</sup>

As highlighted above, even when policy is made, problems remain, as enforcement of government regulations has been shown to be a persistent problem. For example, the U.S. State Department has warned against a lack of enforcement of anti-trafficking laws<sup>53</sup> and laws on anti-Semitism '...are not implemented [and] are almost unknown by the police, prosecutors and judges', according to The Center for Monitoring and Combating Anti-Semitism in Romania.<sup>54</sup> A lack of trust in the police, allegations of brutality in recent protests and the perception of prevalent bribery also severely damage the ability of the police to respond effectively. Romania has also struggled to enforce EU regulations, as it has been slow to transpose EU directives into its own laws – it has the second poorest transposition record in the EU.<sup>55</sup>

## REGULATORY QUALITY (ROMANIA RANK: 67<sup>TH</sup>)

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Regulatory quality encompasses all aspects of the running of the regulatory state – whether it is burdensome and impedes private sector development, and whether it is run smoothly and efficiently. Romania's global rank of 67<sup>th</sup> is a consequence of performing moderately on the quality of enforcement, but very poorly on delays in administrative proceedings and also in how easy it is to challenge regulations through the courts (77<sup>th</sup> and 161<sup>st</sup> respectively). Romania's global ranking sits above the average for the South East Food Hub and below the other country groupings, including the EU.

## CONCLUSION

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Romania made significant progress on governance in the run up to its EU accession, and its EU membership remains an important anchor for future improvements. However, continued gains in prosperity relies on improvements to Romania's Governance to reduce corruption and improve the effectiveness of government policy through long-term planning, lower levels of bureaucracy and greater administrative capacity.

Corporate governance in Romania's large number of state-owned enterprises is also underdeveloped, and progress towards stronger governance and privatisation has stalled. Many SOEs continue to operate inefficiently and act as a drag on Romania's overall productivity growth.<sup>56</sup> It can also be seen that weak Governance and widespread corruption

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Continued gains in prosperity relies on improvements to Romania's Governance to reduce corruption and improve the effectiveness of government policy

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52. Văduva, Sebastian. *From corruption to modernity: The evolution of Romania's entrepreneurship culture*. (New York: Springer, 2016).

53. US State Department. *Trafficking in Persons Report*. (Washington, D.C.: Office of the Under Secretary for Civilian Security, Democracy, and Human Rights, 2018).

54. Cnaan Liphshiz. "Romania's laws on anti-semitism 'meaningless' without enforcement, activist warns," *Jewish Telegraphic Agency*, June 25, 2018, <https://www.jta.org/2018/06/25/global/romania-laws-anti-semitism-meaningless-without-enforcement-activist-warns>.

55. "Single market scoreboard: Romania," *European Commission*, last modified July 11, 2018, accessed May 13, 2019, [http://ec.europa.eu/internal\\_market/scoreboard/performance\\_by\\_member\\_state/romania/index\\_en.htm#maincontentSec1](http://ec.europa.eu/internal_market/scoreboard/performance_by_member_state/romania/index_en.htm#maincontentSec1).

56. Helena Marrez. "The role of state-owned enterprises in Romania," *ECFIN Country Focus* 12, no. 1 (2015).

in SOEs, alongside limited administrative capacity in ministries, means Romania's transport infrastructure remains incomplete and outdated, which acts as a significant constraint to growth.<sup>57</sup> Meanwhile, frequent changes to government policies and high levels of bureaucracy make it difficult for businesses to operate effectively.<sup>58</sup>

According to the IMF, if Romania could entrench and build on the gains it made in the lead up to EU accession, it would "...improve government revenue, enhance spending efficiency, and strengthen competitiveness". Lower corruption and judicial reform are also essential for ensuring that Romania has access to future EU funds.

However, real progress will require a cultural transformation – away from corruption and towards greater adherence to the Rule of Law. Such a transformation could unleash significant prosperity for Romania. According to Craciun (2017),<sup>59</sup> there is an opportunity for a second democratic transition in Romania. An underlying sense of dissatisfaction with the government could trigger action if the right underlying conditions exist.

Civic engagement can and should hold politicians to account, and ensure the Rule of Law is upheld to break the corruption and collusion that exists between businesses and the state. Furthermore, new political parties should not be squeezed from political activity and should build effective political capacity, while existing parties should embrace reform and new ideas. A cultural transformation away from corruption and towards greater adherence to the Rule of Law could unleash significant prosperity for Romania.

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57. Craig Turp. "Romanian transport infrastructure failures pile up," *Emerging Europe*, January 3, 2018, <https://emerging-europe.com/news/romanian-infrastructure-failures-mount-up/>.

58. Bureau of Economic and Business Affairs. "2018 Investment climate statements: Romania," *US Department of State*, July 19, 2018, <http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2018&dliid=281627>.

59. Claudiu Craciun. "Romania's second democratic transition," *Friedrich Ebert Stiftung* (2017).



The Palace of the Parliament, Bucharest

## CONCLUSIONS

True prosperity is about much more than economic success and material wealth, but every nation needs a successful economy to build sustainable prosperity. Romania's economy is growing strongly, having emerged from a difficult transition from communism to democracy. It has benefitted from greater free trade and Economic Openness, particularly following its accession to the EU in 2007.

Romania has a number of strengths across the four pillars of Economic Openness, particularly within Market Access and Infrastructure and its Investment Environment. Its capital controls and growing economy make Romania an attractive option for foreign investors, while Romania's EU membership provides tariff free and frictionless trade to the single market and access to EU funds to support economic regeneration.

However, Romania's biggest challenge, now and for its future prosperity, is strengthening its Governance to address corruption. Good Governance is one of the central and underlying pillars of prosperity, with a strong culture of adherence to the Rule of Law essential to promoting and supporting prosperity. In the run up to, and immediately following its EU accession, Romania made significant progress towards adopting pro-competition governance standards, values and rules. However, progress has slowed, and recent changes to the penal code and judicial laws risk reversing past improvements. Corruption persists because highly influential interest groups and self-interested political elites are embedded in Romania's political culture<sup>1</sup>. Adherence to the rule of law must start at the highest level, in government, and Romania's citizens – its civic society - must hold politicians accountable through the democratic process to combat corruption, otherwise the benefits of democracy will not bear fruit.

Government Effectiveness, a key component of governance, is relatively poor in Romania, due to challenges with policy coordination, administrative capacity and inefficiency of government spending. These factors limit the potential for government policy to address some of Romania's structural challenges, such as its poor transport infrastructure and high levels of income inequality and poverty.

Poor governance also creates a difficult business environment for firms, due to unpredictable government policy and burdensome government regulation. Romania has significant potential for business creation and innovation, but only if these challenges are addressed, alongside measures to improve access to finance for SMEs and Romania's shortage of key skills in the labour market.

Real progress towards stronger governance in Romania will require a cultural transformation – away from corruption and towards greater adherence to the Rule of Law and its norms. An underlying sense of dissatisfaction with the government, as shown by recent protests against changes to the law, and a relatively pro-European stance in Romania could be the catalyst for change. While these issues and others undoubtedly present challenges, they also mean that there are significant potential economic gains to be realised from stronger Governance.

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1. "Romania corruption report," *GAN Business Anti-Corruption Portal*, last modified April, 2017, accessed May 13, 2019, <https://www.business-anti-corruption.com/country-profiles/romania/>.

Looking to the future, Romania has many opportunities for greater prosperity. For example, large, multi-country infrastructure projects and Romania's geographical position, including its main port, Constanta, on the Black Sea, offer good opportunities for Romania's trade.

Romania also has extensive oil and gas reserves, which offer an opportunity to support a sovereign wealth fund, and so fund future social and economic projects. The new BRUA gas pipeline, which connects Bulgaria, Romania, Hungary and Austria, also offers the opportunity to reduce Romania's already small and diminishing reliance on Russian gas supplies.

Furthermore, fertile soil and an excellent climate mean Romania is well-placed to gain from large-scale agriculture production and improved transport links. Romania has the highest concentration of small farm holdings in Europe and accounts for a remarkable 33.5% of all farms by number in Europe. Clearly, there is huge scope to consolidate and commercialise these very small and inefficient farms, to boost agricultural productivity and foster greater trade.<sup>2</sup> Investment is needed in rural areas to improve both transport infrastructure, and services including health, education and social services and help ensure local Romanians realise the benefits from their agricultural land. Furthermore, a consolidation of farms and greater investment in rural communities would free a significant proportion of the workforce, to retrain and pursue new opportunities and better-paid employment in other sectors.

In terms of risks to prosperity, Romania faces two key threats. First, Romania has seen significant net migration over the last two decades. Between 2000 and 2015, Romania's population fell by 7%, and it is expected to continue to decline. High emigration among the highly skilled as well as skilled manual workers has led to skills shortages and lower (real) labour productivity, with more than a fifth of its workforce lost. According to the World Bank, cumulative real GDP growth would have been about 10% higher in the absence of emigration.<sup>3</sup>

A goal should be to attract these migrants back with the right incentives and opportunities, because typically returning migrants have a positive economic and social impact, and are more likely to become entrepreneurs and invest in productive activities, with the highly educated seeking involvement in improving the political and socioeconomic environment.

Reducing the risk of further outward net migration rests on creating a more supportive business and socioeconomic environment. Again, stronger governance is needed to ensure businesses can operate effectively and efficiently and in an environment that is underpinned by a culture of trust, transparency and accountability. With the right policies in place, these are all risks that can be managed.

In summary, the political situation is well behind the will of the highly educated younger generation, and the political leadership have failed to satisfy the generation whose expectations were rightly aroused by the success of joining the EU. The promised freedoms and opportunity have been stifled by unresolved corruption.

Romania's strengths, such as a relatively strong macroeconomic position, incentives for foreign investors, and potential for agricultural consolidation could be solid foundations for future growth. However, the outlook for prosperity will be truly positive only when Romania focusses on improving its Governance and addresses corruption, at which point its economy and society as a whole should prosper.

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2. "40% of agricultural land in Romania belongs to foreign investors," *Romania Insider*, September 11, 2017, <https://www.romania-insider.com/agricultural-land-romania-foreign-investors>.

3. Ibid.

# APPENDIX



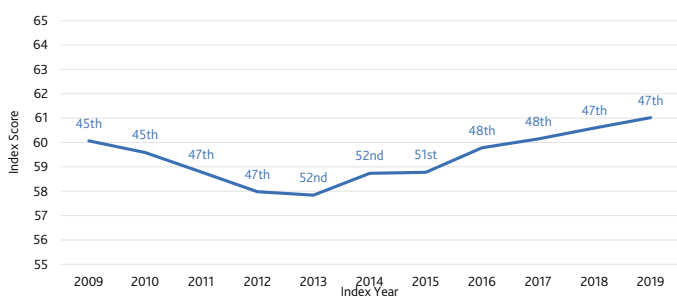


# Romania: Index score 61.0 (47th)

GDP (US\$) per Capita: \$10,818 (55th)

GDP (US\$): \$212bn (50th)

## Economic Openness over time



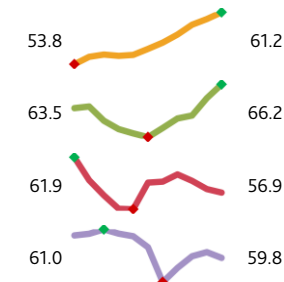
## Pillar Performance

Market Access & Infrastructure  
Investment Environment  
Enterprise Conditions  
Governance

Rank - Global (1 to 157)  
2019

Market Access & Infrastructure	47
Investment Environment	39
Enterprise Conditions	70
Governance	47

Score  
2009 10-year trend 2019



## Breakdown of performance

	2009	Score 10-year trend	2019	Rank - Global (1 to 157) 2019	10-year rank change
<b>Economic Openness</b>	<b>60.1</b>		<b>61.0</b>	<b>47</b>	<b>▼ 2</b>
<b>Market Access &amp; Infrastructure</b>	<b>53.8</b>		<b>61.2</b>	<b>47</b>	<b>▲ 1</b>
Communication	14.1		19.0	52	▼ 12
Resources	11.0		11.6	65	▼ 3
Transport	9.0		9.9	70	▲ 4
Border Administration	3.6		3.6	30	▼ 4
Open Market Scale	2.1		3.3	31	▼ 7
Import Tariff Barriers	4.5		4.5	7	▼ 2
Market Distortions	9.4		9.4	45	▲ 6
<b>Investment Environment</b>	<b>63.5</b>		<b>66.2</b>	<b>39</b>	<b>▲ 5</b>
Property Rights	12.0		14.3	38	▲ 18
Investor Protection	11.0		11.9	54	▲ 6
Contract Enforcement	14.3		14.3	14	▼ 5
Financing Ecosystem	19.9		18.8	69	▼ 18
Restrictions on International Investment	6.3		6.8	59	▲ 11
<b>Enterprise Conditions</b>	<b>61.9</b>		<b>56.9</b>	<b>70</b>	<b>▼ 24</b>
Domestic Market Contestability	25.4		23.1	48	▼ 3
Environment for Business Creation	19.5		16.2	117	▼ 75
Burden of Regulation	12.7		11.8	111	▼ 59
Labour Market Flexibility	4.3		5.9	74	▲ 44
<b>Governance</b>	<b>61.0</b>		<b>59.8</b>	<b>47</b>	<b>▼ 3</b>
Executive Constraints	9.7		10.0	41	▲ 5
Political Accountability	12.8		12.8	37	▲ 2
Rule of Law	8.6		8.6	51	▲ 3
Government Integrity	10.5		11.4	43	▲ 10
Government Effectiveness	12.0		9.9	79	▼ 30
Regulatory quality	7.5		7.1	67	▼ 9





Indicator contains imputed values

Communication (52nd)		Source	Unit	Value		Global Rank	
				2009	10-yr trend	2019	2009 2019
International internet bandwidth	ITU	kilobits per person	5.5		31.9	29	70
2G, 3G and 4G network coverage	GSMA	index score, 0-100	87.1		98.1	40	28
Fixed broadband subscriptions	ITU	number per 100 people	9.3		24.3	37	43
Internet Usage	ITU	percentage of population	28.3		63.7	57	66

Resources (65th)		Source	Unit	Value		Global Rank	
				2009	10-yr trend	2019	2009 2019
Installed electric capacity	UNESD	kilowatts per capita	0.9		1.2	55	53
Gross fixed water assets	IBNWS	USD per population served	117.2		117.2	85	85
Reliability of electricity supply	WBDB	index score, 0-7	6.0		6.0	24	32
Ease of establishing an electricity connection	WBDB	index score, 0-100	35.3		42.2	145	149
Water production	IBNWS	litres per person per day	307.3		307.3	61	61
Reliability of water supply	WEF	expert survey, 1-7	5.2		5.2	53	53

Transport (70th)		Source	Unit	Value		Global Rank	
				2009	10-yr trend	2019	2009 2019
Logistics performance	WBLPI	index score, 1-5	3.0		3.0	52	67
Airport Connectivity	WEF	index based on seats and size of airport	3.1		3.1	74	69
Efficiency of seaport services	WEF	expert survey, 1-7	3.1		3.9	115	75
Liner shipping connectivity	UNCTAD	index score, rebased to 100 in 2004	26.4		29.8	54	75
Quality of roads	WEF	expert survey, 1-7	3.0		3.0	123	123
Road density	FAO	km per 100 sq km of land area	45.3		46.8	51	53
Rail density	WBDI	km per sq km of land area	0.0		0.0	18	17

Border Administration (30th)		Source	Unit	Value		Global Rank	
				2009	10-yr trend	2019	2009 2019
Efficiency of customs clearance process	WBLPI	survey, 1-5	2.6		2.6	60	81
Time to comply with border regulations and procedures	WBDB	hours	0.5		0.5	4	3
Cost to comply with border regulations and procedures	WBDB	USD (current)	0.0		0.0	4	3

Open Market Scale (31st)		Source	Unit	Value		Global Rank	
				2009	10-yr trend	2019	2009 2019
Domestic and international market access for goods	WTO	constant 2010 USD \$bn	21,033.6		35,193.3	28	39
Domestic and international market access for services	WTO	constant 2010 USD \$bn	18,147.8		31,164.4	23	34
Trade-weighted average tariff faced in destination markets	WEF	percentage	3.9		3.5	64	49
Index of margin of preference in destination markets	WEF	index score, 1-100	46.4		51.1	48	44

Import Tariff Barriers (7th)		Source	Unit	Value		Global Rank	
				2009	10-yr trend	2019	2009 2019
Share of imports free of tariff duties	WEF	percentage	94.9		94.8	6	9
Average applied tariff rate	WEF	percentage	0.8		1.0	4	5
Complexity of tariffs	WEF	index score, 1-7	3.1		3.0	130	129

Market Distortions (45th)		Source	Unit	Value		Global Rank	
				2009	10-yr trend	2019	2009 2019
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	10.0		10.0	1	1
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	4.7		4.6	59	46
Non-tariff measures	UNCTAD	number	654.0		654.0	97	92
Distortive effect of taxes and subsidies	WEF	expert survey, 1-7	3.6		3.6	84	84
Energy subsidies	IMF	percentage of GDP	7.5		6.5	118	114



Indicator contains imputed values

Property Rights (38th)	Source	Unit	Value		Global Rank		
			2009	10-yr trend 2019	2009	2019	
Protection of property rights	WEF	expert survey, 1-7	4.2		4.8	91	45
Lawful process for expropriation	WJP	index score, 0-1	0.7		0.7	36	38
Intellectual property protection	WEF	expert survey, 1-7	3.5		5.0	70	33
Quality of land administration	WBDB	Index score, 0-30	4.0		5.0	79	69
Procedures to register property	WBDB	index score, 0-100	74.9		86.6	56	24
Regulation of property possession and exchange	BTI	expert survey, 1-10	9.0		9.0	41	37

Investor Protection (54th)	Source	Unit	Value		Global Rank		
			2009	10-yr trend 2019	2009	2019	
Strength of insolvency framework	WBDB	index score, 0-16	13.0		13.0	15	17
Insolvency recovery rate	WBDB	percentage	29.5		35.8	84	77
Auditing and reporting standards	WEF	expert survey, 1-7	4.5		4.9	80	56
Extent of shareholder governance index	WBDB	index score, 0-10	6.0		6.0	45	65
Conflict of interest regulation	WBDB	index score, 0-10	6.0		6.0	48	56

Contract Enforcement (14th)	Source	Unit	Value		Global Rank		
			2009	10-yr trend 2019	2009	2019	
Quality of judicial administration	WBDB	index score, 0-18	14.0		14.0	8	11
Time to resolve commercial cases	WBDB	days	170.7		170.7	66	62
Legal costs	WBDB	percentage	8.6		8.6	71	72
Alternative dispute resolution mechanisms	WJP	index score, 0-1	0.8		0.8	21	23

Financing Ecosystem (69th)	Source	Unit	Value		Global Rank		
			2009	10-yr trend 2019	2009	2019	
Access to finance	WBES	percentage	15.6		15.6	57	67
Financing of SMEs	WEF	expert survey, 1-7	3.3		3.3	124	124
Venture capital availability	WEF	expert survey, 1-7	3.0		2.4	66	126
Quality of banking system and capital markets	BTI	expert survey, 1-10	8.0		9.0	63	34
Commercial bank branches	WBDI	branches per 100,000 adults	36.8		26.6	19	31
Soundness of banks	WEF	expert survey, 1-7	5.5		4.9	72	73
Depth of credit information	WBDB	index score, 0-8	7.0		7.0	21	41

Restrictions on International Investment (59th)	Source	Unit	Value		Global Rank		
			2009	10-yr trend 2019	2009	2019	
Business impact of rules on FDI	WEF	expert survey, 1-7	4.9		5.3	84	25
Capital controls	FI	percentage	61.5		84.6	43	4
Freedom to own foreign currency bank accounts	FI	expert judgement, 0-10	10.0		10.0	4	3
Restrictions on financial transactions	CII	index score, 0-1	0.0		0.0	144	141
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	4.9		4.2	84	100
Freedom of foreigners to visit	FI	index score, 0-10	6.4		7.7	42	55





Indicator contains imputed values

Indicator	Source	Unit	Value			Global Rank		Indicator	Source	Unit	Value			Global Rank							
			2009	10-yr trend	2019	2009	2019				2009	10-yr trend	2019	2009	2019						
<b>Executive Constraints (41st)</b>																					
Executive powers are effectively limited by the judiciary and legislature	WJP	index, 0-3	1.9		2.0	46	37	<b>Political Accountability (37th)</b>													
Government powers are subject to independent and non-governmental checks	WJP	index, 0-3	1.7		1.9	59	47	Consensus on democracy and a market economy as a goal	BTI	expert judgement, 1-10	9.0		9.0	50	47						
Transition of power is subject to the law	WJP	expert survey, 0-1	0.7		0.7	50	51	Political participation and rights	FH	expert judgement, 1-7	2.0		2.0	49	41						
Military involvement in rule of law and politics	FI	index, 0-10	8.3		8.3	34	32	Democracy level	CSP	expert judgement, -10-10	9.0		9.0	38	37						
Government officials are sanctioned for misconduct	WJP	expert survey, 0-1	0.6		0.6	50	49	Complaint mechanisms	WJP	expert survey, 0-1	0.7		0.7	24	25						
<b>Rule of Law (51st)</b>																					
Judicial independence	WEF	expert survey, 1-7	3.1		3.9	101	65	<b>Government Integrity (43rd)</b>													
Civil justice	WJP	index, 0-5	3.7		3.7	35	37	Use of public office for private gain	WJP	index, 0-4	1.6		1.8	61	50						
Integrity of the legal system	FI	expert judgement, 1-10	6.7		5.8	51	69	Diversion of public funds	WEF	expert survey, 1-7	3.2		3.1	93	96						
Efficiency of dispute settlement	WEF	expert survey, 1-7	2.9		3.4	122	86	Right to information	WJP	expert survey, 0-1	0.6		0.6	43	52						
<b>Government Effectiveness (79th)</b>																					
Government quality and credibility	WGI	index, -2.5-2.5	-0.2		-0.2	77	82	Publicised laws and government data	WJP	expert survey, 0-1	0.6		0.6	29	41						
Prioritisation	BTI	expert judgement, 1-10	7.0		6.0	55	67	Transparency of government policy	WEF	expert survey, 1-7	2.8		3.4	150	123						
Efficiency of government spending	WEF	expert survey, 1-7	2.5		2.4	135	134	Budget transparency	IBP	index, 0-100	66.0		75.0	30	9						
Efficient Use Of Assets	BTI	expert judgement, 1-10	7.0		6.0	37	51	<b>Regulatory quality (67th)</b>													
Implementation	BTI	expert judgement, 1-10	8.0		6.0	29	62	Regulatory quality	WGI	index, -2.5-2.5	0.5		0.6	49	47						
Policy Learning	BTI	expert judgement, 1-10	8.0		6.0	26	65	Enforcement of regulations	WJP	expert survey, 0-1	0.6		0.6	37	37						
Policy Coordination	BTI	expert judgement, 1-10	6.0		5.0	68	92	Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	3.0		2.2	109	149						
<b>Government Effectiveness (79th)</b>																					
Government quality and credibility	WGI	index, -2.5-2.5	-0.2		-0.2	77	82	Delay in administrative proceedings	WJP	expert survey, 0-1	0.5		0.5	73	77						
Prioritisation	BTI	expert judgement, 1-10	7.0		6.0	55	67	<b>Regulatory quality (67th)</b>													
Efficiency of government spending	WEF	expert survey, 1-7	2.5		2.4	135	134	Regulatory quality	WGI	index, -2.5-2.5	0.5		0.6	49	47						
Efficient Use Of Assets	BTI	expert judgement, 1-10	7.0		6.0	37	51	Enforcement of regulations	WJP	expert survey, 0-1	0.6		0.6	37	37						
Implementation	BTI	expert judgement, 1-10	8.0		6.0	29	62	Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	3.0		2.2	109	149						
Policy Learning	BTI	expert judgement, 1-10	8.0		6.0	26	65	Delay in administrative proceedings	WJP	expert survey, 0-1	0.5		0.5	73	77						
Policy Coordination	BTI	expert judgement, 1-10	6.0		5.0	68	92	<b>Regulatory quality (67th)</b>													
<b>Government Effectiveness (79th)</b>																					
Government quality and credibility	WGI	index, -2.5-2.5	-0.2		-0.2	77	82	Regulatory quality	WGI	index, -2.5-2.5	0.5		0.6	49	47						
Prioritisation	BTI	expert judgement, 1-10	7.0		6.0	55	67	Enforcement of regulations	WJP	expert survey, 0-1	0.6		0.6	37	37						
Efficiency of government spending	WEF	expert survey, 1-7	2.5		2.4	135	134	Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	3.0		2.2	109	149						
Efficient Use Of Assets	BTI	expert judgement, 1-10	7.0		6.0	37	51	Delay in administrative proceedings	WJP	expert survey, 0-1	0.5		0.5	73	77						
Implementation	BTI	expert judgement, 1-10	8.0		6.0	29	62	<b>Regulatory quality (67th)</b>													
Policy Learning	BTI	expert judgement, 1-10	8.0		6.0	26	65	Regulatory quality	WGI	index, -2.5-2.5	0.5		0.6	49	47						
Policy Coordination	BTI	expert judgement, 1-10	6.0		5.0	68	92	Enforcement of regulations	WJP	expert survey, 0-1	0.6		0.6	37	37						
<b>Government Effectiveness (79th)</b>																					
Government quality and credibility	WGI	index, -2.5-2.5	-0.2		-0.2	77	82	Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	3.0		2.2	109	149						
Prioritisation	BTI	expert judgement, 1-10	7.0		6.0	55	67	Delay in administrative proceedings	WJP	expert survey, 0-1	0.5		0.5	73	77						
Efficiency of government spending	WEF	expert survey, 1-7	2.5		2.4	135	134	<b>Regulatory quality (67th)</b>													
Efficient Use Of Assets	BTI	expert judgement, 1-10	7.0		6.0	37	51	Regulatory quality	WGI	index, -2.5-2.5	0.5		0.6	49	47						
Implementation	BTI	expert judgement, 1-10	8.0		6.0	29	62	Enforcement of regulations	WJP	expert survey, 0-1	0.6		0.6	37	37						
Policy Learning	BTI	expert judgement, 1-10	8.0		6.0	26	65	Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	3.0		2.2	109	149						
Policy Coordination	BTI	expert judgement, 1-10	6.0		5.0	68	92	Delay in administrative proceedings	WJP	expert survey, 0-1	0.5		0.5	73	77						

## List of data sources and acronyms

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<b>Code</b>	<b>Organisation</b>
BTI	Bertelsmann Stiftung's Transformation Index
CSP	Center for Systemic Peace
CII	Chinn-Ito Index
FI	Fraser Institute
FH	Freedom House
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WBDI	World Bank Development Indicators
WBDB	World Bank Doing Business
WBES	World Bank Enterprise Survey
WBLPI	World Bank Logistics Performance Index
WGI	World Bank Worldwide Governance Indicators
WEF	World Economic Forum
WJP	World Justice Project
WTO	World Trade Organisation



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