



GOVERNMENT OF ROMANIA

NATIONAL REFORM PROGRAMME

(2011 – 2013)

BUCHAREST
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ABBREVIATIONS

ACIS	Authority for Coordination of Structural Instruments
AFM	Administration of the Environmental Fund
ANAF	National Agency for Tax Administration
ANCS	National Authority for Scientific Research
ANFP	National Agency of Civil Servants
ANPM	National Environmental Protection Agency
ANPS	National Agency for Social Benefits
ANOFM	National Agency for Employment
ARACIS	Romanian Agency for Quality Assurance in Higher Education
ANRE	National Energy Regulatory Authority
ASAS	Academy of Agriculture and Forestry Sciences “Gheorghe Ionescu-Sisești”
BNR	National Bank of Romania
BIM	International Labour Bureau
BM	World Bank
CC	Competition Council
CE	European Communities
CN ADNR	National Company for Motorways and National Roads from Romania
CN CFR Marfă	National Freight Railway Company from Romania
SN CFR Călători	National Society of Railway Passenger Transport from Romania
CNP	National Commission for Prognosis
CNDIPT	National Centre for Development of Technical and Vocational Education and Training
DAE	Department for European Affairs
FEDR	European Fund for Regional Development
FMI	International Monetary Fund
FSE	European Social Fund
GHG	Green House Gases
IMM	Small and Medium Sized Enterprises
INEGES	National Inventories of Greenhouse Gas Emissions
INS	National Institute of Statistics
ISMB	School Inspectorate of Bucharest Municipality
ISPE	Institute for Studies and Power Engineering
LRTAP	Long-range Trans boundary Air Pollution
MADR	Ministry of Agriculture and Rural Development
MApN	Ministry of National Defence
MAI	Ministry of Administration and Interior
MCSI	Ministry of Communication and Informational Society
MECTS	Ministry of Education, Research, Youth and Sports
MECMA	Ministry of Economy, Trade and Business Environment
MDRT	Ministry of Regional Development and Tourism
MFP	Ministry of Public Finance
MMFPS	Ministry of Labour, Family and Social Protection
MMP	Ministry of Environment and Forests
MTI	Ministry of Transport and Infrastructure
MS	Ministry of Health
ONG	Non Governmental Organization
OPSPI	Office for State Participations and Privatization in Industry
PNDR	National Programme for Rural Development
OP ACD	Operational Programme Administrative Capacity Development
SOP IEC	Sectoral Operational Programme Increase of Economic Competitiveness
SOP HRD	Sectoral Operational Programme Human Resources Development
SOP Environment	Sectoral Operational Programme Environment
SGG	Secretariat-General of the Government
SNSPA	National School of Political and Administrative Studies Bucharest

EXECUTIVE SUMMARY

NRP 2011-2013 reflects the policy lines established by the current Government and agreed by social partners and civil society. Its main measures are consistent with the provisions of *Convergence programme 2011-2014* and reflect Romania's commitments with IMF, European Commission, World Bank, and other international financial institutions.

The document is based on the *Draft NRP 2011-2013*, which was submitted in November 2010. At the request of the representative of the European Commission during the bilateral meetings on NRP, additional information regarding the actual status and new actions along with their envisaged impact on the trajectory for achieving targets were added.

NRP 2011-2013 is structured in accordance with the provisions of the letter of Secretariat General of the Commission dated September 22, 2010.

The economic scenario 2011-2014

The NRP 2011-2013 is based on a macroeconomic scenario covering the period 2011-2014, which is shared with Convergence Programme.

The common scenario takes into account the fact that economic and financial developments will be improved and economy will resume sustainable growth, so that will be possible an increase of 1.5% in gross domestic product. The forecast scenario foresees the speed up of the **economic growth** with paces between 4.0% and 4.7%, which will recover the decreases from 2009–2010 due to the economic and financial crisis and to ensure the reduction of the gaps against the EU more developed countries (catching-up process). **Domestic demand** will be the driver of this evolution, with gross fixed capital formation increasing with paces of growth from 5.8% to 8.5% in 2014. **Export and import of goods and services** will be maintained at high levels, and will register increases – in real terms - of over 7%. At the same time, the promotion of a prudent wage policy and the continuation of structural reforms will maintain the **disinflation process** on a sustainable trend.

Maintaining the **fiscal-budgetary consolidation** target remains – further – a priority of the Romanian Government. On the revenues side, the main components of tax system will remain unchanged in 2011, while expenditures policy will remain a restrictive one that accommodates the needs of the adjustment process with the limited available resources. In this respect, the priorities to be financed are carefully selected, so that the effect on the resumption of economic growth on sustainable basis to be reached. Concrete commitments are foreseen in order to reach sustainable deficit targets, namely 4.9 % of GDP for 2011, 3.0 % for 2012 and 2.6 % for 2013 (ESA95 methodology). Therefore, the government is determined to make **significant reforms of the state owned enterprises**, especially of those within key-sectors, which generate economic growth, such as energy and transport sector and to tackle the issue related to arrears in the Romanian economy.

The National Bank of Romania (BNR) will stick to its prudent stance by monitoring that provisions remain at adequate levels to deal with expected risks and the solvency level stays comfortable so as to cover potential unexpected losses. At the same time, the BNR will closely monitor the foreign currency lending evolution and will take the necessary measures so that unhedged borrowers' risks are properly covered and accurately reflected in the costs and prices of financial services.

Euro Plus Pact

During the European Council meeting of 24/25 March, Romania has joined the group of Member States that supported the initiative of president Herman Van Rompuy aimed to improve competitiveness and convergence of the European economies, through *Euro Plus Pact*. The key objectives in respect of which Romania has undertaken firm political commitments are to: continue the fiscal adjustment process, including the aspects of extending the scope to address the deficiencies of revenue and expenditure efficiency, arrears; speed up implementation of structural reforms, including measures aiming at restructuring and efficiency increase of the state owned enterprises; foster confidence in the economy, especially by improving the business climate.

Priority short-term reforms

Increasing the efficiency and transparency of the public administration and improving the business environment represents short-term strategic priorities, aimed at contributing to the effective approach of the major obstacles regarding the economic growth and employment.

Efficiency and transparency of the public administration

The first action line aimed at *implementing the strategic reform for improving the public administration effectiveness* by specific action plans for six ministries, as resulted from the recommendations of the World Bank's Functional Review – the first phase.

The second major action line refers to *the implementation of the strategy for better regulation* - namely the measurement of administrative costs and identification of administrative burden (eight projects¹ funded through ESF within OP ACD).

Professionalizing civil servants represents another action line for 2011-2013, aiming at creating a professional body of civil servants, well trained, and politically neutral.

*Standardizing the administrative procedures*² refers to the systematisation, rationalisation and restructuring of the legal provisions which guide the actions of the public administration authorities. MAI has assumed the development and adoption of both the *Administrative Code* and of the *Administrative procedure*, which will allow the use of a unitary terminology for the same legal realities, institutions, principles and legal concepts.

With a view to *increasing the absorption rate of structural and cohesion funds*, a *Priority Action Plan for Increasing the Capacity to Absorb Structural and Cohesion Funds* (PAP) was developed under ACIS coordination, in close cooperation with the European Commission.

PAP represents the short and medium term roadmap which the Romanian Government is committed to implement. On the long run, this plan should create the pre-requisites for the absorption of at least 90% of Structural and Cohesion Funds allocated to Romania.

Another major guideline is the *use of ICT for the modernization of the public administration*, consisting in computerization of the public administration, providing secure eGovernment services, and facilitating the administrative procedures.

¹ The 8 projects for measuring administrative costs and identifying administrative burden related to national legislation deal with the areas regulated by the following ministries: MAI & MDRT; MCSI & MECMA; MTI; MFP; MJ; MMFPS & MECTS; MADR; MMP.

² The two specific measures of this guideline have been taken from the *Action Plan 2009-2010 regarding the implementation of the NRP*, as a result of failure to meet the achievement deadlines assumed by MAI.

The seventh major guideline refers the development of *Romania's Territorial Development Strategy*, that will be drafted by June 2012 and will present Romania's development vision for a period exceeding 20 years, at national, regional and interregional levels and which will integrate relevant cross-border and transnational issues.

Improving the business environment

Improving the business environment is one of the priorities of the Government Programme 2008-2012, and one of the commitments made by Romania to the European Union. The Romanian Government's policy for achieving this goal is focused on supporting private entrepreneurs and stimulating free initiative, by removing obstacles imposed to private initiative, developing a single, clear and stable legal framework, simplifying the formalities for entry and exit of market operators, the reduction of administrative procedures for obtaining permits, approvals and notices, as well as fighting corruption and reducing bureaucracy.

According to the *Strategy for improving and developing the business environment*, the *Strategy for SME* and the *Action plan for improving the business environment for the 2011-2013 timeframe*, the Ministry of Economy, Trade and Business Environment (MECMA) has included in the NRP a series of measures and actions aimed at supporting the business environment:

Improving the quality of the administrative act, the decision making process and management and horizontal coordination of public policies, with impact on the stimulation, development and improvement of the business climate, private enterprise initiatives, foreign and national investments;

Promoting businesses to enhance their ability to create, add, tap and retain added value in the national productive chain, based on processes, products and services;

Improving the development and monitoring of industry performance to guide industrial policy to innovation processes and technologies in the industry, to strengthen the industrial base.

In order to sustain the activity of SMEs, and supporting priority sectors, several measures are being considered: supporting SMEs by providing *de minimis* aid; supporting investment projects carried out by microenterprises, with a length less two years, plus another targeted support to new investments created entrepreneurs who have never owned a business or have any stake in a company; stimulating young entrepreneurs to set up and develop small businesses; supporting entrepreneurship development.

However, to sustain and improve the business environment, the Government is also considering the reduction of arrears in the economy and accelerating the process of privatization/restructuring/sale of companies with majority stocks owned by state, revival of cultural and creative industries and to simplify and modernize tax procedures by encouraging voluntary compliance.

National targets Europe 2020

Employment

Employment rate target for the age group 20-64 is of 70% in the year 2020. In 2013, an intermediate value of 64,7%³ will be achieved.

³ CNP forecast is based on data series for the period 2002-2008

During 2011-2013, priority is given to four key actions leading to the *economic, social and territorial cohesion* from a sustainable perspective.

The first key action aims at *improving the functioning of the labour market*, by reforming the social dialogue legislation, regulating the activities provided occasionally by the day labourers, and developing the complementary private pension system.

In order to *facilitate the transition from unemployment or inactivity to employment*, Romania takes into consideration to develop new active employment measures and to adapt their implementation to the labour market needs, and to strengthen the institutional capacity of ANOFM, at the same time. In the year 2011, by implementing the *Employment Programme*, it is foreseen to be employed 324,000 persons, out of which 20% young people younger than 25 years, approx. 43% women, and about 12% older workers – over 50 years old.

The European Social Fund (ESF) facilitates the insertion of unemployed people on the labour market, so that 59,000 long term unemployed people will participate in integrated programmes, by the end of 2013.

The third key action aims at *improving the vocational skills of the workers*, and it is focused on the reform of the legal framework on adult training⁴ in order to adapt it to the legal provisions on the education system (Law No. 1/2011).

By implementing the *National Training Plan for 2011-2013* - financed by the Unemployment Insurance Budget – Romania aims at providing training courses for 45,124 persons, out of which about 50% women and 18% older workers - over 45 years old.

ESF will make an essential contribution to promote the adaptability of workers to the new requirements of the labour market, and to the technological and economic development. By the end of 2013, 354,100 employees will participate in the continuous vocational training (CVT) programmes. ESF finances, also, projects dedicated to strengthen the capacity of service providers for the adult vocational training; at least 1,000 CVT suppliers and minimum 600 vocational qualifications will be financed by the end of 2013.

The fourth action line focuses on *increasing the quality of employment of persons living in the rural area, youth and women*. In order to increase the employment quality in rural area, Romania finances the vocational training, business set up by young people, and micro-enterprises set up by persons living in rural area. During 2011-2013, the European Agriculture Fund for Rural Development finances the vocational training of 14,287 persons, investments carried out by 8,766 young farmers, and the creation of approximately 20,000 new jobs.

Research, development and innovation

In order to reach, by **2020, the national target of 2% GDP for RDI investment (1% public sector and 1% private sector)**, a value of 0.85% (0.6% public sources and 0.25 private sources) is estimated for 2013.

Three main directions of action have been identified to reach the planned objective: strengthening the capacity and increasing the performance of RDI system; stimulating the growth of RDI investment in the private sector; developing the European and international dimension of RDI policies and programmes.

The measures on *strengthening the capacity and increasing the performance of RDI system* will

⁴ GO No. 129/2000 on the vocational training of adults, with subsequent amendments and completions

contribute to the improvement of the scientific and technical productivity and of the quality of the research results. A significant increase of the number of articles published in prestigious journals recognized by international classification systems, and of number of internationally capitalized patents is expected. Implementing the recent legislative changes and strengthening their effectiveness are the main challenges for 2011-2013. The mid-term evaluation of the National Strategy for Research, Development and Innovation (2007-2013) and of the National RDI Plan (2007-2013) will be completed. Based on the conclusions of these evaluations the documents corresponding to the next financial perspective 2014-2020 will be developed. Special attention will be paid to the large, high performance infrastructures for research, located in the country.

Implementing the measures for *stimulating the increase of R&D investment in the private sector* will contribute to strengthening the enterprises research and innovation capacity. Projects aiming at increasing the productivity and quality of products, technologies and services will play an important role by their contributions to competitiveness growth and to improving the enterprises position on the domestic and international market. Projects achieved in partnership with companies will be promoted - priority being given to projects with a minimum of 50% co-financing ensured by companies; the innovation "voucher" will be introduced; new mechanisms to support the public-private partnership will be launched. The *National Innovation Strategy* will be elaborated, while paying a special attention to the measures supporting the set-up of *innovative clusters*

For *developing the European and international dimension of RDI policies and programmes*, Romanian contributions to the *EU Strategy for the Danube Region* will be supported (i.e. the International Centre for Advanced Studies Danube-Danube Delta-Black Sea) and the efforts to finance the pan-European research infrastructure Extreme Light Infrastructure - Nuclear Physics (ELI-NP) will be intensified.

Reducing greenhouse gas emissions

The target for **reducing greenhouse gas (GHG) emissions is 20%**, as compared to 1990 reference year. NRP indicates two main lines of reform, in order to attain the goal of diminishing GHG emissions:

Supporting and promoting an economy with low-carbon emissions contains actions for diminishing GHG emissions in the energy and transport sectors, with a special attention to programmes and projects that use EU funds.

Tackling climate change is targeted through actions for applying new technologies for carbon capture and storage, afforesting of the agricultural and damaged lands, and expanding of green areas in localities.

Romania assumed the *separation of economic growth from the use of resources*. For this purpose, several new actions have been considered: natural resources preservation, biodiversity protection and green infrastructure development. The new perspective regarding "A circular Europe" is implemented through measures that lead to more efficient waste recycling.

Renewable energy sources

Romania has to capitalize 63.5 % of its total available potential of renewable energy sources in order to reach, in 2020, a value of **24% for the share of energy from renewable sources (RES) in the gross final energy consumption** (as foreseen in Annex I of Directive 2009/28/EC). According to the same annex, the indicative trajectory to reach this target points out a value of 19.66%, in 2013, for the share of energy from renewable sources.

In order to reach the national target, RES promotion through green certificates will be continued, investments in modernizing and achieving new capacities for electricity and heat production and installing heating systems using renewable energy will be promoted.

The implementation of these measures will lead to increasing the capacity of energy production from RES and to increasing the number of green certificates; the green certificates offer will exceed the demand, and thus green certificates prices on the trading market will decrease. This situation will encourage the RES-E producers to take the necessary actions to improve the energy production effectiveness and thereby will contribute to the competitiveness growth.

Energy efficiency

Romania has established a **reduction of 19% in the consumption of primary energy** (about **10 Mtoe**) for 2020. A reduction of 8 Mtoes in the consumption of primary energy is estimated for 2013.

To this aim, main actions will be focused on implementing the financial instruments dedicated to increasing the energy efficiency, informing public and businesses environment on the importance of energy efficiency and on improving the effectiveness of the centralized systems of energy production and distribution.

Significant contributions are expected by implementing the high efficiency cogeneration scheme: increasing Romania's security in energy supply; ensuring a sustainable development; diversifying the energy sources; raising the share of cogeneration in the mix of energy sources used in electricity; and raising the security in consumers' heat supply.

Education

The chapter starts with a short presentation of the *Law on National Education*, especially of those provisions with impact on the two targets on education set by *Europe 2020 Strategy*.

With regard the **reduction of early school leaving rate**, Romania aims at a final target of **11.3% in 2020**, reaching a mid-term target of 14.8% in 2013 (starting from 16.6% in 2009).

The main key-actions for reaching the target are: *expanding the application framework of early education reform; providing the necessary support to prevent early school leaving* (for example, by means of *Second chance* type programmes); *supporting early school leavers return to school* (by developing "Second Chance" type programmes); *increasing the relevance of pupils and students' education and training by streamlining education towards skills formation; opening the school to community and business environment*, with focus on disadvantaged areas; *development of vocational education and training*. The estimated impact of these key-actions and (many of them being supported by means of EU funded projects) will be twofold: at *institutional level*, through raising the institutional capacity of schools to support policies fostering participation to education and training; at *individual level*, through retention in education of students/youth placed at risk of early school leaving, increasing the youth participation ratio to lifelong learning education, formation of key-competences and enhancing the level of training of teachers.

As for **increasing of the share of population aged 30-34 with tertiary education or equivalent**, Romania aims at reaching a final target of **26,7% in 2020**, with a mid-term target of **20.25% in 2013**, starting from 16.8% in 2009.

The main key-actions designed to reach this target focus on: *finalising the National Qualification Framework in Higher Education* and its linking with the labour market needs, inclusively through the creation of *National Register of Qualifications in Higher Education*, of a *Single*

Registration Book containing all students of all Romanian universities, as well as through surveys on the insertion of tertiary education graduates on the labour market; *creating mechanisms for recognition of skills acquired through formal and non-formal education for tertiary education routes*; *fostering participation to tertiary education by means of financial stimuli*, for example through setting-up a *Loan System for Romanian Students* or the *exemption from payment of 75% of the loan for studies for the higher education graduates who will practice their profession for at least 5 years in rural areas*; *stimulating lifelong learning through completion and adoption of the National Strategy on Lifelong Learning*. The estimated impact of envisaged measures for reaching this target is also twofold: at the *labour market* level through a better insertion of graduates on this market and a better synchronisation between education supply and labour market demand and at *individual level*, through increasing the labour force mobility and skills.

Social inclusion

The target for 2020 is **to reduce by 580,000 the number of people at risk of poverty and social exclusion**, as compared to the year 2008. In the year 2013, according to CNP estimates, the number of people at risk of poverty and social exclusion⁵ will be reduced by 123,000.

The first key action to reduce poverty focuses on *reforming the social assistance system*, in order to better redistribute the financial and human resources within the system. By the end of 2013, it is foreseen that the corrective measures will lead to fiscal savings of approximately 0.78% of GDP, and to decreasing by at least by 100,000 persons the number of working people depending on social assistance. In this respect, *The Romanian Government Strategy on Roma Inclusion 2011-2020* aims at including on the agenda of central and local public authorities certain measures to increase the socio-economic inclusion of Roma people.

The second key action aims at *facilitating the access and participation of persons belonging to vulnerable groups on the labour market* by developing profit-making activities and services to help people at risk of social exclusion to integrate or (re)integrate into the labour market. During the period 2011-2013, 500 new structures of social economy are estimated to be set up, 10,000 jobs to be created, and 150,000 people will participate in training/ (re)training programmes for vulnerable groups.

The third key action is focused on achieving a *balanced economic and social development* of Romanian regions. The European Regional Development Fund will finance the *sustainable urban development by integrated urban development plans*, including investments in *social housing projects*, and for *improving the social, health and education infrastructure*.

As to the fourths key action, Romania aims at *improving the access of vulnerable persons to healthcare services*, by developing an adequate healthcare infrastructure and by raising the quality of the medical services. Romania will improve the medical healthcare in remote and/or economic disadvantaged areas, and the infrastructure of the healthcare services providers will be modernized.

⁵ Forecasting based on data series provided by INS for the period 2003-2008, and CNP estimates for 2009-2010.

NRP development process

In order to ensure a coherent and consistent approach with the simultaneous actions at European level, the Department for European Affairs ensured the coordination of the NRP development process.

Working groups⁶ have been created for each objective of the strategy, excepting "20/20/20", for which three working groups were necessary. Each sectoral working group was coordinated by the ministry with major responsibilities in that area.

During the period preceding the European Council of 17 June 2010, the sectoral working groups have focused on defining national targets and key policies, programmes and measures needed to achieve the targets.

The levels of national targets were discussed with the social partners during the meetings of the social dialogue committee within the coordinating ministries of each sectoral working group. They were also debated by stakeholders – social partners, academia, NGOs and professional associations - within a national conference and five round tables conducted by DAE in June 2010.

Based on these, the draft NRP was elaborated and sent to the European Commission on 17th of November, 2010.

The final NRP was developed based on the work of the same seven sectoral working groups and three additional task forces⁷. In addition, the final NRP includes, where appropriate, measures recommended by the COM in the *Growth Annual Review*, actions for the member states as defined within the seven flagship initiatives of *Europe 2020 Strategy*, as well as the recommendations of the COM during the two bilateral meetings held on February, 15 and March, 11.

The final version of the National Reform Programme NRP ensures consistency with the Convergence Programme and with the main benchmarks related to the implementation of the commitments assumed by Romania in the new preventive-type agreement concluded with the EU and IMF, respectively with the Euro Plus Pact.

In order to make *the Europe 2020 Strategy* visible in Romania and to ensure transparency, DAE, in partnership with main ministries and other public authorities, organized public debates under one national conference and three thematic roundtables in March 2011.

The dissemination of information regarding the measures to be implemented in order to achieve the objectives and the national targets proposed in the context of *Europe 2020 Strategy* was accomplished by DAE through a leaflet and a booklet, which were largely distributed.

During the whole development process, basic documents regarding the NRP were posted on DAE website.

⁶ One working group for each general objective of Europe 2020 Strategy: CDI, employment, environment, climate change, energy efficiency, renewable resources, education, social inclusion

⁷ These task forces addressed the macroeconomic reforms and the two priority reforms: increasing efficiency and effectiveness of public administration, respectively the improvement of the business environment

INTRODUCTION

The *National Reform Programme (2011-2013 NRP)* represents the platform framework for defining and applying the main policies for economic development of Romania, in accordance with Europe 2020 Strategy and related policies, having as priorities a smart, sustainable and inclusive economy, with high levels of employment, productivity and social cohesion.

A judicious use of this tool, by taking the necessary and realistic reforms in the context of European efforts for achieving the objectives of *Europe 2020 Strategy*, allows concerted national steps for modernizing the Romanian economy and society and supports the economic and social convergence with other EU member states.

Starting from the objectives of this strategy, Romania has established, through *NRP*, its national priorities and targets which set out the framework and guidelines for sustainable economic development. The mobilisation of institutional and financial efforts, combined with a broad consensus within the society, is a key-factor for translating these national objectives and priorities into reality.

In this respect, this new vision of the Romanian Government on economic growth and living standards, which is clearer and more dynamic, has led to a closer collaboration between central government, parliament, social partners, associations of local government structures, NGOs, academic environment and international financial institutions, aiming at implementing the necessary reforms to correct financial imbalances and restore growth.

Naturally, the *NRP 2011-2013* continues the reforms undertaken by the *NRP 2007-2010* and defines new reforms, derived from the specific objectives of the *Europe 2020 Strategy* and its related documents (*flagship initiatives, Annual Growth Survey, Euro Plus Pact*). In this context, the *NRP 2011-2013* includes, besides newly identified measures and actions, some of the actions under implementation (including actions related to the conditionalities Romania must fulfil in relation with the International Monetary Fund and other international financial institutions).

The elaboration and application of the *NRP 2011-2013* coincides with the economic recovery period, the economic crisis being perceived as a major opportunity to implement budgetary and structural reforms to increase the capacity of Romania's economy to face global competitive pressures on the long run, attract foreign direct investments and create new jobs.

Romania's response to economic crisis and downturn has led to the adoption, in 2010, of a consolidated budget, having as main targets the containing of domestic deficit and external deficits' increase. At the same time, the Government has focused its efforts on identifying short-term solutions in order to reduce macroeconomic imbalances. To this end, the key measures on fiscal policy envisage reducing the budget deficit to levels stipulated by *Stability and Growth Pact* and guiding resources for growth support related investments.

The comprehensive economic programme agreed with the International Monetary Fund, the European Community and other international financial institutions (World Bank, European Bank for Reconstruction and Development) defines in a realistic roadmap, a set of key objectives for strengthening and reforming the tax administration, supervising the financial sector and structural reform of key sectors (employment, education, environmental infrastructure). In accordance with *Government Programme 2009-2012, Convergence Programme 2011-2014, Fiscal-Budgetary Strategy on medium term 2012-2014*, and taking into account the EU objectives set by *Europe 2020 Strategy* **the medium term economic strategy of Romania targets the following objectives:**

- a. Resume economic growth and create new jobs;
- b. Adjust the government and current account deficits to levels that make possible their financing and the continuation of the disinflation process;
- c. Protect the population groups most affected by the economic crisis;
- d. Improve the predictability and performance of medium-term fiscal policy and maximize the efficient use of funds from the European Union;
- e. Ensure long-term sustainability of public finances;
- f. Restructure and streamline the public administration sector;
- g. Firmly implement of all commitments assumed as part of the agreement of multilateral foreign financial aid with the International Monetary Fund, the European Commission, the World Bank and other international financial institutions;
- h. Implement short- and medium-term priority reforms, as well as specific measures to fulfil national objectives set in line with *Europe 2020* Strategy.

On the short run, the Government priorities remain related to economic recovery, job creation and sustainability of public finances. In this respect, the increase of the efficiency and transparency of public administration, together with an improved business environment, are considered short-term strategic priorities, designed to contribute directly to creating the conditions for achieving the national targets agreed upon in the context of *Europe 2020* Strategy.

Basically, NRP will boost competitiveness, productivity and growth potential of Romania, social, territorial and economic convergence, all aiming at diminishing disparities in economic development as compared to other European Union' Member States.

*

* *

NRP 2011-2013 was drafted under the supervision of the Department for European Affairs (DAE) within the Romanian Government, based on the contributions of all ministries and state institutions involved in the *Working Group for Europe 2020 Strategy*.

The NRP is based on documents issued by seven sectoral working groups coordinated by DAE, consisting of representatives of key ministries and central authority institutions. NRP included also the results of public debates organized by DAE and key ministries in June 2010 and March 2011.

The *draft NRP 2011-2013* was submitted to the European Commission in November 2010 and it is structured in accordance with the Annex to the SG COM letter dated September 22, 2010.

The final NRP has the same structure as the draft NRP, to which additional information regarding the actual status and new actions together with their envisaged impact on the trajectory for achieving targets were added.

Chapter 1 – MACROECONOMIC SCENARIO FOR 2011- 2014

The economic recovery, though still fragile, is making progress in a faster pace than anticipated. The EU economic picture for 2011 seems to be much more encouraging than at the moment of the autumn forecast 2010. The more favourable foreign environment will boost the EU exports, mainly in the export-oriented economies. Besides exports, which will further support recovery, a balancing of domestic demand is also expected.

The economic activity of the world saw a revival in the last quarter of 2010, and the basic indicators show the speed up in the pace of the economic recovery. The global economy surpassed the critical point of the crisis, a recovery of demand occurring in many developed economies during 2010, as well as in the emerging and developing economies. Thus, the world GDP increased by 4.5%, and the EU27 and EUR zone GDP by 1.8% and 1.7% respectively.

Scenario for the following years takes into account the gross domestic product growth both at world level and EU27 level, and simultaneously the increase in the global imports and Romanian exports market.

Amid maintaining the trend of reduction in domestic demand, the economic decline occurred in 2009 in Romania continued in 2010 as well, when **gross domestic product** (GDP) diminished by 1.3%, which was a better evolution than expected in the European Economic forecasts, autumn 2010. A fact was positive, namely the simultaneous adjustment of the budget deficit from 7.3% of GDP in 2009 to 6.5% and the maintenance of the current account deficit within the sustainability limits, respectively 4.2% of GDP for the second consecutive year. The 2010 year may be considered the year of the industrial production revival, which grew by 5.5%, fully recovering the 2009 decline, but having a structure better adapted to the domestic and foreign markets requirements as well as the year with the highest exports of goods, exceeding even the level before the crisis.

In the context of the situation regarding budget, labour market and the structure of GDP on the supply side, the effects of crisis on Romania's potential GDP are mixed: on one hand its 2009 level is affected when reduced by 4.7% (the labour factor having a contribution of -1.2 percentage points, total factor productivity contributing with -5.0 percentage points, and capital with 1.5 percentage points), and, on the other hand, its growth rates on medium term slowdown from values of above 6% in estimations before crisis to growth paces of above 3% for 2011 – 2014 period.

The 2011 macroeconomic framework takes into account that economic and financial developments will be improved and economy will resume sustainable growth, so that will be possible an increase of 1.5% in gross domestic product.

On medium term, 2012 – 2014 period respectively, the forecast scenario foresees the speed up of the economic growth with paces between 4.0% and 4.7%, which will recover the decreases from 2009 – 2010 due to the economic and financial crisis and to ensure the reduction of the gaps against the EU more developed countries (catching-up process). The Scenario is based on the improvement of the activity in all the economy sectors, mainly in the industrial branches with high export potential as well as in the construction sector that could make use of the need of infrastructure in all the fields.

Economic growth

- Annual percentage changes -

	2010	2011	2012	2013	2014
Real GDP	-1.3	1.5	4.0	4.5	4.7
Nominal GDP	3.1	5.5	8.9	9.1	9.3
<i>Real GDP components</i>					
Private consumption expenditure	-1.7	1.9	3.9	4.2	4.4
Government consumption expenditure	-3.6	-1.1	1.5	1.8	1.9
Gross fixed capital formation	-13.1	3.4	5.8	7.8	8.5
Export of goods and services	13.1	8.1	9.7	9.5	9.6
Import of goods and services	11.6	7.1	8.3	8.7	9.5
<i>Contributions to GDP growth (percent)</i>					
Final domestic demand	-5.2	1.8	4.1	4.8	5.1
Stocks variation	4.1	-0.2	-0.2	-0.2	-0.2
Net export	-0.2	0.0	0.1	0.0	-0.2

Source: National Commission for Economic Forecasting

Domestic demand will be the driver of this evolution, with gross fixed capital formation increasing with paces of growth from 5.8% to 8.5% in 2014. While private consumption expenditure will grow with paces of about 4% under the circumstances of increased disposable income and trust in the economic climate, government consumption expenditure will register positive dynamics after two years of decreases which will ensure the reduction of their share in gross domestic product and improvement of budget expenditure effectiveness. Export and import of goods and services will be maintained at high levels, and will register increases – in real terms - of over 7%..

For 2011 – 2014 period the annual average growth pace for **export of goods** is estimated to be 13.9%. Domestic economic activity will require additional imports, with an annual average pace of growth of 11.6%. Thus, GDP share of trade deficit FOB-FOB will take on a descendent trend to 2.5% in 2014.

Foreign trade and current account

- EUR million -

	2010	2011	2012	2013	2014
Export FOB	37,294	42,910	49,135	55,865	62,850
- annual percentage change, %	28.2	15.1	14.5	13.7	12.5
Import CIF	46,802	52,310	58,530	65,320	72,695
- annual percentage change, %	20.1	11.8	11.9	11.6	11.3
Import FOB	43,199	48,280	54,025	60,290	67,100
- annual percentage change, %	20.1	11.8	11.9	11.6	11.3
Trade balance FOB - FOB	-5,905	-5,370	-4,890	-4,425	-4,250
Trade balance FOB - CIF	-9,508	-9,400	-9,395	-9,455	-9,845
Current account deficit	-4,969	-5,635	-6,715	-6,505	-7,030
- % GDP	-4.1	-4.3	-4.8	-4.2	-4.1

Source: National Commission for Economic Forecasting

Current account deficit will be maintained within sustainable limits, accounting for 4.1% of GDP in 2014. Surplus of current transfers will partially offset, as usually, the negative impact of the trade balance and income balance.

Trend of reducing **inflation** will be seen in 2011 in the end-of-year level of inflation, which will be diminished by more than 3 percentage points.

Process of reducing inflation is foreseen to intensify during 2012– 2014 periods, by maintaining the firm stance of monetary policy and other economic policies components (fiscal, income). The promotion of a prudent wage policy and the continuation of structural reforms will maintain the disinflation process on a sustainable trend. Thus, inflation rate will decrease to 2.5% (December/previous December) in 2014, with an annual average of 2.8%.

Inflation

	- % -				
	2010	2011	2012	2013	2014
- end of year inflation	7.96	4.8	3.0	2.8	2.5
- annual average inflation	6.09	6.5	3.5	3.2	2.8

Source: National Commission for Economic Forecasting

Starting with 2011, on a background of economic growth recovery, **labour market** is expected to improve as well; conditions to increase number of new jobs and improving employment for population aged 20-64 years will be accomplished, in order to achieve objective assumed in *Europe 2020 Strategy*.

Labour force

	- % -				
	2010	2011	2012	2013	2014
Employment rate for population aged 20-64	63.3	63.9	64.3	64.7	65.5
- men	70.8	71.6	72.0	72.4	73.1
- women	55.9	56.1	56.5	57.0	57.8
Unemployment rate (ILO) - %	7.3	6.4	6.2	6.0	5.8

Source: National Commission for Economic Forecasting

Number of unemployed (according to ILO) is expected to take on a descendent trend; thus, unemployment rate will diminish by up to 5.8%, level smaller by 1.5 percentage points than the level registered in 2010.

The foreseen macroeconomic evolution is exposed to **potential risks** which might slowdown the estimated trend:

- Smaller increases or even decreases in the global economy, including European Union economies which could diminish demand for Romanian exports;
- A low absorption of EU funds, implying a reduced level for investment;
- Spreading of potential negative effects due to financial tensions accumulated in certain Member States. Difficulties related to foreign public debts of certain member states of EUR-zone might transfer problems to other EU states. Fiscal consolidation in countries with high budget deficits might induce reduction in domestic demand;
- Maintaining the limited crediting with side effects on consumption;
- Increase of international prices (energy resources, raw materials, agricultural products);
- Unfavourable weather conditions for agriculture.

Chapter 2 – MACROECONOMIC SURVEILLANCE⁸

The whole budgetary construction for 2011 takes into account the rules provided by the new concept of European economic governance, whose legislative package was launched by the European Commission, which aims to achieve a deep fiscal coordination in order to prevent, detect and correct the macroeconomic imbalances and the lack or decrease of competitiveness at EU level. Moreover, the firm implementation of fiscal adjustment commitments assumed by Romania within the multilateral international financial assistance framework was essential in order to achieve, in 2010, the budgetary deficit target of 6.5% of GDP (in cash, under the initially estimated target of 6.8 %) and the inclusion of the public finances on a sustainable path.

The strengthening of the fiscal budgetary framework, the reduction and elimination of the arrears from economy⁹, the continuation of the reforms on budgetary wages, on public pension system, implementation of the measures for fighting tax evasion and undeclared work, establishing of a new fiscal-budgetary conduct, based on efficiency and effectiveness, are the pillars of the budgetary construction for 2011.

Maintaining the fiscal-budgetary consolidation target remains – further -a priority of the Romanian Government. Thereby, the future tax reforms were designated to prevent new pressures on spending, to improve budgetary construction process and to ensure the effectiveness of revenues collection and budgetary actions on medium term. Practically, this means a public policy based on the performance of financial activities and on the funds allocation on efficiency criteria.

Fiscal - budgetary policy for 2011 remains a prudent policy, strongly anchored in the commitments assumed in the relation with the international financial institutions. The main challenge to the fiscal-budgetary policy remains the structural deficit reduction. Implementation of the unitary salary law for public sector personnel, unitary system of public pension law, fiscal responsibility law, including fiscal-budgetary strategy on medium term are important steps for achieving the reforms in these areas.

For year 2011, further fiscal consolidation efforts to achieve a target deficit of 4.4% of GDP, respectively 3% for 2012 are expected. Measures already taken in line with the fiscal consolidation will have as result a positive growth path of 1.5 % in 2011 and a faster path of 4% for 2012. However, the recovery will be influenced by several factors, including: the need of further fiscal adjustments, the reduction of capital inflows compared to the period before the crisis; further maintaining a high rate of unemployment; the contagion effects of crisis from other Member States.

On the revenues side, the main components of tax system will remain - overall - unchanged. The budgetary revenues (in cash) are estimated for 2011 at 33.2% share of GDP. Priority will be given to preventing and fighting tax evasion and undeclared work, as well as to effective implementation of action plans assumed by the Romanian authorities for this purpose.

The main challenge for expenditures policy for 2011 is to continue the adjustments, by maintaining budgetary constraints and by making progress in the implementation of structural reforms, as outlined in the *Fiscal-Budgetary Strategy on medium term 2012-2014*. Therefore, a restrictive policy that accommodates the needs of the adjustment process with the limited

⁸ The Chapter on fiscal consolidation is approached in detail within the *Convergence Programme*

⁹ Structural criterion of reference within the new preventive agreement signed by IMF and entered into force on March 3, 2011

available resources will be taken into account. In this respect, the priorities to be financed are carefully selected, so that the effect on the resumption of economic growth on sustainable basis to be reached. Key actions will be mainly targeted to achieve the following objectives: gradually budgetary deficit reduction to sustainable values and correlation with economic growth towards the level set by the Maastricht Treaty, namely 4.9 % of GDP for 2011, 3.0 % for 2012 and 2.6 % for 2013 (ESA95 methodology); ensuring of adequate funding for the budgetary deficit and improving the trust in the national economy; strengthening the budgetary revenues level by promoting measures related to enlargement of the tax base and more efficient tax collection.

As regards the expenditures adjustment measures, these envisage, mainly, a salary policy that aims at limiting the wage envelope to 7.5 % share of GDP in 2011 and to decrease the expenses for wages within the budgetary sector as share of GDP with up to a percentage point in 2013 compared to 2011. It is also taken into consideration the correlation with labour productivity and ensuring the adjustment measures through: eliminating the holiday bonus and the 13th salary; a bigger average salary increase for those with small salaries and a smaller one for those with bigger salaries, simultaneously with supplementary decrease of the jobs within the budgetary sector, extending the measures regarding the reducing of expenditures for goods and services, for some investments (acquisition of cars, furniture, office equipment); completion of standard costs and staff regulations within central public administration, punctual measures for protection of vulnerable categories.

The Government allocated, through 2011 budget, supplementary resources both for investment as well as for EU funds' absorption improvement. Some of these measures have already been taken by transferring the Authority for Coordination of EU Structural Instruments from the Ministry of Public Finance to the Government structure, directly subordinated to the Prime Minister. In the same time, in the next period, the authority of this unit and the staff structure will be consolidated. Regarding the priorities, a special attention will be given to investment within the energy sector (ensuring the supply of efficient energy is essential for a sustainable growth), transport, rural and environment infrastructure (especially the ones with European contribution).

The arrears¹⁰ continue to remain a sensitive problem of Romanian economy, being the main bottleneck to the promotion of the economic reform, through maintaining a constant pressure on the aggregate demand, inflation and current account. Currently, an inventory of arrears and unpaid invoices by the end of December 2010 is under preparation, both at the public administration and state owed enterprises' level. Till the end of April 2011, a real action plan for eliminating the existing arrears and preventing the accumulation of new ones will be elaborated.

The Government is determined to make significant reforms of the state owned enterprises¹¹, especially of those within key-sectors, which generate economic growth, such as energy and transport sector. Therefore, a national strategy for efficiency and reform of the state owned enterprises' corporate governance, together with strategic plans of action, is foreseen to be elaborated and implemented.

In 2011, the government debt (accordingly to ESA95 methodology) will increase in a controlled manner, depending on budgetary deficit funding needs. Thereby, a government debt level of 33.2 % of GDP is estimated, compared to the level of 30.8% of GDP registered at the end of 2010.

¹⁰ In the previous stand-by agreement signed with IMF, the arrears domain was a performance quantitative criterion that was not achieved. As a consequence, in the new programme agreed with IMF this one is a conditionality

¹¹ It represents a performance criterion both in the preventive agreement signed with IMF and in the Memorandum signed with EU

Ensuring adequate and stable functioning of the financial sector

During the period 2009-10, Romania's financial stability faced significant challenges, but remained robust. Banks' capitalisation rose to comfortable levels and liquidity was further adequate. The necessary additional capital was fully provided by shareholders. Romania did not resort to public funds to support the banking sector during the crisis, but took proactive measures to foster capitalisation and enhance regulation. The solvency ratio at aggregate level stood at a comfortable 14.7 percent in December 2010, with all credit institutions reporting a solvency ratio of more than 11 percent at individual level. The results of the most recent bank stress test to economic shocks revealed that the solvency ratio and the tier-one capital ratio would drop by 3.5 percentage points at most under the worst-case scenario.

Banking sector profitability was adversely affected in 2010. The real contraction in credit to the private sector and the worsening of loan portfolio quality depressed banks' net interest income. The decline in risk appetite, reflected by credit institutions' tightening their lending standards and shifting towards low-risk investments, had a negative impact on profitability, against the background of strong disintermediation. In 2009, the Romanian banking sector reported profits amounting to EUR 193 million, but, in 2010 as a whole, losses to the equivalent of EUR 71 million were incurred, due primarily to higher provisions following a heightening of credit risk. The end-2010 loss is not an overall feature of the Romanian banking sector. Profitability of leading medium- and large-sized banks remained in positive territory last year.

Loan portfolio quality worsened in 2010. Non-performing loans ratio¹² increased from 7.89 percent to 11.85 percent (December 2009 – December 2010). As economic growth gains momentum, the pressure on assets quality is expected to diminish. The National Bank of Romania (BNR) will stick to its prudent stance by monitoring that provisions remain at adequate levels to deal with expected risks and the solvency level stays comfortable so as to cover potential unexpected losses. Future developments in non-performing loans (considering the lag between this indicator and economic growth expected for 2011) and the challenges posed by foreign currency loans to the unhedged borrowers remain however major concerns in the short term. Over the medium term, the major challenges are the following: the shift in the business model of the banking sector, given the shaping of a sustainable growth pattern different from the previous one, as well as vis-à-vis the current and future changes to the supervisory and regulatory framework of the financial sector at EU level, along with the increase in households' financial culture with a view to preventing possibly unsustainable credit flows.

The BNR sees foreign currency lending as a stock and flow issue. The Romanian central bank will closely monitor the foreign currency lending evolution and will take the necessary measures so that unhedged borrowers' risks are properly covered and accurately reflected in the costs and prices of financial services. The BNR took measures at an early stage (prior to 2004) to slow down the fast-paced foreign-exchange lending by using a broad range of prudential, monetary policy and administrative tools¹³. The measures proved efficient, but their efficiency diminished

¹² The ratio of A/B, where A = unadjusted exposure of non-bank loans and interest overdue for more than 90 days and/or for which legal proceedings were opened against the operation/debtor and B = total classified loans and interest relative to non-bank loans, excluding off-balance-sheet items.

¹³ Specifically moral suasion, loan-to-value ratios, debt service-to-monthly net income ratios, differentiated for consumer and mortgage loans, with an overall envelope also extended to non-bank financial institutions, differentiated (and growing) minimum reserve requirements on foreign currency-denominated liabilities vs. domestic currency ones, overall exposure limits (in terms of own funds) of credit institutions to unhedged borrowers, tougher stress test coefficients for foreign-exchange exposures (with significantly higher coefficients for USD and CHF exposures), requests for capital increases for those credit institutions with overly high exposures to foreign-exchange lending or with higher loan-to-collateral ratios compared to the industry.

over time, also due to the free capital movement, an experience shared by other countries as well. Under these circumstances, a comprehensive approach at European or international level is necessary. The measures taken at domestic level (aimed particularly at debtors and local subsidiaries of foreign banks) must be supplemented by improved risk assessment and management, translating into commitments assumed by parent undertakings, as well as enhanced and more efficient cooperation between regulatory and supervisory authorities in host countries and origin countries. The establishment of the European Systemic Risk Board and a stronger focus on consistently defining and implementing a macro-prudential framework at EU level may be regarded as the necessary prerequisites for taking such an approach.

Recovery of lending must rest on sustainable principles, with domestic currency lending playing the leading role. The macro-prudential mechanism seeks to ensure such an evolution. High household indebtedness suggests that banks must focus more on lending to the non-financial corporation sector. Against this backdrop, fiscal consolidation should carry on so as to reduce the crowding-out of the private sector from bank resources.

Following the amendments and supplements to *GEO No. 99/2006* brought by *GEO No. 26/2010*, a new principle was introduced. It sets forth that the implementation of restructuring measures in regard to a credit institution must ensure for its creditors a treatment that should not be less favourable than that applied in case the entity would have been subject to bankruptcy proceedings without any restructuring measure being taken beforehand. Thus, lenders and any person considering those measures as detrimental may take legal action to redress the prejudice, with the amount of compensations being limited to the difference between the estimated figure to have been obtained by the lender where the credit institution had directly been subject to winding-up/bankruptcy proceedings and the actual figure obtained for his claim during the winding-up proceedings imposed on the credit institution after restructuring measures had been implemented.

On the other hand, *GEO No. 131/2010 amending and supplementing GO No. 39/1996 on the establishment and functioning of the Bank Deposit Guarantee Fund – FGDB* (republished) ensured appropriate conditions for setting up, managing and using the Special Fund for compensating the persons negatively affected by the measures provided for and implemented during special administration, which is to be managed by the FGDB.

Furthermore, *GEO No. 131/2010* secured the ongoing strengthening of depositor confidence in the banking system via measures designed to increase the ceiling on guaranteed deposits from EUR 50,000 to EUR 100,000 as of 31 December 2010 and to reinforce the deposit guarantee scheme in Romania by:

- Removing stand-by credit facilities (ex-post resources) granted by credit institutions from the financial resources in the deposit guarantee scheme; the change to the Fund's financing manner is implemented amid higher actual (ex-ante) resources by raising the annual contribution (up to the legal limit) and the target coverage; and
- Revising the eligibility criteria for the Fund's Board members so that neither may hold the capacity of member of staff or management, of the Board of Directors, Supervisory Board or Managing Board of a credit institution.

With a view to delivering on the commitment assumed by the Romanian authorities, i.e. the Ministry of Public Finance (MFP) and the BNR, towards the European and international bodies regarding the putting in place of a legislative framework necessary for the comprehensive implementation of International Financial Reporting Standards (IFRS) by the banking system starting with 2012, the BNR took several steps and actions, a smooth transition from RAS (Romanian Accounting Standards) to IFRS being envisaged by raising the actual capitalisation

and liquidity levels reported prior to the change in the reference accounting system:

- Following the trilateral meetings of MF, BNR and ARB (the Romanian Banking Association) held in 2009, the actual implementation of IFRS was agreed upon after a 3-year transition period (2009-11) during which all credit institutions must prepare two sets of financial statements, i.e. an official set based on EU directives and a set based on IFRS, resulting from restating data in the financial statements in compliance with the EU directives; these aspects are regulated by BNR Order No. 15/2009;
- The formulation by the BNR of a “Strategy for IFRS Implementation by Credit Institutions” as a basis for accounting and preparation of individual financial statements, comprising the main steps and actions to be taken by the stakeholders (BNR, credit institutions, MFP), as well as the principles, requirements and implications specific to the adoption of the new accounting standards; BNR Order No. 9/2010 stipulates the compulsory implementation of IFRS as a basis for accounting and preparation of individual financial statements starting with 2012, as well as the mandatory drafting of action plans with a view to applying the Strategy, the submission to the BNR of regular reports on the degree of fulfilment of these action plans, the pointing-out of the difficulties encountered, the general and specific objectives;
- The issuing of BNR Order No. 27/2010 on accounting in compliance with IFRS treatments;
- The participation, in the first half of 2011, in the works of the task forces organised at the level of the Accounting Commission within the RBA, which was assigned the task of preparing comparative accounting monographs to be made available to the MFP in order to facilitate the understanding of the accounting treatment differences that need to be considered in the decision-making process from the standpoint of Tax Code amendment; and
- The updating, in 2011, of the (accounting, prudential, statistical) reporting framework in terms of the introduction of the new accounting standards; in this regard, in compliance with the commitments assumed under the new precautionary agreement, by the end of June 2011 the BNR is set to make recommendations as concerns prudential filters to further secure a prudent policy stance regarding solvency, bank reserves and provisions, as well as the timely implementation of IFRS in 2012.

Apart from the said commitment, the commitments relating to the financial sector assumed by the Romanian authorities under the new precautionary agreement are aimed mainly at further strengthening the banking system and keep up the pace of reforms initiated following the enforcement of the measures stipulated in the previous arrangement. These reforms focus especially on:

- Amending the legislation so that the resources of the Bank Deposit Guarantee Fund (FGDB) may be used to finance (including by collateralisation) the restructuring measures authorised by the BNR regarding the transfer of deposits, including under operations to transfer assets and assume liabilities, if this measure is less costly than the payment of compensations to cover depositors;
- Preparing the necessary procedures for the implementation of the new tasks of the central bank and FGDB in the area of credit institution restructuring, as well as securing immediate access of FGDB to public funds, where necessary;
- Ensuring the consistency of the normative acts included in the legal framework regarding

the winding-up of credit institutions;

- The BNR expanding the list of eligible collateral for refinancing operations by including the bonds issued by the international financial institutions listed on the Bucharest Stock Exchange and sovereign Eurobonds;
- Setting a prudential treatment of debt-to-equity swaps as a result of loan restructuring in order not to weaken banks' financial position;
- Monitoring the foreign currency-denominated loans and taking the necessary steps for their value to reflect the risk of granting such loans to unhedged borrowers; and
- Refraining from adopting the draft laws on the insolvency of natural persons or the retrieval of claims that could undermine debtor discipline.

Romania agrees on identifying a European solution to the financial system taxation, preferably a levy rather than a tax on transactions or activity, provided that it is not intended to maximise tax revenues but to facilitate the collection, in a non-budgetary fund, of certain resources destined to support financial stability in the period ahead, addressing chiefly bank resolution. Nevertheless, we do not agree on a tax on transactions or activity without first assessing the cumulative impact of several types of potential taxes on the parent banks and their subsidiaries amid the tightening of capital requirements via the introduction of Basel III standards and CRD IV, with a view to avoiding the delocalisation and distortion of the financial intermediation contribution to the resumption of sustainable growth of real economy.

In case the precautionary and early intervention measures adopted by the BNR in order to preclude the materialisation of systemic risk in the banking system prove insufficient to offset a potential financial turmoil across systemically important credit institutions, financial stability will be preserved via the implementation of the contingency plan. This plan identifies the cases that require the intervention of the supervisory authority and describes the resolution policies and procedures that can be used as a guide for the management of a potential banking crisis in Romania. The main goal of the contingency plan is to provide, in the case of an impending crisis situation, an operational framework capable of allowing the prompt response of the BNR through its regulatory, monitoring and control mechanisms, so as to contain the impact of the potential systemic risk event on the real economy and depositors. Considering that most credit institutions conducting business in Romania are subsidiaries of major European banking groups, the procedures included in the contingency plan need to be harmonised with those of the future European framework for bank resolution, once the latter is adopted in the form of a specific directive (the draft law is due to be released in the second half of 2011). Based on the benchmarks of the recent press releases by the European Commission in this field, the BNR objectives concerning the contingency plan are:

- To create a mechanism for identifying the systemically important banks capable of meeting the requirements of the test on public interest in financial stability;
- To update the set of corrective resolution instruments and policies by means of participating in the future harmonisation of the bank resolution standards for cross-border banking groups; specifically, the focus will be on the integration of the principle of orderly exit from the market of any unviable bank, regardless of its type and size, without resorting to public funds in order to maintain financial stability; and
- To develop an external communication framework for addressing situations that poses a high risk to financial stability with a view to enhance the capacity to prevent or contain panic from spreading among bank creditors.

Chapter 3 - MEASURES INITIATED IN RESPONSE TO COUNTRY-SPECIFIC RECOMMENDATIONS

On 28th of January 2009, the European Commission published a set of country-specific recommendations¹⁴ aimed to accelerate the reform process in key areas such as: public administration, fiscal policy, business, employment, education and vocational training.

Romania responded to these recommendations by updating the *Supplementary Action Plan emerged from the analysis of the Country Report (2008) of European Commission*. The action plan took into account the provisions of the *European Economic Recovery Plan*.

The developments made between March 2009 - December 2010 in the key areas mentioned in European Commission's assessment are as follows:

I. In order to **strengthen administrative capacity**, the Romanian Government's efforts have been focused on: (i) *public administration reform* (adoption of law on the reorganization of public authorities and institutions, rationalizing public spending, business support; the achievement - by means of World Bank support - of a functional analysis to streamline the central government, implementing a *Strategy on better regulation* and its afferent *action plan*); (ii) judicial reform (adoption of the new judicial codes: civil, criminal, civil and criminal procedure, and improvement of the courts management and judicial system infrastructure) as well as (iii) *improving the management of structural instruments* (to simplify and improve access to European funds and review of public procurement legislation). In order to close the infringement procedure due to lack of independence of telecommunications regulatory authority, the law was amended, thus this body's autonomy being ensured.

II. **Preserving macroeconomic stability and careful monitoring of deficits** have become two major priorities of government policies. Adopting and implementing the *Law on fiscal responsibility* and the *Fiscal-Budgetary Strategy 2011-2013* are important steps to reform the fiscal policy. Moreover, the introduction of a tighter fiscal and budgetary discipline, building of budget based on clear objectives and implementation of the financial framework agreed with the IMF and the EU have induced a sense of confidence in the Romanian economy.

III. In order to **facilitate the market entry of enterprises** one acted to: (i) reducing the number of permits / licenses, contained in the *Plan for simplification* assumed for the implementation of the Memorandum of Understanding (MoU) between the European Community and Romania and in the permits cuts exercises, undertaken by Romania in 2008 and 2009; (ii) starting a coordinated process to identify new measures on business start-up and improving the silent approval procedure; (iii) launching the process of setting-up one stop shops for SMEs; (iv) developing e-government services for business registration with the Trade Register; (v) reforming the procedures of spatial planning, urban planning, architecture and buildings; (vi) launching the process of systematic registration of property. In addition, changes were made to environmental laws to ensure correlation with building permit while the specific environmental procedures were simplified. To increase the access of SMEs to public procurement, the specific legislation has been amended, while suppressing the bureaucracy trends.

In terms of **facilitating business market exit procedures**, *pre-insolvency procedure* was set-up and the *insolvency procedure* was decreased to one year by amending the *Law on insolvency* in order to speed up the decision-making time.

¹⁴ Document on Implementation of the Lisbon Strategy Structural Reforms at the level of Euro and non-Euro area Member States

IV. Regarding the need to improve the quality and relevance of the education and vocational training for the labour market, the elaboration of the *National Qualifications Framework* started, and it will integrate the skills that can be achieved irrespective of the context in which they were obtained. The new Law on National Education (Law No. 1 / 2011 summarized in Chapter 7) contains express provisions on the quality of training. With regards lifelong learning, the process of developing a national strategy on lifelong learning has been also initiated. **In order to reduce early school leaving**¹⁵, MECTS successfully runs social programmes that ensure the access to education for disadvantaged groups.

V. To facilitate youth access to financing, the government is implementing two multi-annual programmes as follows: the first, seed capital type programme – START - is designed to foster young people's entrepreneurial skills, and the second one, a start-up phase type programme, finances business support structures (business incubators). Also, there are being implemented measures for labour market integration of young people at risk of exclusion: fixed-term employment for young people and providing their liaison with formal employment¹⁶ and employment of young people at risk of exclusion on the labour market.

In order to increase the participation of youth on the labour market, the government passed a legislative act designed to foster the setting-up and development of micro enterprises owned by young entrepreneurs, junior in business –i.e. *starter business*. Also, the project on amending the draft legislation on apprenticeships at the workplace was finalised.

Measures to further strengthening the administrative capacity and improving the business environment are described in Chapter 5.

¹⁵ Indicator targeted by *Europe 2020* strategy

¹⁶ A special programme designed for pupils and student and implemented in 2011-2013 by ANOFM in accordance with the Law no. 72./2007 on fostering the employability of pupils and students

Chapter 4 - ADDRESSING THE MAJOR BOTTLENECKS TO ECONOMIC GROWTH AND EMPLOYMENT

During its meeting, on 25th – 26th of March, the European Council asked the European Commission to identify the main bottlenecks limiting growth in the European Union (EU). Equally, the Member States did the same at the national level, in close cooperation with The European Commission. The European Council on 17th of June 2010 assessed this activity and decided that, related to the *National Reform Programmes*, the Member States are to determine the detailed actions in order to implement the new strategy, in particular emphasizing both the measures taken in order to fulfil the national objectives, and the measures to eliminate barriers that limit the national economic growth.

As regards Romania, the approach of the macroeconomic obstacles involves the creation, on a medium and long term, of certain framework conditions in order to adjust the macro-financial and budgetary issues, as well as the external imbalances.

Equally, it is necessary to develop policies aimed at unlocking the main engines of economic growth, with real impact on the macroeconomic level: policies on employment, product markets, innovation, research and development, climate change and education.

The main macrostructural bottlenecks identified for Romania's concern are as follows:

- 1. High structural deficit of the consolidated budget;** its reduction will be possible by taking into account the reallocation of public spending towards the sectors supporting economic growth, including infrastructure. The adjustment of the structural fiscal deficit remains a government priority, and the measures that were passed in 2010 are to be complemented and consolidated with the appropriate policies of expenditure, as well as with policies of implementation of structural reforms, aiming the sustainable economic development. Thus, the new economic programme agreed with IMF and EU focuses on stimulating the potential of economic growth, especially through structural reforms (see Chapter 2 of the NRP - *Macroeconomic Surveillance*, Chapter 1 of the Convergence Programme, the provisions of the precautionary agreement signed with IMF and EU);
- 2. Low efficiency, effectiveness and independence of public administration,** including the **absorption capacity of the structural instruments.** Measures to increase efficiency and effectiveness of public administration under the *NRP 2007-2010* had limited effects, but continue to represent a priority in the period 2011-2013 (see Chapter 5 of the NRP). Regarding the absorption capacity of the structural instruments, the Romanian Government approved the *Plan of Priority Measures for strengthening the capacity to absorb structural and cohesion funds*, whose overall objective is to address the problems and shortcomings affecting to the greatest extent the implementation of structural and cohesion funds, in order to eliminate or significantly reduce barriers to absorption. The plan contains ambitious targets for 2011 regarding the absorption and began to be implemented (see Chapter 5, Section 5.1 of the NRP);
- 3. Mitigation of risks to financial stability.** Ensuring smooth functioning of and enhancing the stability of the financial system, especially of the banking sector, remained on top of the regulatory and supervisory authorities' agenda during the global financial crisis. The measures taken to fulfil this goal were aimed at further increasing banks' capitalisation from private sources (with all banks posting solvency ratios above 11 percent), securing adequate liquidity, maintaining a regulatory framework adequate to an efficient risk

management, and closely monitoring foreign currency lending.

In order to further consolidate financial stability, Romania will continue to pursue a prudent regulation of capitalisation, liquidity and provisioning of the banking sector, along with the implementation of IFRS. New measures will be added to the existing prudential and monetary policy tools so as to avoid resumption of the prevailing growth in foreign currency lending to unhedged borrowers. Romania will also enhance the banking crisis management framework by improving the contingency plan and amending the legislation governing the restructuring of credit institutions, seeking a more effective participation of the Bank Deposit Guarantee Fund in this process;

- 4. Poor functioning of the labour market**, particularly with regard to the wage negotiation system. The measures to improve the labour market flexibility and the business environment that were implemented through NRP during 2007-2010 had limited effects, but continue to represent a priority in the period 2011-2103 (see Chapter 5 and Chapter 6, Section 6.1 of the NRP);
- 5. Poor contribution of the education system at all levels, to human capital formation.** In order to modernize the Romanian education, for its adapting to the current requirements of the knowledge society, the Romanian Government has passed the new *Law no. 1/2011 on National Education* (see Chapter 6, Section 6.4). The law contains provisions that once implemented are expected to deliver, on a medium term, high-quality human capital that is to supports smart, sustainable and inclusive growth.

Chapter 5 - PRIORITY REFORMS ON SHORT AND MEDIUM TERM

Romania's 2007-2010 NRP was a real post-accession strategy focusing on the most important reforms in order to deepen the Romania's integration process and to reduce the discrepancies between Romania and other Member States. For the period 2008-2009, the implementation of NRP was continuously adjusted to the evolution of the economic and social environment in Romania, as well as to the country-specific recommendations of the European Commission.

For reasons of consistency and continuity, one of the major priorities of the Romania's Government is to implement the significant measures initiated in the context of 2007-2010 NRP, especially those ensuring the compliance with the conditionalities of the *Memorandum of Understanding between the European Union and Romania* (MoU).

Following a careful analysis of the possible short-term reforms that might ensure the quick start of economic growth and the beginning of an ascending path for Romania's macroeconomic indicators, it was estimated that short-term strategic priorities must include **increasing the efficiency and transparency of the public administration** and **improving the business environment**.

These are major reforms to be implemented with priority because they can contribute to the effective approach of the major obstacles regarding the economic growth and employment.

5.1 INCREASING THE EFFICIENCY AND TRANSPARENCY OF THE PUBLIC ADMINISTRATION

For the Government of Romania, increasing the efficiency of the public administration is a priority which includes a series of key-reforms, such as restructuring and modernising the central and local public administration, enhancing the efficiency of government expenditures, improving the quality of and the access to public services. The *2009-2012 Government Programme* lays down a set of action lines which essentially aim at increasing the efficiency and transparency of the activities of public administration institutions, ensure administrative decentralization, improve human resources management and increase the effectiveness of the local public administration.

A special role in addressing the reform requirements of the public administration is played by the Operational Programme "Administrative Capacity Development" (OP ACD) that considers the following interventions:

- To strengthen the processes of drawing up public policies, strategic planning, performance measuring and assessing;
- To increase the organisational efficiency, by reorganising the structures of the public administration, enhancing the efficiency of the human resources management, and coordinating the activities of staff training and skills development;
- To improve the quality and efficiency of the services provided by the central and local administration.

Moreover, the *MoU* signed in 2009 has emphasized the importance of defining and implementing policies focused on the improvement of the efficiency and effectiveness of public administration. One of the MoU's conditionalities on structural reform is to achieve –

with the support of the World Bank - a functional review of the central public administration. This review includes two stages, each covering six ministries/institutions/public sectors: *Contract 1* – MADR, MECTS – primary and secondary education, MFP, MTI, SGG and CC; *Contract 2* – MMFPS, MDRT, MECMA, MECTS – tertiary education and research, MMP and MS. The World Bank experts focused on the following key-elements: institutional and functional capacity of the institutions, financial and human resources management, activity efficiency. The outcome of this review has been materialized in a set of recommendations regarding the enhancement of the efficiency of strategic planning, the coordination of inter-sectoral policies, performance monitoring and the management of the public administration reform.

Taking into account the importance of ensuring a transparent and efficient public administration, this strategic priority need to be addressed from the perspective of seven main action lines laying down measures with real impact on the administrative capacity development during 2011 – 2013:

- (i) Implementing the strategic reform for improving the public administration effectiveness, according to the World Bank’s Functional Review;
- (ii) Continuing better regulation-oriented measures at central public administration level;
- (iii) Professionalizing civil servants;
- (iv) Standardizing administrative procedures;
- (v) Increasing the absorption rate of structural and cohesion funds;
- (vi) Using ICT to modernize public administration;
- (vii) Territorial development.

These action lines are presented further on, the main measures being detailed within Annexes No. 1, 2 and 3.

I. Implementing the strategic reform for improving the public administration effectiveness, according to the World Bank’s Functional Review

Further to the review of the central public administration and the recommendations made by the World Bank experts, all six institutions under assessment within the first stage have developed action plans, which have been adopted by memorandum in a Cabinet meeting and submitted to the European Commission. The plans contain estimate costs for the measures implementation, which have been discussed with the Management Authority OP ACD (MA OP ACD), in order to identify ESF potential funding through the OP ACD. Consequently, project fiches have been drawn up for the actions to be funded from ESF, and a funding line for these projects was started by MA OP ACD on March 29, 2011.

As specified in the *Additional memorandum of understanding (the third addendum)*, the second stage of the *Functional review* has to be finalized by the end of April 2011. To this end, on November 26, 2010, SGG signed a contract with the WB experts, and in the first quarter 2011, preliminary reports for all 7 sectors assessed have been drawn up and sent through. At the same time, World Bank conducted Functional review missions during the period January – April 2011. The results of the second stage of the review will also be materialized in specific action plans, to be included in the NRP.

General Secretariat of the Government (SGG)

General Secretariat of the Government - structure with legal entity, within the apparatus of the Government – has the role to ensure the implementation of technical operations related to the Governance acts, is responsible for solving the organizational, legal, economic and technical issues regarding its activity, as well as representing the Government in Court.

The organization and functioning of SGG were set out by *GD No. 405/2007, with its further modifications and completions*. In accordance with this normative act, SGG has the following responsibilities: a) *authority* (in ensuring compliance with procedures - at Government level - for elaborating, signing off and putting draft normative acts forward for approval); b) *strategy-related* (carrying out a system for planning and formulating public policies at public administration level); c) *regulation* (creating a specific legal framework in the fields under its coordination); d) *representation* of the Government, structures within its working apparatus, as applicable, of other structures under its authority, in its relations with public institutions and authorities in the country, as well as with international bodies, organizations or institutions; e) *management* of its patrimony assets.

SGG represents the *lawful beneficiary* of the technical assistance services provided by the World Bank through the functional review of the central public administration in Romania. At the same time, SGG has coordinated the elaboration of the action plans drawn up by the ministries assessed in the first stage of this *Functional review*.

The medium-term objective of the *Functional Review* regarding the Center of Government (CoG) is to improve Government's performance in the area of policy implementation, by strengthening the national policy-making process. Achieving this objective should take place in close correlation with efforts of improving the public financial management and the quality of public spending.

In this context, the WB's recommendations for the CoG are organized under 5 strategic directions: integrating policy and financial planning; improving policy formulation; reducing reliance on ad-hoc decision-making; establishing an efficient information system; streamlining organizational structures.

As mentioned by the WB's *Functional Review*, for 2011 the priority is to support the Government's efforts to better plan its financial and policy priorities. The WB's experts underline the fact that successful and sustained implementation of the policy for managing reforms involves a strong commitment for both Government and political parties.

In this context, for the period 2011-2012, SGG will focus on the implementation of 5 strategic/organizational actions, namely the adoption of an *Annual Working Plan of the Government* (AWPG), the revitalization of the *Strategic Planning Committee*, the revision of the *public policy system*, in order to streamline and make it more flexible, strengthening the role of the *Preparatory Meeting of the Government Session* and the development of an *integrated documents management system of* (electronic support).

The AWPG is designed to integrate in a unitary document all the national, European and budgetary priorities, with the aim of increasing legislative predictability and better coordination of activities at Government level.

On the other hand, a *Strategic Planning Committee* will allow the linking of budgetary resources with the governmental policy priorities, rendering the possibility of reallocating public funds from less important programmes to high priority programmes. Further more, using the

Preparatory Meeting of the Government Session will represent a key-factor in increasing the quality of governmental decisions as a real debate forum, at technical level of public policy proposals and draft legislation, while taking into account governmental priorities.

As regards the development of an integrated documents management system, the focus is on the collaboration between SGG and line ministries, with the aim of increasing efficiency of cooperation within the regulations-making process, as well as increasing the effectiveness of involved departments within SGG.

By their nature, most of the actions proposed by SGG do not require financial resources for their implementation. However, the revision of the public policy system is supported by structural funds, through *OP ACD*, Priority Axis 1 – *Structural and processes improvements in the public policy cycle management at the level of central and local administration*, intervention area 1.1 that aim at improving the decision-making process at political-administrative level, by increasing the capacity of those involved in the substantiation of decisions, improving their training in areas such as data collection, research and analysis methods, public policy elaboration and the capacity of transposing public policy documents in normative acts.

Ministry of Public Finance (MFP)

Ministry of Public Finance is organized and works according to the provisions of *GD No. 34/2009*, with subsequent amendments and completions.

The following entities are subordinated to the MFP: National Agency for Tax Administration (ANAF), Financial Guard, National Customs Authority, general directorates of county public finance and of Bucharest city, National Authority for the Properties' Restitution and National Forecast Commission.

Regarding the progress related to the improvement of the management of public finance, the *World Bank Report* shows that Romania has made important steps, but the progress has been uneven. There are best practices, but also sectors which have not been reformed yet. As regards the fiscal – budgetary policy, the regulatory framework was consolidated, especially for the budgetary discipline, by the adoption of the *Law No. 69/2010 on fiscal responsibility*.

In order to gradually reduce the budgetary deficit under 3% of GDP in 2012, the budgetary policy – in line with the *Fiscal – Budgetary Strategy for 2011-2013* – foresees a budgetary deficit (in cash) of 4.4% of GDP for 2011. This objective will be achieved by the enforcement of the *Law No. 286/2010 on the state budget for 2011* and of the *Law No. 275/2010 for the approval of the ceilings for various indicators specified within the fiscal – budgetary framework*.

Also, within the scope of the budget planning, reforms on budget elaboration were initiated, including attempts for implementing the budgets by programmes, but these are complex efforts and special attention is required in order to guarantee that the budgetary process will be a more efficient tool when it comes to resources allotment and expense efficiency.

To support the budget implementation, an efficient electronic payment system and a complex unique treasury account have been created. The financial and management reporting during the budget implementation need improvements too, in order to supply timely reliable financial data, for informed management of the budget.

Significant reforms were made in the scope of incomes administration and of the single

collection of the corporate tax and of social securities contributions by ANAF. Nevertheless, big challenges still remain, especially related to the performance of incomes collection and to the facilitation of the tax voluntary payment.

For MFP, the objective of the *Functional Review* was to examine the public finance and revenue administration function, namely the identification of opportunities concerning the organizational and strategic enhancement. In this regard, this review provides a strategic medium-term vision in order to develop the public finance function.

Taking into account the recent demands provided by the *Annual Growth Survey 2011*, as well as by the *Euro Plus Pact*, MFP demonstrates, by the means of the below actions, its commitment to improve the quality and functions of the public finance sector:

- Institutionalizing the cautious estimation of the budget incomes, the realistic estimation of incomes being used as a basis for budget elaboration;
- Further streamline the banking transaction services, with consequences on the reduction of transaction costs;
- Improvement of the financial reporting capacity, being thus ensured the improvement of the time and safety in financial reporting, including the budget commitments;
- Improvement of the public debt administration process by developing the General Directorate of Treasury and Public Debt analysis capacity within the scope of risk management, developing the public debt and liquidities treatment management, improving the regulatory and procedural framework related to the derived financial instruments and to the secondary market transactions. This action also involves automating reimbursement process of the governmental public debt, eliminating some documents (e.g. the substantiation notes) for the budgetary openings applications, for currency buying and payment, reducing up to the minimum the circuit regarding the required documents for payments, reconsidering the operations subject to the own preventive financial control.

All these actions – with financial support both from the state budget and from European funds through OP ACD- are meant to contribute to achieving the objectives focused on the improvement of budget credibility and fiscal–budgetary discipline, the modernization of Treasury functions and budget implementation respectively.

Ministry of Transport and Infrastructure (MTI)

Ministry of Transport and Infrastructure is a specialized body of central public administration, with legal entity, subordinated to the Government, which sets out transport policy at national level, elaborates strategy and specific regulations regarding development and harmonization of transport activities within the overall policy of Government, takes measures to ensure implementation of these policies by means of its subordinated units. Also, MTI has the role of State authority in the field of transport and transport infrastructure.

The activity of MTI and its units aims mainly to increase the access of Romania to European and International networks by the integration of national railway, road, water, air (and logistics) networks. At the same time, it envisages balanced development of national transport system, local and regional economy, as well as improving passenger comfort and increasing their safety, making more efficient the freight transport, raising people mobility and improving

environmental quality.

Organisational structure and concept regarding the MTI's role, functions and tasks, as a specialized body and State authority at national level, has continuously evolved in line with socio-economic development and requirements of European and EUR-Atlantic integration process (*GD No. 76/2009 on organization and functioning of MTI, as amended and supplemented*). In this context, new principles and policies of internal organization were defined, both within the ministry and the subordinated units and those under its authority. Thus, the result was to reduce the surplus staff and make the internal organizational structure more flexible. Further more, three units were reorganized and over 200 positions were eliminated by *Law No. 329/2009 on the reorganization of public authorities and institutions, rationalizing public spending, supporting business environment and compliance framework agreements with the European Commission and the IMF*: there are National Qualification and Training Center Rail, Aero Club of Romania, and Agency for Health Public MTI.

The internal restructuring process has intended to redefine the ministry tasks in relation to those of subordinated units, under its coordination and authority, including the outsourcing of activities and their organization within the administrative structures in the subordination/under the coordination of the Ministry with national and local representation.

In March 2011, the *GD No. 318/2011 regarding measures to regulate the organization and functioning of MTI* was approved. According to this normative act, MTI manages financial assistance from external funds granted to Romania for transport sector, within its domain, carry out specific activities in order to implement the objectives, priorities and guidelines envisaged in the trans-European transport networks, ensures implementation of those actions regarding Community transport network interoperability, particularly in the field of technical standards harmonization.

The objective of findings and measures recommended by the World Bank - as a result of *Functional review* – is to strengthen the MTI capacity to perform its public interest functions and improve the management and functioning of the four companies/corporations – the Romania National Company for Motorways and National Roads (CNADNR SA), the National Railway (Infrastructure) Company (CFR SA), the National Freight Railway Company (SN CFR Marfă SA) and the National Passenger Railway Company (SN CFR Călători SA) - in order to achieve their specific mandates.

To address these recommendations during 2011-2013, MTI is focused on implementing a set of actions whose results will be reflected in improving the institutional structure of the Ministry, increasing the profitability of companies/corporations where the State is sole shareholder, rebalancing rail transport in relation with road transport, providing transport opportunities for private sector. In this regard, MTI has identified and assumed following major reform actions: implementing a comprehensive strategy in the transport sector, improving rail sector management, as well as the ministry institutional capacity to manage public-private partnership projects. The aim of these measures is to ensure improved performance and efficiency of transport, by exploiting the technical and managerial skills of the private sector.

A significant contribution to the implementation of actions designed to strengthen the administrative capacity in the transport sector belongs to *OP ACD - Priority Axis I*, the intervention area 3.1, which aims at improving the organizational effectiveness by supporting a package of public management reforms at central and local levels.

Ministry of Agriculture and Rural Development (MADR)

The Ministry of Agriculture and Rural Development works under *GD No. 725/2010 on the reorganization and functioning of the MADR and of some structures within its subordination*, as amended by *GD No. 6/2010*.

At technical level, the ministry is organized in five general directorates, four directorates of specialty and seven support structures, which are being directly subordinated to the minister. Within the MADR subordination there are: 42 agricultural county directorates, which apply the agricultural policy at local level, two payment agencies responsible with the management of the *European Agricultural Guarantee Fund (EAGF)* and of the *European Agricultural Fund for Rural Development (EAFRD)* and agencies which administer sectoral policies (zoo-technical development, wine development, and landed improvements...etc.). Also, four agricultural research institutes and three national laboratories are under MADR subordination.

In order to streamline the activity of the agricultural administration and to better manage the effects of the economical crisis, during the year 2010, six institutions subordinated to MADR had been abolished and their attributions have been taken by the MADR, Agriculture and Rural Development County Directorates and by the Central Plant Laboratory.

In order to assure a flexible and efficient central agricultural administration, focused on sectoral development, a new organizational scheme has been adopted by the *GD No. 6/2011*. The reorganization of the MADR activity has been also foreseen based on the principles of a modern administrative management according to the recommendations from the Report of *Functional Review*.

As far as the implementation of the *Reform Action Plan* based on the recommendations of the World Bank, MADR has delivered to the MA OP ACD four project files, for which the financing requests are being developed; should a project be declared eligible, the contracting stage will be unrolled.

Based on the analysis and recommendations of the World Bank and on the vision and strategy of the MADR, a set of three major actions meant to contribute to attaining the reform and agricultural modernization and rural development objectives, has been identified: (i) strategic development of MADR, (ii) increasing the efficiency of public spending, (iii) modernization of the human resources management system.

By putting into practice the action of strategic development, MADR aims at strengthening its capacity to accomplish and implement monitor and assess public policies and to improve its relationship with the beneficiaries, internal and external partners respectively. The public spending efficiency will be assured by developing programmes-oriented budget – regarded as a management tool, implementing the internal management system and making the budgetary reallocation more flexible.

MADR also focuses on the human resources component, by modernizing their management system. In this way, an organizational culture will be created, and a competitive human resource and a performing administration will be implicitly assured.

In this context, the contribution of the OP ACD – Priority Axes 1 and 2, as well as the *National Programme of Rural Development 2007-2013* (measure 5.1.1.- technical assistance) have to be mentioned. Through these programmes there are funded specific operations targeting:

- Structure and process improvements, which contribute to organizational efficiency, by developing the capacity to formulate public policies, increasing the accountability of public administration, streamlining the operational administrative management activity and managing efficiently the public funds;
- Improvement of the quality and efficiency of the services delivered by the public administration, through the creation of an integrated financial management system.

Ministry of Education, Research, Youth and Sports (MECTS)

Ministry of Education, Research, Youth and Sports manages and leads the national system for education, teaching, research, youth and sports, being organised according to the provisions of *GD No. 81/2010* with subsequent amendments and completions. Under this normative act, a *Unit for the Implementation of the Structural Fund* projects is operating within the ministry; its objective is to make more efficient and carry out the implementation process of those projects financed by Structural Funds.

With the support of Sectoral Operational Programme *Human Resources Development - Priority Axis 1 Education and training in support of economic growth and development of knowledge-based society*, Key-areas of intervention 1.1 and 1.2 - MECTS implements three projects designed to develop the administrative capacity of the institution: (i) *Professionals for primary and secondary educational management* (budget: RON 18 million), (ii) *Training of advisors and assistants to support implementation of the decentralization strategy in the field of primary and secondary education* (budget: RON 18.5 million), (iii) *Management system linking education with labour market* (Budget: RON 13.99 million).

According to the *WB Report*, in the forthcoming period, MECTS should mainly pay attention to the process of redefining its organizational structure, balancing of purely operational workload performed by its staff, improving its capacity to absorb European funds, and information management in order to facilitate their use within policy / strategy-making process.

In response to the WB recommendations, during 2011-2013, MECTS is focused on five action lines that target to:

- Reform the institution's organizational structure, based on efficiency and effectiveness criteria, leading to elimination of overlapping tasks and increasing the accountability of civil servants; practically, one intend to redefine the specific tasks of MECTS' directorates according to the *Education and Research for the Knowledge Society Strategy* and *Law on National Education*;
- Ensure the continuity of education policies by creating a mechanism for regular consultation with social partners, to increase transparency in dealings with them;
- Strategic management and leadership, with emphasis on decentralization, so the local players be involved into decision-making process on education;
- Human resource management, especially reorganization of those units for implementing projects financed by Structural Funds in order to properly carry out the projects and to increase the absorption of structural funds;
- Management and use of information, by creating a national database on education, aimed to allow proper collection and timely processing of data and information related to the education and training processes. At the same time, a greater transparency will be ensured by making

these data available to stakeholders.

MECTS plans to support the implementation of these actions by means of three projects, with a duration of 24 months each, financed from Structural Funds, namely: *Developing MECTS' administrative capacity by implementing strategic management and improving institutional leadership; Restructuring the school network system in the context of decentralization of primary and secondary education/school network management; Integrated information system of education in Romania.*

Competition Council (CC)

The Competition Council – which is functioning according to *Law No. 21/1996*, republished, with its subsequent amendments – represents the authority ensuring the implementation and compliance of EU and national competition rules. At the same time, CC is the national State aid contact authority between the European Commission and public institutions, beneficiaries and suppliers of State aid.

Following the amendment of the *Competition Law* by *GEO No. 75/2010*, CC has acquired new tools for solving competition cases, similar to the ones of the other competition authorities of the EU Member States. Thus, the competition authority is able to accept commitments from the undertakings involved in competition cases so as to eliminate any concerns about environment competition damaging, when CC does not aim at imposing fines. In addition, CC has the possibility to reduce the quantum of fines by 10-25%, when the undertakings are expressly recognising that they have been involved in anticompetitive acts which are object of the current investigations (the *settlement procedure*). In the field of economic concentrations, the *Dominance Test* has been replaced by the *Significant Impediment to Effective Competition Test* (SIEC) which provides an in-depth and rigorous analysis, similar to the one used in the Community specific practice.

In order to raise the degree of identification and sanctioning the bid rigging, a formal cooperation framework has been established between the public institutions with attributions in the public acquisition filed¹⁷; their specialists are cooperating with CC experts within the *Bid Rigging Module*.

Furthermore, through *GD No. 98/2010*, the *Inter-ministerial Council on the State aid Policy* has been established. This body - where CC is represented - is coordinated by a State counsellor of the Prime Minister. The objective of this body is to integrate, correlate and provide the constant application of the Community principles in State aid granted by all the institutions involved, as well as to monitor the impact of the State aid policy on competition.

In order to assess State aid efficiency and the effects following the implementation by the Romanian public institutions of support measures for certain undertakings, in 2010, CC has drafted two impact studies concerning the State aids for restructuring and those granted for disadvantaged areas. Their conclusions can be useful for improving the Governmental policies regarding regional development of Romania and support for undertakings in difficulty.

The WB report confirms that this institution is making efforts for improving its performance. At

¹⁷ By concluding cooperation protocols with the National Authority for the Regulation and Monitoring of Public Procurement, the National Council for Solving Complaints, the Unit for the Coordination and Verification of Public Procurement under the authority of the Ministry of Public Finances, the Control Body of the Prime Minister and with the Romanian Court of Accounts

the same time, the report identifies a series of measures aiming at improving the results and at increasing the visibility of the Competition Council. According to WB's experts, CC must focus on the following priorities: to improve the competitive environment through reducing the dominant role of the State in certain economic sectors, to consolidate the legal framework on competition, to establish a unit within CC specialized in identifying anticompetitive behaviours (for example, the cartels). In this context, the competition authority plans/aims to better align its action tools, its mission and institutional capacity, to improve the efficiency of its investigations so as to ensure a better functioning of markets for the benefit of consumers.

In accordance with WB's recommendations, CC's efforts during 2011-2012 are being focused mainly on actions contributing to the internal restructuring of the institution so that 70% of the current resources to be concentrated on the enforcement of the competition rules, as well as to increase the allocation of the resources on economic analysis and for covering the necessary legal competences. This action is also aiming at strengthening CC's capacity to perform its attributions in the field of State aid. As a result, the use of advanced methods of economic analysis to investigate competition cases and to assess the impact of the State aids as well as ensuring the necessary legal competences will lead to the improvement of the institution performance.

Also, CC is pursuing to ensure the conditions related to the protection of confidential information. This can be achieved only through the allocation of an appropriate headquarter, according to the commitment assumed by the Romanian Government¹⁸. Moreover, this action is an essential condition to guarantee the security in using and storage of classified documents.

In order to successfully implement these assumed actions, CC's activity will continue to be project-based budgeted. As a result, at the end of the second quarter of 2012, 80% of budgetary execution is expected to be carried out through projects.

By all these steps, the six institutions assessed by the WB's experts aim at supporting the objective of achieving a strategic reform that would substantially improve public administration, in terms of effectiveness. Moreover, the implementation of structural reform measures - along with those in the fiscal and financial sector (under MoU) - contributes to the strengthening of competitiveness and coherent adjustment of imbalances in the medium term. In this way, the economy will be placed on a solid and sustainable development base.

II. Continuing better regulation-oriented measures at central public administration level

The process of implementing the *Better Regulation Strategy at the level of central public administration in Romania 2008-2013* is coordinated by SGG together with the Department for European Affairs. The strategy is focused mainly on improving the quality of national regulations and on their simplification, in order to increase the competitiveness of economy and to create jobs.

The general objectives of this strategic document regard: improving the impact assessment of regulations, reducing of administrative burden for businesses, facilitating interaction between the economic sector and central public administration, improving the decision-making process at the level of governmental regulatory bodies, simplifying national legislation and effective application of EU legislation.

To this moment, through the *Functional Review* conducted by the WB, concrete

¹⁸ The commitment to allot a new headquarter for CC has been assumed within *2011 Structural Action Plan*, drafted following the WB's recommendations and adopted by the Romanian Government in November 2010

recommendations were elaborated in order to improve the decision-making system at the level of the Government, thus responding to the general objective of improving the impact assessment of regulations. Further more, progress has been made in what regards the elaboration of *Regulatory Impact Analysis methodologies* in the sectors of health and education, the signing of all funding contracts for the 8 projects¹⁹ dealing with the measuring of administrative costs and identification of administrative burden related to national legislation (the process of identifying of information obligations was finalized in June 2009 – 13 ministries participated and 4430 information obligations were identified).

In June 2010, the *SCM methodology* adapted to Romanian legal environment was finalized too. This instrument will allow the identification and quantification of net administrative costs supported by the economic sector, as well as the efficient monitoring of measures for reducing administrative burden.

Another important component of better regulation field concerns the improvement of consultation process, by developing practices for involving stakeholders in the decision-making process. Thus in December 2010, the Parliament adopted *Law No. 242/2010 – modifying Law No. 52/2003 on the public administration decisional transparency*. The purpose of this law is to boost the degree of responsibility and transparency of the public sector towards citizens, but also to stimulate their active participation in the decision-making process.

In this context, for the period 2011-2012, SGG priorities regard the implementation of those measures assumed by the action plan developed under WB's recommendations, as well as the implementation of the projects regarding the measurement of administrative costs and identification of administrative burden.

The identification and measurement of administrative costs is relevant for the process of establishing of those areas where measures can be taken to reduce administrative burden, by legislative simplification. This process will have positive effects for the business environment, by simplifying interaction between public and private sector and through savings that businesses, SME's in particular, will make due to the reduction of bureaucracy.

Amongst the estimated result, one expects for the second half of 2011 the signing by SGG of the Technical Assistance contracts with the consultants that will identify and measure the administrative costs related to national legislation and the training in 2012 of 64 specialists in this area.

The implementation of the 8 projects for measuring administrative costs and identifying administrative burden is funded through ESF within OP ACD, the total budget for the signed contracts being RON 27.2 million (VAT not included).

III. Professionalizing civil servants

Currently, there are a number of 126,857 civil servants in Romania, of which 61,909 work in the local public administration, 47,103 at the level of territorial public administration and 17,845 in the central public administration.²⁰

¹⁹ The 8 projects for measuring administrative costs and identifying administrative burden related to national legislation deal with the areas which are regulated by the following ministries: MAI & MDRT; MCSI & MECMA; MTI; MFP; MJ; MMFPS & MECTS; MADR; MMP

²⁰ According to data provided to ANFP by public authorities and institutions

Creating and developing a professional, stable and impartial body of civil servants represent the mission of the National Agency of Civil Servants (ANFP), institution founded by *Law No. 188/1999 on the Statute of Civil Servants*. The Agency ensures the implementation of strategies and governmental programme in the field of civil service and civil servants management, as well as in the field of professional training of the public administration staff.

According to the periodic analyses developed by ANFP, as an institution responsible with the civil service and civil servants management, the main objective for 2011-2013 is the professionalizing of civil servants. To achieve this objective, ANFP pays attention especially to those reform measures that have a major impact on the legislative, strategic and institutional framework, specific to the civil service and civil servants, giving them an unitary and coherent structure. Also, ANFP will focus on monitoring the unitary application of the specific legislation in this area, with impact on identifying process of effective mechanisms for implementing and assessing the measures in the civil service, the weaknesses of normative acts in the field, in order to formulate proposals for amending and completing the legal framework.

Moreover, ANFP will focus its efforts on civil servants training, in order to create a professional body of civil servants, well trained, politically neutral and able to apply the European standards of performance. As consequence of implementing projects by accessing grants from EU funds, the costs of staff training at the level of public institutions and authorities will be significantly reduced. For this purpose, ANFP has planned within its annual budgets the necessary amounts for co-financing (2011 – RON 1.4 million; 2012 – RON 0.42 million).

In order to develop the professional skills of civil servants so as to secure quality public services, during September 2009- February 2012, ANFP is implementing the project *European Standards in Using Information Technology in the Public Administration – the National Certification Programme for the Civil Servants*, with a total budget of RON 13.47 million. This project aims at developing PC operating skills recognized through the *European Computer Driving License* for 12000 civil servants of the central and local public administration.

To streamline the strategic management processes and ensure the use of the modernization tools (public policies, strategic planning, project management, and budgets management) by the civil servants from partner institutions, ANFP is implementing the project *Increasing the Capacity of Civil Servants from the Ministry of Defense and ANFP to Use the Processes of Strategic Management and Project Management in the Context of a More Developed and Strengthened Role of the Civil Service*. This project is being implemented between January 2011 and July 2012 and has a total budget of RON 1.12 million.

In order to increase the accessibility and flexibility degree of training programmes provided by ANFP for the civil servants through IT&C, during the period March 2010 - February 2012, ANFP is carrying out the project *Implementation of Training Programmes in the Field of Public Administration to Support the Development of Information Society Using e-Learning Systems*, with a total budget of RON 10.97 million.

Another series of projects managed by ANFP, relevant to the development of administrative capacity, are currently in the assessment phase, namely: *Increasing the Public Administration's Capacity to Manage the Processes of Recruitment, Selection and Evaluation of Civil Servants in the Context of an Increased Accountability in the Public Administration Regarding the Civil Service Management* (RON 12.67 million), *Strengthening ANFP and the Local Public Administration Continuous Training Regional Centers' Capacity to Consolidate Accountability, and Transparency and Reduce the Environmental Impact by Introducing an Integrated*

Management System (RON 2.24 million) and *Development of an Integrated and Unitary System of Public Integrity* - developed in partnership with the National Integrity Agency (RON 9.43 million).

IV. Standardizing the administrative procedures

In order to define a consistent and uniform legislative framework, based on systematising, rationalising and restructuring the legal provisions which guide the actions of the public administration authorities, MAI is developing – with the financial support from *OP ACD* (RON 3.5 million) – the project *A more consistent legislative framework for a more efficient public administration*. The result of this project will be the *Administrative Code of Romania*, a useful instrument for ensuring the uniformity of administrative structures/substructures.

However, substantial delays recorded in the procurement proceedings related to this project led to extend the period allocated to them. Therefore, this fact has required the extension of the project implementation period, and thus offset the initial stages and deadlines stipulated in the *Action Plan for implementing the NRP 2009-2010* to develop *Administrative Code*.

A first step in starting the codifying process was done in March 2010, by setting up – at the level of MAI - a *Working Group for drafting the Administrative Code*, composed of representatives of central and local public authorities, civil society and academia. Furthermore, the analysis phase of the legal framework of public administration has begun in November 2010 in order to substantiate the proposed code. A list of normative acts was drafted to be submitted to the encoding process (approx. 165 acts). Also, a general approach to setting guidelines for identifying failures was outlined, and the project's target group was selected (it comprises 100 institutions which will participate in the process of substantiation, development and dissemination of project *Administrative Code*).

A preliminary comparison study regarding the legal framework in the seven European states facing similar failures of the Romanian public administration has also been drawn up. The conclusions of this study will contribute to substantiate the legislative solutions contained in the draft *Administrative Code*.

The results achieved by the end of 2010 in the codifying field highlights the need that the actions already assumed by MAI to be undertaken within *NRP 2011-2013*, namely: development and adoption of the *Administrative Code*, tackling - a coherent and comprehensive manner - all specific issues relating to administrative procedures and local public authorities, as well as of the *Administrative Procedure Code*, that will be made only after completion of the first code.

Adoption of an *Administrative Code* will contribute to the rational organization of all specialized apparatus and increase its effectiveness, to accurately determine the rights and obligations of civil servants, their responsibility for acts of service, as well as to knowledge by citizens of rights and obligations that belong to them as subjects of legal relations together with public administration. Furthermore, the adoption of *Administrative Procedure Code* will allow the use of a unitary terminology for the same legal realities, institutions, principles and legal concepts, so as to reduce the risk of differentiated interpretation.

V. Increasing the absorption rate of structural and cohesion funds

Despite the performance registered in the case of some progress indicators (such as submission and approval of projects or financing contracts signed), at the end of 2010 a very low absorption rate of structural and cohesion funds has been registered (based on reimbursement from EC), namely 1.9% of the total EU allocation for 2007-2013.

This situation contrasts with the contracting level (about 42.7% of the EU allocation, at 31 December 2010) and the payments to the beneficiaries (refinancing and reimbursement) which amount to EUR 1.73 billion (approximately 19% of the EU allocation for 2007-2013).

Based on a detailed analysis carried out by the institutions responsible with the management of the structural instruments and under ACIS coordination, there were identified the main areas affecting the implementing pace and consequently there was drafted the *Priority Action Plan for Increasing the Capacity to Absorb Structural and Cohesion Funds*, with the overall objective of **addressing the problems and deficiencies that affect the most the implementation process of structural and cohesion funds with a view to removing or reducing significantly of the obstacles to absorption.**

As regards the institutional framework, in the context of an imperative need to consolidate the coordination capacity of the structural and cohesion funds implementation, ACIS was transferred from the Ministry of Public Finance within the Prime-Minister office, under its direct coordination, through the GEO No. 26/17.03.2011 on the approval of some organisational measures at the level of the Government's Working Apparatus and some ministries, as well as for establishing some budgetary-financial measures.

The substantial allocation of funds from EU must be optimal turned into advantage, as it is a key resource for the short, medium and long term development of the Romanian economy and society, as well as a central element for the budgetary sustainability with regard to the investment strategy and to the non-reimbursable nature of these funds.

Main directions of action to increase the absorption rate of structural and cohesion funds

Taking into account the unsatisfying stage of absorption of the structural and cohesion funds, under ACIS coordination, the *Priority Action Plan for Increasing the Capacity to Absorb Structural and Cohesion Funds* (PAP) has been drafted and contains concrete measures to significantly speed up the absorption of these funds. PAP represents the short and medium term roadmap which the Romanian Government is committed to implement, in close cooperation with the European Commission.

On medium term, the implementation of the PAP must lead to avoidance of the decommitment of substantial funds starting with 31 December 2013 (when the highest risk of decommitment exists), and on long term to create the pre-requisites for achieving the *2007-2013 National Strategic Reference Framework* target, more precisely to absorb at least 90% of Structural and Cohesion Funds allocated to Romania.

Even though some of the measures included in the PAP will have only partial effects in 2011, the authorities involved in managing the operational programmes establish ambitious absorption targets for 2011, so as to reduce the huge pressure of 2012-2015 time span:

- Value of the financing contracts signed (EU contribution): EUR 5.6 billion;
- Value of the declarations of expenditures sent to Certifying and Paying Authority (EU contribution): EUR 1.8 billion;

- Interim payments from the European Commission: EUR 1.6 billion.

The PAP is structured on seven main directions, that address the problems and the deficiencies that affect the most the implementation process of structural and cohesion funds.

V.1 Management of the project cycle accomplished by the institutions responsible for Operational Programmes' (OP) implementation

Within this main direction, the measures are focused on the permanent monitoring of different stages of project cycle management, in order to ensure an early warning on the main blockages and to react by taking concrete measures, such as reallocation of funds among major interventions areas or even between programmes. Another extremely important and sensitive measure refers to depth analysing of the expenditure verification and reimbursement procedures at the level of each OP and implement streamlining solutions for the simplification of this process.

V.2 Financial issues related to management of OPs and project

The identified measures are meant both to support the beneficiaries to identify and ensure the financing resources for project implementation and to ensure a sound financial management of the OPs.

V.3 Tendering procedures and procurement contracts

The main necessary actions within the context of implementing the Structural and Cohesion Funds are focuses on standardization of the tender documentation and related contracts, as well as on establishing clear institutional responsibilities for the verification/control of public procurement procedures.

V.4 Improving control and audit activities

The identified measures within this priority directions are intended to improve and streamline the process of identifying irregularities and recovering the respective amounts, and also to ensure a unitary treatment at the level of the managing authorities, intermediate bodies and at the level of different audit and control bodies as regards the eligibility of certain expenditures, the suspicion of irregularities and financial corrections.

V.5 Streamlining and smoothing the action of external institutions intervening in the appraisal, contracting and implementation of projects

In order to promote concrete measures for simplifying the national legal framework with the objective of ensuring a better coordination and smoothing of the action of external institutions interfering in the appraisal and implementation of projects, the measure from PAP regards the identification of these institutions so as to establish the relevance of their contribution from the perspective of national legislation, *acquis communautaire* and types of projects.

V.6 Administrative capacity of the bodies responsible for OPs implementation

The main measures identified in order to ensure an adequate administrative capacity – which will streamline the process of project appraisal and contracting, as well as of the verification and payment of claims – consist in carrying out an institutional analysis for each OP and identifying solutions for hiring additional personnel without increasing the existent personnel expenses of the respective public institutions.

V.7 Capacity and ownership of beneficiaries

In order to support the public and private beneficiaries to perform an efficient project

management, some measures refer to impose stricter horizontal rules for granting pre-financing to projects, intensify training activities for beneficiaries, covering key implementation issues and providing direct assistance in the preparation of tendering documents for some of the beneficiaries of the central and local public administration for approved priority projects who facing difficulties and delays due to public procurement through the *Technical Assistance Facility* financed under *Operational Programme Technical Assistance* (OP TA).

Implementation of the measures included in PAP started in March 2011. The implementation deadlines for most of the measures are established in 2011, while others are permanent or regular measures.

Most of the PAP's measures do not require specific budgetary allocations and are going to be implemented by the institutions responsible with the management of structural instruments or by other relevant institutions. A limited number of measures will be implemented within projects financed under the technical assistance of the OPs.

ACIS will ensure the overall monitoring of the PAP's implementation, according to the deadlines agreed by the Romanian Government and the European Commission. For each specific measure a responsible institution was established, generally coordinating a larger group of other bodies and institutions.

VI. Using ICT in order to modernize the public administration

In Romania, the Ministry of Communications and Information Society (MCSI) is responsible for the administration of the Information and Communications Technologies (ICT). MCSI has a decisive role in Romania's orientation towards a knowledge based society and building the information society, as its primary objective is to complete the *eRomania* portal, with its strategic component of eGovernment. The National Authority for Management and Regulation in Communications of Romania (ANCOM) is the body governing the communications market in Romania, arbitrating the audio-visual communications, radio equipment and telecommunications terminal fields.

In the last five years, MCSI completed a series of actions aimed to modernize the public administration and to spread the benefits of using ICT resources across the country. By the Knowledge Based Economy Project, there were created platforms for communication and training in the use of ICT in 260 local communities. In 2010, the strategy for developing universal service was revised, an action which sealed an old approach²¹ regarding the provision of such service. Also, it was launched the *Ghiseul.ro* portal, which in the first two years, was used for the payment of traffic fines and which will be upgraded this year in order to allow the electronic payment of all taxes towards the public authorities. *eRomania* portal, launched in 2010 in an experimental stage, has made little progress so far. This website will be the central point of all electronic services for individuals and businesses.

In 2009, the revenues from the electronic communications sector in Romania amounted to EUR 3.9 billion, income that was by 14.7% lower than in the previous year. In particular, revenues from mobile telephony sector registered a considerable decrease of 19.0%, from EUR 2.773 billion to EUR 2.244 billion. This fact shows that the fracture between the two sectors (mobile - fixed) decreased, but people are still oriented towards the mobile sector. Also, investment in

²¹ The first approach in ensuring the universal service was the installment of telecenters across the country. Later on, the decision to ensure this service along with the implementation of broadband services was taken.

electronic communications networks dropped, their total value amounting to EUR 611 million (0.5% of GDP) in 2009. This is a considerable reduction (36%) compared with the total investment in this sector, namely EUR 966 million in 2008.

In formulating the main measures for 2011-2013, MCSI had in mind the recommendations that COM drawn in the flagship initiative *A Digital Agenda for Europe*²², as well as the continuation of work undertaken in the previous years.

The main concern of MCSI, on short and medium term, will be the digital agenda goals. In this regard, it was issued a set of measures/action plan aimed at linking national policies with those of the *European Digital Agenda*. Thus, MCSI carried out measures for the eGovernment systems development and for the launch of a new strategy to provide broadband Internet access. These new directions of action will take account of the main European objectives²³ agreed last year.

In Romania, CERT-RO (*Computer Emergency Response Team*) is the initiative of a team of specialists in information systems security, aimed to provide the citizens with responsive and preventive support concerning the cyber crime as well as electronic fraud. In the *Europe 2020* Strategy, the European Commission recommends all Member States to establish such a mechanism.

The establishment of CERT²⁴ is expected to increase security (credibility) of the ICT field in Romania, by empowering users and IT administrators. It also will improve users' confidence in the use of electronic services (government or private), which will lead to significant savings and optimization activities. Draft Government Decision on the organization and operation of CERT-RO is undergoing the authorization process at inter-institutional level.

With regard to the creation of the National Interoperability Framework, following extensive consultations with Member States, the European Commission has developed the European Interoperability Strategy (*European Interoperability Strategy - EIS*) and the European Interoperability Framework (*European Interoperability Framework - EIF*) for European public services. In accordance with the Plan of European eGovernment Action 2011-2015, by 2013, the Member States should align their national frameworks to the European interoperability framework.

At this moment, Romania is running more projects featuring electronic data exchange between different systems of public administration based on the existence of inter-institutional protocols. (112 single statement²⁵, the implementation of INSPIRE Directive²⁶, the Point of Single Contact).

MCSI has drafted a law which aims to set up a common information environment for businesses and to follow up appropriately (online monitoring) social-economic status, its dynamics, societal training of management decisions at the central, sectoral and territorial and to ensure the

²² *Digital Agenda for Europe* - flagship initiative of the *Europe 2020* strategy, which define the main areas of interest in the ICT field

²³ Complete interoperable eGovernment services and 100% broadband internet coverage of national territory by 2015.

²⁴ CERT in Romania – A new compartment of the National Institute of Informatics Development (ICI – Bucharest) within the MCSI which uses the website www.cert-ro.eu as an instrument to report fraud on the internet

²⁵ Online form launched by the National Agency of Fiscal Administration (ANAF) regarding the social contributions payment requirements

²⁶ INSPIRE Directive – Directive of the European Parliament and the Council for a spatial information infrastructure framework which will set up a series of information regarding overall data search, evaluation and transparency and the potential domains for use

interoperability with other international systems. Currently, the draft law on establishing national interoperability framework is in the Parliament. This law will be withdrawn from Parliament and MCSI initiate a new law in concordance with the latest COM releases²⁷.

With regard the implementation of broadband communications strategy, due to the fact that it was launched in 2009 and there have been little progress made in its implementation, MCSI has decided, in the light of recent developments across Europe and in particular following the launch of *Europe 2020* Strategy, to adopt in April 2012 a new strategy for broadband communications, which is consistent with the objectives of the communication *Digital agenda for Europe*.

In order to complete of the common electronic communications infrastructure, in March 2011, the government approved the establishment of the Inter-ministerial Coordination Council on a common communication infrastructure of the Romanian state electronic information services and centres.

By creating a common electronic communications infrastructure of the Romanian State, it is envisaged as follows: increase of the coordination and development of national management information systems, coordination of the development of communications at national level, achieving integrated technological support to enable definition of efficient and rapid information flows, expanding coverage to electronic communications services provided to the authorities and government institutions, ensuring appropriate levels of security and protection of data circulating on the networks (including protection against cyber attacks) in the ISO 27001 and 27002 recommendations.

Moreover, in order to ensure, through modern means, in a uniform manner, all categories of data relating to individuals (birth name, change of name and residence, identity documents issued, external migration, death, etc.), MAI and MCSI coordinate the implementation of the integrated national system for the input and update of information related to the records of persons (SNIEP). The objective of the new information system SNIEP is to provide accurate, complete and timely manner to all internal and external users.

Another important aspect is the transition from analogue to digital television. In this respect, the transition from the analogue to the digital television - approved by *GD No. 1.213/2009* - provides that, by January 1st, 2013, the digital switchover²⁸ process should be completed. However, the completion date was amended by *GD No. 833/2010*, in order to postpone the deadline for transition to digital television Romania by 1st January 2015 (the delay occurred as a result of the COM's postponement regarding the digital switchover process).

In order to strengthen the national system for the provision of online public services to citizens, companies or administration, it was launched in April 2010 - as a pilot project – the eRomania portal. It is intended to provide a unified consistent and user friendly interface, between government and citizens, as well as between government and business community. The full version of the portal launch is scheduled for July 2011. Savings of up to 35% of spending are expected by the time the portal will be finalized and all its sections will be operational. Regarding the extension of the functionality of e-Government component in the *National Electronic System*, the creation and implementation of the single point of contact (PCU) is essential for access to the service activity and it is essential for the implementation of services. Romania was required to create this single point of contact in the context of the Services Directive transposition by 28th December 2009. Although the European Commission noted the lack of progress registered by the

²⁷ *European Interoperability Framework for European public services, December 16, 2010*

²⁸ Digital Switchover – the term employed by COM for the transition to digital TV broadcasting

Romanian authorities regarding the creation of the PCU on several occasions, at the present time, the PCU is not operational and it has not charged any procedure / flow for any service activity yet. Therefore, MCSI decided to take measures for the acceleration of all processes aimed to make the PCU operational by May 2011.

VII. Territorial Development

In 2009, *Law No. 350/2001 regarding territorial planning and urban development* has been amended and supplemented in view to introduce provisions on *Romania's Territorial Development Strategy*. Since 2008, 10 studies were developed in support of the strategy and was launched the *Strategic concept of territorial development Romania 2030 – a competitive, harmonious and prosperous*, which aims to raise awareness regarding the impact of the territorial policies upon the sustainable development.

Romania's Territorial Development Strategy (RTDS) will be drafted in June 2012 and will present Romania's development vision which will ensure coherence of national policies by setting objectives for strategic territorial planning (axes, urban growth poles, corridors, concentration areas, polarized areas, etc.). The strategy aims to underpin national investment programmes and Romania's position regarding European territorial development programmes.

RTDS is the programming document which sets guidelines for Romania's territorial development, as well as the implementation trends for a period exceeding 20 years, at national, regional and interregional levels, with integrating relevant cross-border and transnational issues. RTDS will provide a strategic framework for territorial planning documentations and urban planning documentation to ensure a territorial dimension for competitiveness and cohesion objectives.

A working group will be created for the elaboration of RTDS. This document will be approved by the Romanian Government following the public consultation on the draft strategy.

The funds for developing the strategy (RON 3 million) will be provided from the state budget, the MRDT budget and the Operational Programme Technical Assistance (grant).

5.2 IMPROVING THE BUSINESS ENVIRONMENT

Within *2011 Doing Business ranking* (a World Bank report that analyzes the situation of 183 economies in the world), Romania ranks 56, descending from the 55th place in 2010. The main reason for which Romania has dropped one place in the ranking is related to the minimum tax, which was removed in 2011. Romania climbed 10 positions (from position 102 to 92) in terms of *firms exiting the market* (due to insolvency). Companies in Romania take three years and four months and 11% of total assets to close. The total recovery rate for investors is only 25.7%. Also, Romania climbed nine positions (from position 93 to the 84th place) in terms of the *release of construction authorizations*.

Concerning the *ease of starting a business*, Romania ranks 44, starting a business in Romania taking 10 days, with a cost of 2.6% of the *per capita* income (8.5 in Eastern Europe and 5.3 in OECD countries) and a minimum capital of 0.9% of the *per capita* income. The report notes that in Romania starting a business is difficult, the number of procedures required being 6. Payment of a large number of charges continues to be a big obstacle in the Romanian business environment. Although it is noted the existence of a total of 17 charges, firms must make 113 payments because some fees / contributions must be paid monthly or quarterly. Otherwise, the

number of charges is 113. While paying these fees, a company loses about 222 hours per year to pay them. In conclusion, the **total tax rate** in Romania is 44.9%. Companies in Romania **get loans** more easily than in other countries, from this point of view, Romania occupying 15th position in this hierarchy. In terms of the ease of **cross-border trade**, Romania has a relatively good position - 47th place.

Concerning property **registration** and **obtaining construction permits**, two chapters where Romania has made significant progress over the past two years, local business environment is ranked the 92nd, respectively the 84th in World Bank ranking.

In 2009-2010, Romania has implemented substantial changes to the bankruptcy law, **including, inter alia, an extrajudicial settlement procedure that facilitates the handling of cases of insolvency**. Romania also has amended the regulations on building permits in order to reduce fees in this regard as well as the time needed to obtain them. The areas with the most significant legislative changes relating to business are closing business, building permits and paying taxes.

Supporting, encouraging and strengthening a competitive business environment, simplifying regulations and administrative procedures, reducing bureaucracy and corruption, and improving institutional structures are elements that depend heavily on government capacity to appreciate the impact in determining the current situation of the reform measures that have already been implemented. Thus one can anticipate the future course of an action in order to adopt a pro-active attitude and to minimize the shock transferred to the business environment.

This requires an understanding and an integrated approach of the business environment, a continuous process of evaluation and monitoring as well as a permanent dialogue with representatives of the businesses environment as well as those of the institutions responsible for regulation.

Improving the business environment is one of the priorities of the *2009-2012 Government Programme*, and one of the commitments made by Romania to the European Union. The Romanian Government policy for achieving this goal is focused on supporting private entrepreneurs and stimulating free initiative, by removing obstacles imposed to private initiative, developing a single, clear and stable law, simplifying the formalities for entry and exit of market operators, the reduction of administrative procedures for obtaining permits, approvals and notices, as well as fighting corruption and reducing bureaucracy. Facilitate interaction between industry and central government is one of the important objectives of the *2008 – 2013 Strategy for better regulation in the central public administration*.

In recent years, Romania has undergone major steps to develop a system for evaluating public policies. This was done regularly, from 2 to 2 years, and put more emphasis on identifying obstacles than on increasing the administrative capacity of the institution managing the reform process. However, programmatic²⁹ objectives set by government documents mentioned that the absolute national priorities were to reduce bureaucracy, administrative burdens and improving business environment. Thus, it appears that Romania's business environment requires a paradigm shift concerning the way public policies are elaborated, the involvement and consultation

²⁹ The *2007-2013 National Development Plan*, December 2005, p. 240 Framework Document for the Implementation of the Sectoral Operational Programme "Economic Competitiveness Growth", 2007 (Priority Axis 1: "An innovative and eco-efficient production system" Priority Axis 3: "Information technology and communications for public and private sectors), *Regional Operational Programme*, June 2007 (Priority Axis 4: Strengthening the regional and local businesses), the *2007-2010 National Reform Programme*, July 2007, p. 24 - 30

between administration and private sector, the evaluation and continuous improvement of the regulatory framework, leading to strengthening competitiveness.

In order to continue successfully with reform implementation, it is necessary to support institutional bodies involved in this process, in the context that the reform requirements for the period 2011-2012 are extremely ambitious. In this respect, Romanian Government, with World Bank support, has established the Business Environment Department (DMA) within the Ministry of Economy, Trade and Business Environment (MECMA). Currently, the World Bank finalized functional evaluation of the structures within MECMA, following that the recommendations suggested in the final report (end of April) to be taken into account by the Ministry and Government with the purpose to improve the institutional capacity of developing, implementing and monitoring government policies for improving the business environment.

In this regard, the *Action plan for improving the business environment for the period 2011-2013*, which is ongoing, provided a series of concrete actions, with timelines and clear institutional responsibilities to implement the recommendations of the World Bank and European Commission.

5.2.1 Governmental strategies for the business environment

In order to support MECMA's institutional reform and improve the business environment, throughout 2010, the procedures required to access EU funds have been simplified by the Intermediary Body for SME of the Sectoral Operational Programme Economic Competitiveness Growth (SOP IEC) through: the elimination of compulsory requirement for filing in notices, agreements, permits released by the responsible authorities along with the request for funding, documents that would be required after the approval of the project, respectively once the financing contracts would be signed; shorter evaluation periods for applications from six to two months; replacing some documents required when applying for financing with an affidavit; a feasibility study is no longer required; providing pre-financing, up to a maximum of 35% of the requested non-reimbursable grant, including for requests from 2008; including the eligibility criteria for cases where the recipient has the permission, within certain limits, register net budgetary obligations (the difference between residual payment obligations to the state budget and the amounts yet to be recovered from the state budget); it will no longer be mandatory for recipients selected for contracting during the 2008 proposals request *Financial aid between RON 920,001 and RON 5.56 million provided for investments in SME*, to provide a bank guarantee amounting to 20% of the grant (MIMMCMA Order No.1074/ 2009). Furthermore, the percent of SME participating in public acquisition contracts has increased (45,000 contracts signed by SME in 2009, amounting to 29.5% of awarded contracts). A project regarding "Simplified administrative procedures for SME, through the introduction of the single desk – One Stop Shop" is in the phase of implementation, project funded through OP ACD, with a deadline for completion in early June 2011.

Following the *Strategy for improving and developing the business environment*, the *Strategy for SME* and the *Action plan for improving the business environment for the 2011-2013 timeframe*, MECMA has proposed a series of measures and actions aimed at supporting the business environment. As a result of consultations with the members of the *Working group for improving the business environment*, 23 actions with direct impact on the business environment have been agreed upon, out of 45 proposed actions. These actions will be finalized and approved at a ministerial level by MECMA during the first semester of 2011.

Among the most important activities MECMA has been involved in (with the goal of developing

an attractive, transparent and predictable business environment) are:

- Strengthening institutional capacity to manage reforms to improving the Romanian business environment;
- Developing the first *Governmental Strategy on improving and developing the business environment*, as well as of the *Governmental Strategy on the development of the SME sector*, both subject to extensive public consultation;
- OUG no. 43/2010 was adopted (proceedings initiated by MECMA and later coordinated by SGG) in order to modify previous legislation in the sense of administrative simplification by reducing the number of notices, agreements, permits required.

At the end of March 2011, the following actions were in progress:

- Finalizing the H.G. proposal on *The workgroup for developing and monitoring the Action plan on improving the business environment*, established by GD no. 803/2001;
- Completion of the "Action plan for improving the business environment in the 2011-2013 timeframe";
- Identifying and simplifying administrative barriers faced by the business environment, as well as developing and implementing certain qualitative and quantitative monitoring indicators, project evaluated and funded through OP ACD.

The main lines of action envisioned by MECMA for improving the business environment during the 2011-2013 timeframe are as follows:

I. Improving the quality of the administrative act, the decision making process and management and horizontal coordination of public policies, with impact on the stimulation, development and improvement of the business climate, private enterprise initiatives, foreign and national investments. This will result in the completion of the *Action plan on improving the business environment during the 2011-2013 timeframe*.

a. Finalizing the H.G. proposal to modify (amend) the structure of the Working group for drafting and monitoring of the Action Plan on improving the business environment, established by H.G. No. 803/2001 which aims at improving and enhancing transparency of the dialog between the Government and business environment.

b. Achieving the specific goals established by the *Governmental Strategy on improving and developing the business environment*, aiming at implementing the measures included in the *Action Plan on improving the business environment in the 2011-2013 timeframe*, as well as working out a system of qualitative and quantitative indicators, such as: the number of businesses newly established; incubated businesses, of which how many are innovation driven and established by young entrepreneurs; the number of patents and inventions registered at OSIM; the percentage of innovation driven businesses in the total number of incubated businesses; the volume of foreign and national investments; the potential number of competitiveness poles.

c. Finalizing and making operational the site dedicated on improving the business environment, aimed to facilitate access to up to date information about the dynamics of the business environment.

d. Selecting, through electronic auction, consultancy services for technical assistance in order to implement the project *Identifying and simplifying administrative barriers faced by the business environment; development and implementation of certain qualitative and quantitative monitoring indicators*, which will be aimed at reducing administrative burdens affecting the business environment, and also the number of required documents/ procedures needed for setting up a

business, as well as a reduction of administrative costs and human resources needed for managing these procedures in public institutions.

II. Promoting businesses to enhance their ability to create, add, tap and retain added value in the national productive chain, based on processes, products and services.

In order to sustain the activity of SME, supporting priority sectors, in 2010, Government approved the supplementation of the National Credit Guarantee Fund for SMEs (FNGCIMM) with the total amount of RON 419.88 million. In addition, the following measures are being considered:

- **Supporting owners associations through state guarantees to facilitate loans for thermal rehabilitation of houses.** In this regard, OUG no. 69/2010, on thermal rehabilitation of housing with financing from bank loans with governmental guarantee was adopted. So far FNGCIMM has granted until 28.02.2011 3 guarantees to a total of RON 466,000 through the thermal rehabilitation programme;
- **Supporting SMEs by providing *de minimis* aid.** Through GD no. 1164/2007, *de minimis* aid is granted to SMEs for investments in modernization or development of their business, such as industrial or tourism related buildings or the acquisition of equipment, within the margins of the allocated budget for the *de minimis* scheme, which is the equivalent of EUR 100 million. A continuous application of this scheme has resulted in: 49 industrial parks, 722 recipient entrepreneurs and 330,943 new jobs;
- **Supporting investment projects carried out by microenterprises, with a length less two years (The „Start” Programme), plus another targeted support to new investments created entrepreneurs who have never owned a business or have any stake in a company.** The “START” programme is aimed at developing entrepreneurship among young people and giving them easy access to financing. For the year 2011, the programme will start at the beginning of April and a minimum of 100 start-ups (SME that are no more than 2 years old) will be financed through it, with a grant of Lei100,000 and a loan of RON 50,000;
- **A programme aimed to stimulate young entrepreneurs to set up and develop small businesses,** with a target group of young entrepreneurs, under 35, setting up their first business. For 2011, the programme has an allocated budget of RON 21 million through the Agency for implementation of projects and programmes for SME (AIPPIMM). Business plans that aim at high investments in manufacturing or services are of major importance for this programme. Also projects creating most jobs, investing in rural areas or based on innovation or creative driven businesses prevail over others. The National Guarantee Fund can guarantee up to 80% of the loaned amount, but no more than EUR 80,000. The new employers are exempt from paying social security contributions for up to four employees, but only if they hire at least two people. The Romanian Counter-guarantee Fund has set up a *de minimis* scheme dedicated to this programme, which will provide *de minimis* aid as counter-guarantees. Based on this scheme, counter-guarantees amounting to 80% of the value of FNGCIMM guarantees will be granted to eligible recipients. Until 9 March 2011, 184 business plans have been applied online at AIPPIMM;
- **Supporting economic operators in the manufacturing industry through *de minimis* aid, to increase competitiveness of industrial products.** In this respect, according to GD no. 1510/2008, *de minimis* aid is granted to SME or larger businesses. To this extent, for 2011 by means of the state budget law, funds have been provided in the amount of RON 15,102

million;

- **Supporting business incubators.** This programme is being implemented in Romania through PNUD, in partnership with AIPPIMM and local authorities in target areas, and its target is to lowering unemployment and developing entrepreneurship in these areas. Companies within a business incubator can benefit, in the 3 year incubation period, from housing in the incubator buildings, financial aid, managerial consultancy and technical assistance. In 2011, non-reimbursable aid will be granted to 120 businesses, in order to set up two new business incubators, 50 new SME, and 450 new jobs and incubating 100 SME, of which 30% will be led by women;
- **Supporting entrepreneurship development through the 2005-2012 National Multiannual Programme for Development of an Entrepreneurial Culture among Women Managers from the SME sector.** This programme aims to promote a training system that facilitates women mobility in the labour market and the development of entrepreneurial skills in order for them to get involved in private economic structures, in the context of troubles concerning maintaining a balance between household and professional obligations, and local prejudice. In 2011, for this programme RON 500,000 has been assigned from the state budget, for drafting up and publishing a study, entrepreneurial training for 240 women in 8 locations, as well as for organizing information campaigns;
- **Supporting traders and market services through the Development and Modernization Programme for trading activities of goods and market services.** The main goal of this programme is to support economic operators, companies and cooperative societies, by facilitating the acquisition of machinery, working facilities, equipment for measurement, control and adjustment in order to improve the economic and technical performance of these companies. For 2011, the government has allotted RON 7 million, 40% more than the year before, the programme starting at the beginning of April and awarding assistance to at least 70 SME with a grant of RON 100,000;
- **Supporting crafts and handicrafts through the “2002-2012 National Multiannual Programme for Crafts and Handicrafts”.** This programme aims to enhance the development of crafts and small industries in Romania in order to increase the number of small craftsmen. For 2011, the government has allocated RON 1 million. The programme will start at the beginning of April and will finance small craftsmen with a non-reimbursable grant of RON 40,000.
- **Supporting the development of private enterprise through the UNCTAD EMPRETEC Programme for Romania to aid SME.** EMPRETEC is an international programme for development and support of entrepreneurs. Through this programme 8 entrepreneurship training courses (workshops) are being financed, UNCTAD EMPRETEC Romania for development of SME in areas of interest for development of entrepreneurial capacity, in order to gain theoretical knowledge with practical applicability when setting up a business.

III. Industrial policy

In order to strengthen and stimulate the industrial base, Romania plans to improve the development and monitoring of industry performance to guide industrial policy to innovation processes and technologies in the industry, to strengthen the industrial base. Romania is planning to finance research in order to evaluate the impact of the transition to a green economy and anticipate the changes that certain industrial sectors will have to face. In the 2011-2013 period,

RON 25.9 million are being budgeted from the national budget to finance MECMA's RDI Sectoral Plan.

Based on the results of the study concerning "Romanian Cluster Mapping", Romania plans to strengthen the competitiveness of local/regional/ national/ cross border innovative clusters by supporting innovation and prompting business partnership in chains of suppliers/clusters as well as with the academic environment, with R&D facilities and public administration. Also, national and European networking will be supported in order to facilitate the exchange of know-how and best practices. In Romania, 19 innovation driven clusters have been created so far (competitive poles) and another 6 are to be created until the end of 2011 in fields such as: aviation, renewable energy, ship building, textiles, the automotive industry and furniture and wood industry.

In the 2011-2012 timeframe, Romania will run the *Consolidating innovation driven clusters competitiveness and comparative evaluation of competitiveness for industrial sectors – sustainable industrial policy tool adjusted for the age of globalization*, by which new zones with potential for clustering and involvement of SME in associative structures will be identified, as well as supporting the transfer of high technology, innovative products and services, and also supporting partnerships in strategic sectors for the Romanian economy (defined by the National Export Strategy 2010-2014: the automotive industry, the industry of electrical and electronic equipment manufacturing, agriculture, tourism, environmental protection services, organic products, the textile and clothing industry, etc). The project aims to set up a benchmarking system for Romanian innovation driven clusters by relating to similar clusters from other member states, and *develop a sectoral cluster model for innovation driven clusters which sets out to identify involvement from enterprises, research institutes, universities and local administration, as well as determining budgetary projections needed for financing these programmes*. A portal for the exchange of information between Romania and the *European Platform for the Cooperation of Innovation Driven Clusters* will be set up through this programme.

The *Competitive Poles* operation will be financed no later than 2013, Priority Axis 1 – SOP IEC providing EUR 60 million for the construction, development and modernization of infrastructure, acquisitions of equipment, as well as services for the training of entrepreneurs (management, dissemination, exchanges in the field of best practices, mentoring and coordination activities, the transfer of know-how, seminars and workshops). The financing scheme is do to be developed in 2011, by means of the technical assistance programme "Aiding the management authority (SOP IEC) in the drafting and implementation of the operation regarding competitive poles, amounting to 16 mil RON. In December 2011, recommendations will be made for the next phase of implementation during the 2014-2020 timeframe.

During the 2011-2013 timeframe Romania will implement, within the JEREMIE initiative, the venture capital funds scheme with a budget of EUR 35 million. Two venture capital funds will be established this year. EIF has concluded the selection procedure of the six financial intermediaries that have six months to attract 30% private equity participation in the venture capital scheme.

MECMA has set out to establish *a venture capital fund*, in compliance with the Governmental Strategy for developing SME. This *venture capital fund* will be created. A feasibility study will be performed in 2011 in order to address the creation of this fund. In accordance with the development strategies of FNGCMM and the Romanian Counter-Guarantee Fund, participations from FNGCMM, FRCG and EXIMBANK, as well as private investors will constitute the shareholders' equity.

Since 2011 Romania has been supporting SME that have a rapid growth potential. These benefit

from a grant amounting up to 80% of the loan value through the JEREMIE initiative/ guarantee scheme. During the 2011-2013 timeframe, the guarantee scheme is run through Raiffeisen Bank (EUR 315 million), and BCR (EUR 212.5 million). SMEs (including start-ups) are granted loans for medium and long term business development (growth or expansion driven investments, tangible and intangible assets, equity related to growth or expansion and the purchase of raw materials).

In light of the need to reduce green house gas emissions and the need for green urban transport, Romania is interested in ***promoting the production of electric vehicles***. The Renault Company, within the Renault - Nissan alliance, has developed two types of electric vehicles: vehicles that can be charged using the domestic power grid and vehicles with batteries that can be replaced in special facilities³⁰. Issues relating to the costs involved in charging and battery types are being discussed in order to select one of these solutions.

Taking into consideration the fact the Renault is one of the leading European promoters in this field, Romania is interested in establishing research facilities in the Renault Technologie Roumanie (RTR) Titu, and manufacturing components or power grids, in the near future (2-3 years). The perspective of making operational the financing scheme for innovation driven clusters/ competitive poles will provide new development opportunities in this field, and will attract new jobs. In the long term, this private enterprise, along with the national initiative to develop intermodal transport, can be considered as being Romania's contribution to achieving the 10% objective concerning the use of renewable energy sources in transport sector by 2020.

There are two ongoing investment projects that envisage, by 2012, production of cars and engines by Ford in Romania, amounting to EUR 675 million (out of which engine production is valued at EUR 181 million), the amount of state aid³¹ granted by the COM being worth EUR 143 million. In 2010, a state aid instalment of RON 73.4 million was issued. The expected effects are the development and modernization of production capacity, increased car and engine production, attracting SME in the supply chain and job creation.

In order to make it's industrial base more dynamic, Romania intends to ***consolidate the technological capacity*** of businesses in order to react to competition and to achieve better integration in local/ and regional markets and to internationalize SME.

Investing in new equipment and technology is being prompted, as well as the introduction of a certified quality management system and products, which in turn provide benefits for companies, improving their market standing and increasing their ability to compete in global markets.

In order to eliminate regional disparities in the development of the business environment, particularly in the case of SME, and increasing their contribution to local and regional economic climate as well as engaging them in urban spatial development, the aim is to achieve sustainable development of private enterprise at a local/ regional level. During the 2011-2013 timeframe, in order to achieve these objectives sustained effort, through the SOP IEC, by local authorities and the private sector will continue, for the development of business structures, the rehabilitation of polluted industrial sites in order to include them in the economic circuit, prompting SME competitiveness, especially small businesses in urban areas, that operate in production, construction and services. The required funding is provided through FEDR, by means of SOP

³⁰ In the case of Renault electric vehicles, the battery can be recharged from a normal 220V outlet within a 4-8 timeframe, depending on the depletion level of the battery. The second system developed by the Renault - Nissan alliance is a vehicle with a replaceable battery, but the battery cost remains high.

³¹ Approved through *GEO No. 109/2008 on individual state aid with the goal of regional development*

IEC priority axes 1, 4 and 5 summing up to EUR 715 million for 30 new business structures, the rehabilitation of 500 ha worth of polluted and unused industrial sites, supporting investments for 1,850 SMEs (1,500 small businesses) and the creation of 7,800 new jobs.

5.2.2 Reduction of arrears in economy

During the last 2 years, in the backdrop of the economic crisis, the lack of cash flow has been amplified by the increase of arrears in the economy caused by local authorities and big businesses, in which the state is the main stakeholder. These arrears have greatly hindered the competitiveness of business, diminishing their ability to invest in development projects. State companies have received annual subsidies, amounting to 0.5 % of GDP. Annual report statements for 2010 showed that the volume of aggregate arrears of these companies has increased to 4% of GDP, and that of losses is 1.1% of GDP.

Taking into account the negative impact of arrears on the competitiveness of companies, as well the need to streamline the activity of companies operating in the energy sector, Government has adopted OUG no. 51/2010 *regulating certain measures aimed at reducing the amount of arrears in the economy, as well as other financial measures*. The bill is aimed at releasing certain economic operators to which public authorities are financially bound. Moreover, in 2011, OUG No. 29/2011 was adopted, regarding regulations for rescheduling payments in response to the increase of executable arrears by 32% in 2009 compared to 2008 and by 20% in 2010 compared to 2009.

Also, in 2010 privatization³² strategies were adopted for 5 state owned companies (with the exception of OMV Petrom S.A. – see Table no.1 below) MECMA/OPSPI³³, in order to attract new investors in the energy field by capitalization of some percentages of stock held by the state in these companies. During 2011, as a result of the implementation of these strategies, it is estimated that, on the one hand, the necessary investments required for the functioning of these companies is ensured, and on the other hand, it will generate additional income to the state budget of about RON 2.9 billion.

In January 2011, the Memorandum that defines the strategic objectives for capitalization of stocks held in the MECMA/OPSPI portfolio was approved by the government: boosting investment activities in Romania and capitalizing on specific opportunities in the sectors that these economic agents operate. Based on this memorandum, MECMA has decided streamlining 3 companies that have generated arrears (see Table no.2 below). By signing the *Stand-By Agreement* with the IMF, the government has committed to support economic competitiveness. This agreement establishes the framework for eliminating generated arrears and implementing reforms in transport and energy.

Thus, throughout 2011, the indicative targets that have been established based on data registered since 31 of December 2010, for both local authorities, as well as national state owned companies

³² GD no. 831/2010 on the approval of the privatization strategy through public offer of SN Romgaz SA and the mandate of the public institution involved in this process; GD No. 827/2010 regarding the approval of the sale strategy of stock for SN Transgaz SA through means specific to the stock market; GD No. 826/2010 regarding the approval of the sale strategy of stock for the National Company for Transport of Electricity- Transelectrica SA through means specific to the stock market; GD No. 832/2010 regarding the approval of the sales strategy of stock for OMV- Petrom SA Bucuresti through means specific to the stock market; and the Memorandum approved by Government in January 2011 which states, among other things, capitalization on capital markets of the entire share package for SC Cuprumin SA Abrud.

³³ Institution with legal person statute established within MECMA, approved by Law No. 552/2001 OPSPI holds in its portfolio 75 companies, for 7 of which it holds a minority stock of shares.

(see Table no.3 below) will be monitored quarterly.

Short term governmental actions will be geared towards supporting economic competitiveness and the elimination of arrears by accelerating the privatization/ restructuring/ sale process of state owned companies, thus:

- **Reduction of arrears arising from local authorities and national state owned companies** by enforcing the indicative targets agreed upon in the Stand-By Agreement with the IMF (Table no. 3). In 2011, strategic action and audit plans will be adopted in order to reduce arrears. MFP will monitor the implementation of the strategic plans and will ensure their auditing for all companies and local authorities mentioned in the programme. Quarterly progress reports will be elaborated;
- **Accelerating the process through which state owned companies are being privatized/ restructured/ sold.** The goal is to implement privatization/ restructuring/ sale actions for: OMV PETROM S.A., S.N.G.N. ROMGAZ S.A., S.N.T.G.N. TRANSGAZ S.A., and CUPRU MIN S.A. – ABRUD, at the same time it is aimed to speed up the process of privatization of companies where the state has a minority share in stock held by AVAS (324 companies). Also AVAS plans to privatize 150 companies, supervised under the Stand-by Arrangement with the IMF that requires reforms in the energy sector;
- **Modifying the current legal framework for privatization.** Actions will be taken in the direction of simplifying the privatization paperwork when the public institution involved holds a stock share under 50% of the equity value; setting a deadline for companies to provide data and information required to draw up an offer to sell shares; adapting provisions on the sale of stock through “order to sell” (sell order) and electronic auction to the new regulations concerning stock markets; public institutions, that hold minority stock packages, will calculate offer prices, based on data from competent institutions like MFP and ONRC, on their own initiative, in case the management of these companies refuses to provide the required information. It is estimated that the legal framework for privatization will be adopted in the IV quarter of 2011.

Adding to the proposed measures to eliminate arrears mentioned above, there will also be those initiated in order to transpose in due time the Late payment Directive³⁴ in order to provide enterprises with liquidities, particularly the case of SME³⁵ (deadline: March 2012)

Table No.1

List of companies in the MECMA/OPSI portfolio that have been set out for privatization/sale by means of stock sales on the capital market, in accordance with the privatization strategies adopted in 2010

Crt. No.	Company	Equity (Bill. RON)	MECMA's shares in the equity	Privatization and restructuring measures	Estimated deadline
1	S.C. OMV PETROM S.A.	5664.410	20.64%	Stock market capitalization of a share package accounting for 9.84% of shareholders' equity	I Sem. 2011
2	S.N.G.N. ROMGAZ S.A	3830.038	85.01%	Stock market capitalization of	I Quarter,

³⁴ Directive no. 7/2011/16.02.2011

³⁵ Document provided by the Small Business Act for Europe and the Action Plan to implement SBA adopted by the Council in December 2008

				a share package accounting for 15% of shareholders' equity	2012
3	S.N.T.G.N. TRANSGAZ S.A.	117.738	73.51%	Stock market capitalization of a share package accounting for 15% of shareholders' equity	II Sem. 2011
4	C.N. TRANSELECTRICA S.A	733.031	73.68%	Stock market capitalization of a share package accounting for 15% of shareholders' equity	II Sem. 2011
5	S.C. CUPRU MIN S.A. – ABRUD	24.184	100%	Stock market capitalization of a share package accounting for 100% of shareholders' equity	II Sem. 2011

Table No. 2

List of state owned companies that have been set out for privatization/ restructuring/ streamlining in accordance with the memorandum adopted by the government in January 2010

Crt. No.	Company	Equity (Bill. RON)	MECMA's shares in the equity	Privatization and restructuring measures	Estimated deadline
1	S.C. OLTCHIM S.A.	34.302	54.79%	Privatization consultant selection	II Sem. 2011
				Privatization	II Sem. 2012
2	C.N. a Huilei S.A.	67.03	100%	Drafting the plan to shut down nonviable mines under C.N. a Huilei S.A	2011
3	SC Termoelectrica and its branches	2040.31	100%	Process of attracting investments by creating mixed ventures (IPP- Independent Power Producer) for platforms within thermal power plants. Viable units will be separated from the inefficient ones, which will be shut down.	2011-2013

Table No. 3

List of state owned companies that are being monitored under the terms of the Stand-By Agreement signed with the IMF on the 28 of March 2011

No.	Monitored company's name	The institution it is subordinated to	Observations
1	C.N. Căi Ferate CFR SA	MTI	
2	CN de Autostrăzi de Drumuri Naționale	MTI	
3	SC Metrorex SA	MTI	
4	Societatea Națională de Transport Feroviar de Marfă "CFR Marfă" - S.A.	MTI	
5	Societatea Națională de Transport Feroviar de Călători "CFR Calatori" - S.A.	MTI	
6	S.C. "Compania Națională de Transporturi Aeriene Române - TAROM" - S.A.	MTI	
7	SC Electrificare CFR SA	MTI	
8	CN Poșta Română SA	MCSI	
9	SC Intervenții Feroviare	MTI	
10	SC Telecomunicații CFR SA	MTI	
11	CN a Huilei SA	MECMA/OPSPI	The drafting of a plan to shut down nonviable mines is provisioned.
12	SC Complexul Energetic Turceni SA	MECMA/OPSPI	
13	SC Filiala de Întreținere și Servicii Energetice Electra Serv SA	MECMA/OPSPI	
14	SC Electrocentrale București SA	MECMA/OPSPI	
15	SC Furnizare Transilvania Nord SA	MECMA/OPSPI	
16	SC OLTCHIM SA	MECMA/OPSPI	The aim is privatization
17	SC Termoelectrica SA	MECMA/OPSPI	In the process of restructuring
18	SN a Lignitului Oltenia SA	MECMA/OPSPI	

5.2.3 Cultural and creative industries revitalisation

According to the Government Programme 2009-2012, the governmental priorities include the promotion of the cultural sector as a key factor in the sustainable development process, social cohesion and fight against social exclusion. The promotion and stimulation of creativity and contemporary creation, as well as the promotion of the vital role of culture and arts, the creativity and the innovation in a knowledge-based society include culture as a priority area for the achievement of the objectives of the *Europe 2020* Strategy.

The economic contribution of the cultural sector reached 5.55% of Romania's GDP in 2005, as compared to 3.75% in 2002.³⁶ The creative industries represent an important area of activity in terms of employment and creation of full-time and part-time jobs (180,450 people in 2005, namely 2.3% of the total number of employees in Romania). Furthermore, the cultural industries sector recorded an export growth from EUR 23.5 million to EUR 55.6 million, during 2000-2005.

With this view in mind, in 2010, in the context of participating in the decision-making and

³⁶ In accordance with the study *The economic contribution of the copyright-based industries (2008)*, The Centre for Studies and Research in the Cultural Field

legislative process of the Council and its working parties, the representatives of the Romanian Ministry of Culture and National Heritage supported, both at a ministerial level and at an expert level, the need to emphasize the role of culture in implementing the objectives of the *Europe 2020 Strategy*, eventually pleading for the introduction of specific measures and actions under its flagship initiatives to stimulate creativity and cultural industries. For this purpose, in the second semester of 2010, a group of experts responsible for developing a ***Public policy proposal aimed at supporting creativity in culture*** was reactivated within the Ministry of Culture and National Heritage.

The Public Policy proposal aimed at supporting creativity in culture is included amongst the priorities of the Government Programme 2009-2012. Its main objective is to develop the economic dimension of culture by providing financial, fiscal and social facilities for the cultural and creative industries stakeholders, especially for the SMEs, including the independent cultural sector (freelancers, creators and independent artists). The document is also aiming at providing a stimulating framework to increase access and participation of the public to culture.

In order to draft, adopt and implement this proposal the following measures will be developed:

- *The elaboration of an impact study assessing the need for a public policy aimed to support creativity- Deadline: first semester of 2011. The study will take into account the following main aspects: support and stimulation of cultural and creative SMEs; encouragement and stimulation of the independent cultural sector, as well as social protection of artists and freelance creators; development and professionalization of human resources in the cultural sector; artistic education of the public and increasing audience participation in culture. Financial Resources: This phase does not require additional financial resources.*
- *The elaboration and implementation by the Ministry of Culture and National Heritage of a public policy aimed to support creativity in culture- Deadline: second semester of 2011. The public policy proposal will tackle, inter alia, the definition of some specific goals such as: development of entrepreneurship in cultural and creative industries; identification of measures for financial - fiscal facilities for cultural SMEs; facilitating the access of cultural SMEs to loans, funds and capital market; providing facilities and incentives for sponsorship and social corporate responsibility; adjustment and improvement of financial-fiscal measures (VAT, income tax) to stimulate the independent cultural sector; identification of several social protection measures for the independent artist (the status of the artist); adequate training for human resources in the cultural field in line with labour market requirements; readjustment of the Romanian Classification of Occupations in accordance with cultural realities; identification of measures promoting artistic and cultural education in school curricula; increasing audience participation in culture, especially for young people and disadvantaged groups. Financial Resources: This phase does not require additional financial resources.*
- *The elaboration of the Strategy (and of its Action Plan) in order to implement the Public policy aimed at supporting creativity in culture- Deadline: first semester of 2012. The strategy will consider the identification of the best manner of implementing the Public policy aimed at supporting creativity in culture and it will take into account the legal, economic, social, environmental and budget dimensions. Financial Resources: This step does not require additional financial resources; however it requires the identification of financial resources after 2012.*

- *The implementation of the Public policy aimed at supporting creativity in culture*- Deadline: starting with the first semester of 2013. In the implementation phase, a special emphasis will be placed on the appropriate measures and actions undertaken to achieve the objectives, including financing for these actions from non-budgetary and budgetary resources.

5.2.4 Simplification and modernization of tax procedures

ANAF (National Agency for Fiscal Administration) has registered and administrates about 7.7 million taxpayers, of which 1.3 million are businesses and 6.4 million individuals.

ANAF has made tireless efforts to **support the business environment and stimulate voluntary compliance**:

- The single statement for social security contributions and income tax on wages was introduced, with effect from 1 January 2011.
- The number of tax returns that had to be filed by the taxpayers has been diminished (the forms 103 "Statement on duty fees" and 105 "Statement on tax for organizing and operating gambling" were removed).
- The expansion of data processing, in 2010, involved the transmission to the National Electronic System of forms of "Smart PDF" through which statements may be submitted via the Internet. On the ANAF Portal (website), a section "My Files" was implemented to allow taxpayers to controlled access to their individual fiscal account.
- Because of the adverse and uncertain conditions caused by the economic crisis, direct measures were taken to support the business environment:
 - Deferred payment for up to six months of unpaid tax obligations on time due to financial and economic crisis;
 - Rescheduling payment terms for facilities that have lost their validity due to economic crisis;
 - Allow for concession of rights to reimburse or refund the taxpayer in the case of settling expense accounts with negative VAT and refunding options.
- The VAT refunding procedure was improved:
 - Requests for reimbursement of expense accounts ranging between 5,000 RON and 10,000 RON are assigned as low fiscal risk and benefit from further control;
 - A special VAT refund regime was introduced for exporters (verified with further control);
 - The application of the unitary system for the selection of VAT returns from the national database was continued, respecting the principle of "the oldest expense account goes out first".
- There have been developed the Taxpayer's Charta that presents the rights and obligations of the taxpayer in relation to tax administration and Taxpayers Greeting Guide - code of conduct for ANAF employees in relation to citizens.

Through its 2010 – 2013³⁷ medium term strategy, ANAF has defined priority axes and set objectives and action lines that will form the basis for its work in the near future.

In terms of business support, ANAF has undertaken further simplification and modernization of its procedures. Falling into this objective, will be developed in a number of action strands, as follows:

- *Stimulating on-line submission of tax returns and promoting electronic and online payment.* By the end of the year, further steps will be taken to ensure a high degree of use of electronic means of transmission from a distance of tax returns. At the present time, the degree of on-line submission of tax returns is 9.91%. These efforts refer, primarily, to businesses and authorized individual taxpayers, but ANAF has proposed, for the period 2012-2014, to simplify the use of online reporting service for individuals. Overall, the use of modern means of compliance with tax obligations reduces financial and time costs for taxpayers and for the administration, while providing a higher degree of safety and efficiency;
- *The regulation of the scheduled payment allotment* for outstanding tax obligations reinstated by the Government Emergency Ordinance no. 29/2011 is a prerequisite for tax administration to take effective measures in the future to support taxpayers in distress due to temporary lack of availability of funds. At the same time, the application of this measure leads to a better collection of arrears, prevents the emergence of new arrears and generates a climate of understanding favourable to the entire economic environment because it avoids the enforcement of measures which would only perpetuate the state of blocking the whole economic chain;
- *Simplification of customs formalities* through the establishment of legislative, administrative and operational measures, with a deadline for implementation in 2011;
- *Creating a partnership between tax authorities and taxpayers as well as a consultative decision-making mechanism.* With the support of the Operational Programme "Development of Administrative Capacity" (PODCA), ANAF intends to conduct studies on the taxpayers' level of satisfaction regarding the agency's services, to run a programme to increase awareness of tax obligations and to create a mechanism of consultation with representatives of business and individual taxpayers, in general, that would increase transparency, mutual confidence and decision quality. The financing of this project, worth about EUR 2 million could be achieved through PODCA and the state budget. Subject to the approval of the grant application, the period of the project implementation would be from 2011 to 2013;
- *Strengthen the collection of a single declaration.* Also with funding from the state budget and PODCA, ANAF will run, from 2011 to 2013, a project worth about EUR 4.5 million involving the consolidation of the single receiving service of declarations on obligations to pay social security contributions, income tax and nominal record of insured persons in order to provide better service to taxpayers through higher technical solutions, but also to facilitate collaboration with other institutions involved, like the social insurance ones;
- *Introduction of quality standards for services provided to taxpayers.* At the same time, ANAF will launch a new project funded by the state budget and PODCA to refocus, systematically, its activity processes in favour of the taxpayer. A number of services offered to the taxpayer will have to meet demanding and transparent quality standards. The value of the project will

³⁷ The strategy is available on the institution's website: www.anaf.ro

amount to about EUR 2 million.

With the exception of the projects financed from structural funds, mentioned above, the resources needed to implement these measures will be mostly allocated through the annual operating budget of ANAF.

5.3 EURO PLUS PACT

The heads of state and government gathered at the European Council on 24-25 March 2011 have agreed upon a new set of political commitments – to be achieved in the next twelve months – aimed to improve competitiveness and convergence of the European economies, based on a closer coordination of their economic policies.

Euro Plus Pact focuses, primarily, on areas that fall under national competence and are landmarks for increasing competitiveness and avoiding harmful macroeconomic imbalances. The four pillars of the Pact are as follows: foster competitiveness, foster employment, strengthening sustainability of public finances and reinforce financial stability.

Even though the Pact is addressed to Member States of the EUR zone, Romania, Bulgaria, Denmark, Latvia, Lithuania and Poland have decided to join in.

Concrete commitments regarding policies

The new economic programme agreed with the International Monetary Fund and the European Union within the framework of the preventive agreement plays a crucial role in ensuring the economic stability, diminishing the macroeconomic imbalances, increasing the confidence in Romanian economy's potential and creating conditions to achieve an economic sustainable growth in the future.

The key objectives in respect of which Romania has undertaken firm political commitments are to: (i) continue the fiscal adjustment process, including the aspects of extending the scope to address the deficiencies of revenue and expenditure efficiency, arrears (ii) speed up implementation of structural reforms, including measures aiming at restructuring and efficiency increase of the state owned enterprises (iii) foster confidence in the economy, especially by improving the business climate.

The measures to achieve *Euro Plus Pact* targets aim at:

a) Foster competitiveness

- 1) Decreasing the share of public wage bill in GDP by 1 percentage point in 2012 compared to 2010 level through ensuring gradual recovery by the end of 2012 of the nominal wage reductions of 25% applied in 2010. Consequently, the trend of the unit labour costs will fall below the trend of the labour productivity;
- 2) Prioritisation of public investment in order to achieve the objectives of competitiveness by setting up a high level working group under direct coordination of the Prime minister, including a list of priority investment projects for which funding may be provided in the next 3-5 years;
- 3) Selling on financial markets of major stakes in state companies;

- 4) Strengthening the capacity and performances of the RDI sector, by implementing the new system of institutional funding;
- 5) Development of European cooperation in the field of RDI by promoting two strategic projects: Centre for Advanced International Studies *Danube – Danube Delta – Black Sea* and *Extreme Light Infrastructure* (ELI);
- 6) Drafting of the national Lifelong Learning Strategy;
- 7) Drafting the reference curricula framework focused on skills upgrading.

b) Foster employment

Measures as part of the Pact objectives that Romania has already taken:

- 1) Achieving a unitary wage framework in the public sector by adoption of the *Framework-law on the unitary payment of the personnel paid from public funds*;
- 2) Measures to promote flexicurity and employment have recently been adopted by amending the Labour Code.

Measures as part of the Pact objectives will be implemented by Romania over the next 12 months.

Boosting employment:

- 1) Strengthening social dialogue and rendering flexible the system of collective labour agreement;
- 2) Amending and completing the legal framework on the unemployment insurance social system and employment stimulation;
- 3) Amending and completing the Law no. 279/2005 on apprenticeship at work;

Measures aimed to reduce **undeclared work**:

- 4) Implementing the *National Strategy on reducing the incidence of undeclared work 2010-2012*;
- 5) Adopting the draft *Law on activities provided occasionally by the day labourers*;

Measures aimed at **continuous vocational training**:

- 6) Reform of the legal framework on adult professional training;
- 7) Implementation of the simplified EU framework for the recognition of professional qualifications, in terms of reciprocity conditions, between Member States;
- 8) Initiation of procedures regarding ranking of universities into categories based on evaluating the studies programmes and their institutional capacity: prevalent education universities, scientific research and artistic creation universities and advanced research and education universities.

c) Strengthening public finances sustainability

Measures as part of the Pact objectives that Romania has already taken:

- 1) Implementation of the unitary pension system Law no. 263/2010 introducing:

- a) A gradual increase of the standard retirement ages to 65 for men and 63 for women until 2030, as well as the gradual increase of the full contribution period to 35 years for men and women before 2030;
- b) More restrictive criteria for accessing partial early retirement by enforcing a penalty of 0.75% per month prior to standard retirement age. Thus, the active professional life will be encouraged.

Measures as part of the Pact objectives that Romania will commit taking over the next 12 months:

Measures as part of the Pact objectives that Romania will commit taking over the next 12 months:

- 2) Introduction of numerical rules for the general government deficit, in line with the provisions of the Maastricht Treaty;
- 3) Continued fiscal consolidation while targeting a 2011 budget deficit of 4.4 % of GDP on a cash basis (below 5% of GDP in ESA terms), and below 3% of GDP for 2012 in ESA terms;
- 4) Accelerating the process for reducing the general government arrears by restructuring the health sector and strengthening the budget discipline of the local authorities by implementing the recently introduced amendments to the Law 273/2006 on local public finance;
- 5) Implementation of the programme on child benefits;
- 6) Improvement of pre-university education system flexibility by:
 - a) Enforcing the “*money follows the student*” principle, in accordance with the provisions of the *Law no. 1/2011 on National Education*;
 - b) Improving the per capita funding formula in the primary and secondary education, in accordance with the provisions of the *Law no. 1/2011 on National Education*;
- 7) Completing the legal framework on social assistance, including social benefits and services.

d) Consolidation of financial stability

Measures as part of the Pact objectives that Romania has already taken:

Since 2004, Romania has implemented measures to slow down the fast-paced foreign-exchange lending by resorting to a broad range of tools, some of them still in use, even after the adjustments made in line with the requirements of Romania’s joining the EU:

- (i) Differentiated (and growing) reserve requirement ratios for foreign-currency-denominated liabilities versus domestic currency ones (currently 20 percent and 15 percent respectively);
- (ii) Loan-to-value ratio limits to 75 percent at most;
- (iii) Limits on debt service as a share in net monthly income, differentiated for consumer loans (30 percent) and mortgage loans (35 percent); for total loans, the figure was set at 40 percent, a ceiling applicable not only to credit institutions, but also to non-bank financial institutions (including leasing firms);

- (iv) Overall exposure limits (in terms of own funds) of credit institutions to unhedged borrowers;
- (v) Tougher stress test coefficients for foreign-currency exposures (with significantly higher coefficients for USD and CHF exposures);
- (vi) Requests for capital increases for those credit institutions with overly high exposures to foreign-exchange lending or with higher loan-to-collateral ratio or loan-to-deposit ratio compared to the average industry-wide; and
- (vii) Moral suasion.

Romania is committed to further carefully monitor the trends in lending to the private sector and is contemplating, apart from continuing to implement the steps taken so far, other possible measures designed to contain risks generated by unhedged borrowers, households in particular.

Measures as part of the Pact objectives that Romania will commit to taking over the next 12 months:

- 1) Further steps to securing the adequate implementation of IFRS by the banking system starting with 2012, based on the following strategic benchmarks, aimed at ensuring a smooth transition to the new accounting standards and raising the actual capitalisation and liquidity levels reported prior to the change in the reference accounting system:
 - a) The shift to the actual implementation of IFRS is preceded by a 3-year (2009-2011) transition period during which all credit institutions must prepare two sets of financial statements, i.e. an official set based on EU directives and a set based on IFRS; and
 - b) In 2011, the (accounting, prudential, statistical) reporting framework in terms of the introduction of the new accounting standards in 2011 will be updated; in this regard, in compliance with the commitments assumed under the new precautionary agreement, by the end of June 2011 the BNR is set to make recommendations as concerns prudential filters to further secure a prudent policy stance regarding solvency, bank reserves and provisions, as well as the timely implementation of IFRS in 2012.
- 2) Further consolidation of banking system stability and the continuation of the reforms initiated following the enforcement of the measures stipulated in the financing arrangement concluded with the EU and the IMF by means of:
 - a) Amending the legislation so that the resources of the Bank Deposit Guarantee Fund (FGDB) may be used to finance (including by collateralisation) the restructuring measures authorised by the BNR regarding the transfer of deposits, including under operations to transfer assets and assume liabilities, if this measure is less costly than the payment of compensations to cover depositors;
 - b) Preparing the necessary procedures for the implementation of the new tasks of the central bank and FGDB in the area of credit institution restructuring, as well as securing immediate access of FGDB to government funds, where necessary;
 - c) Reassessing the provisions of the normative acts included in the legal framework regarding the winding-up of credit institutions with a view to taking measures, where necessary, for ensuring their consistency;
 - d) The BNR expanding the list of eligible collateral for refinancing operations by

including the RON-denominated bonds issued by the international financial institutions listed at the Bucharest Stock Exchange and sovereign Eurobonds;

- e) Setting a prudential treatment of debt-to-equity swaps as a result of loan restructuring in order not to weaken banks' financial position; this prudential treatment should guarantee that: (i) credit institutions' involvement in such operations is based on a prudent decision-making process; (ii) the value of the shares is fully deduced from credit institutions' own funds so as to avoid any artificial increase in prudential indicators; and (iii) the revenues obtained following the reversal of specific credit risk provisions, determined by these operations, are not subject to taxation;
 - f) Monitoring the foreign currency-denominated loans and taking the necessary steps for their price to reflect the risk of granting such loans to unhedged borrowers in an accurate and transparent manner; and
 - g) Refraining from adopting the draft laws on the insolvency of natural persons or the retrieval of claims that could undermine debtor discipline.
- 3) Measures adopted by the BNR related to the contingency plan in order to preclude the materialisation of systemic risk in the banking system through:
- a) Creating a mechanism for identifying the systemically important banks capable of meeting the requirements of the test on public interest in financial stability;
 - b) Updating the set of corrective policies by participating in the future harmonisation of the bank resolution standards for cross-border banking groups; specifically, the focus will be on the integration of the principle of orderly exit from the market of any unviable bank, regardless of its type and size, without resorting to public funds in order to maintain financial stability; and
 - c) Developing an external communication framework for addressing situations that pose a high risk to financial stability with a view to enhancing the capacity to prevent or contain panic from spreading among bank creditors.

Chapter 6 - NATIONAL OBJECTIVES AND MEASURES FOR THEIR ACHIEVEMENT

6.1 EMPLOYMENT

In the year 2009, the total employment rate, for the age group 20 - 64, was 63.5% registering a gap of 5.6 pp, compared to the EU-27 average of 69.1%. Regarding the gender structure of the employed population, the female employment rate is significantly lower – 56.3%, compared to the male employment rate - 70.7%. The youth employment rate (age group 15 – 24) was 24.5% and employment rate of the older people (age group 55 – 64) was 42.6%.

In the year 2020, according to the forecasts, the gap between the national and the community level will be maintained, but it will show a little tendency of decrease from 5.6 percentage points to 4.8 percentage points.

In the year 2009, according to the data provided by the National Institute of Statistics, Romania's active population was 9,924 thousand persons, out of which 9,243 thousand employed persons and 681 thousand unemployed people (ILO).

The highest level of the employment rate for the working age people was registered among the higher educated graduates (84.1%). As the level of education decreases the employment rates drops off, so that the employment rate of people having a medium level of education was 62.2%, and only 42% of those with low level of education.

Although, the tendency is to decrease compared to the year 2008 (104 thousand persons less), the employees hold the largest share (67.2%) in the total of employed population. In the year 2009, the self-employed and unpaid family workers were 31.3% of the employed population. The distribution by groups of occupations shows that farmers and the agricultural, forestry and fishing workers were 24% of the total employed population, categories of craftsmen and craftsmanship - skilled workers had, also, a significant proportion – 15.8%.

The distribution of the employed population by economic sectors shows that 29.1% of the total employed persons were concentrated in agriculture, 30% in industry and construction and 40.9% in services. 6,554 thousand persons were employed in non-agricultural activities, among them significant shares being held by those working in manufacturing industry (26.7%), in trade (17.6%) and construction (11.1%).

In the year 2009, ILO unemployment rate was 6.9%, on the increase compared to the previous year, when it reached 5.8%. On genders, the gap between the two ILO unemployment rates was 1.9 percentage points (7.7% for men compared with 5.8% for woman), and a difference of 2.7 percentage points between urban area and rural area (8.1% in urban area and 5.4% in rural area). ILO unemployment rate have the highest level (20.8%) among young people (15-24 years old). The unemployment has affected to a greater extent the persons with low and medium level of education, for which the unemployment rate was 7.5%, namely 7.2%, greater than the one recorded for the unemployed with higher education (4.3%).

ILO long-term unemployment rate (unemployment for a year and over) was 2.1%. The incidence of long-term unemployment rate (the share of unemployed people for a year and over in total unemployed people) was put forth more strongly for men – 31.6%, compare with 29.8% for women, and also in urban area – 32.2%, compare to 28.7% in rural area.

The specific legal framework includes, as essential elements, the Law no. 53/2003 – *the Labour Code*, as amended and completed, the Law no. 76/2002 on unemployment insurance system and

the employment stimulation, as amended and completed, G.O. no. 129/2000 on adult vocational training with subsequent amendments, and the Law no. 279/2005 on apprenticeship at work.

In the year 2010, following the Memorandum of Understanding between Romania and the European Community, they adopted the *Law no. 263/2010 on unitary public pension system* and the *Framework Law no. 284/2010 on unitary payment of the personnel paid from public funds*.

The institutional and legislative reform measures implemented until 2011 were targeted to strengthen and streamline the institutional framework in order to use most effectively the human and budgetary allocated resources, to develop the systems for promoting the employment and the continuous vocational training, including by using the resources of European Social Fund (Sectoral Operational Programme Human Resources Development 2007 - 2013).

To achieve the employment rate of 70%, in the year 2020, for workers aged 20 - 64, priority is given to the implementation of measures focused on removing the bottlenecks on the employment growth, leading to a better function of the labour market, facilitating the transitions from the unemployment or inactivity to employment, strengthening the skills of the workforce and increasing the quality of the employment for persons residing in rural areas, young people and women.

The main institutions responsible are: the Ministry of Labour, Family and Social Protection, National Agency for Employment, the Labour Inspection and the National House of Public Pensions and other Social Insurance Rights. Implementation of the strategic objectives is based on the collaboration of the Ministry of Labour, Family and Social Protection mainly with the Ministry of Education, Research, Youth and Sports, Ministry of Economy, Trade and Business Environment and the Ministry of Agriculture and Rural Development.

Employment rate

In order to set up the national target of the employment rate, for the age group 20-64, of 70%, the starting point was a scenario, which included the historical evolution of the annual growth rhythm of the employment rate, the economic growth potential and the demographic evolution estimated for this decade.

Key actions to achieve the target

During 2011-2013, Romania aims to promote an economic growth based on the employment of the working force, taking into consideration the *economic, social and territorial cohesion* from a sustainable perspective. Priority is given to the following key actions: improving the functioning of the labour market; facilitating the transitions from unemployment or inactivity to employment; strengthening the labour force skills; improving the quality of employment of the persons resident in the rural area, the young people and women.

A detailed description of the actions is shown in the Annex no. 5.

I. Improving the functioning of the labour market

During the period 2011-2013, within the national flexicurity approach, the measures dedicated to render more flexible the labour relationships aimed mainly at strengthening the legislation on the labour relationship and the social dialogue. Complementary to the efforts to promote the flexibility on the labour market, there are implemented measures to fight the undeclared work, to promote equal opportunities between women and men, as well as measures to maintain the sustainability of the social insurance system (pension system), including by prolonging the active life and the diversification of the benefits (pension pillars II and III).

1.1. Reform of the labour relationship legislation

By adopting, in the year 2011, the *Law no 40/2011 for amending and completing the Law no 53/2003 – the Labour Code*, Romania introduced some elements to render more flexible the labour relations, for instance: flexibility regarding the fixed-term contracts by extending the validity of the fixed-term individual labour contract; flexibility of the reference periods used for calculating average working hours; a drastic tightening of the sanctions against those using illegal work force; priority using the performance criteria, in case of the collective dismissal procedure, in order to boost the competitiveness and the labour productivity growth.

During the year 2011, following the completion of the *Labour Code*, the Ministry of Labour, Family and Social Protection aims to amend the secondary legislation, especially regarding the temporary work agents and the electronic register of employees.

1.2. Reform of the social dialogue legislation

In the year 2011, according to the commitments undertaken by Romania under the *Stand-by arrangement concluded with IMF*, in order to render more flexible the system of collective labour agreement and to strengthen the social dialogue, the *Social Dialogue Law* will be promoted.

The law will bring together both regulations regarding the organization and the functioning of the trade unions and employers' organizations, and the Economic and Social Council, and those related to the negotiations of the collective labour agreements, rendering more flexible the system of wage setting and the settlement of labour disputes. This way it is indented to extend the dialogue structures at the regional level to a better management of the problems, to increase the autonomy of the social partners in the negotiation process and to remove the rigidities existing in the labour relations and in the wage setting in the private sector.

On the four pillars, the draft law covers the following aspects:

- *Trade unions and employers organizations*: review and standardize the definitions and terms in accordance with those used by the European directives; set up, organize and function of the trade unions and employer organizations, extend the right to set up trade unions also by the co-operators and the individual farmers employed with an individual labour contract, introduce the criteria for setting up the employer organizations, by cutting out the multiple affiliations of the employer organizations;
- *Economic and Social Council*: its transformation from a social dialogue institution into an institution of civil dialogue according to the European Economic and Social Committee, and review of its duties;
- *Collective labour agreements*: settlement the negotiation of collective labour agreements, their effects; representation of parties to collective bargaining; conclusion, modification, suspension and cancellation of collective agreements; separation of the negotiations in the private and public sector by removing the minimum objectives of negotiation, including the wage setting up and strengthening the negotiation at enterprise level;
- *Labour disputes*: explaining the procedures for starting the collective labour disputes at the level of the enterprise, group of enterprises, or sector of activity, and at the national level; conciliation/ mediation/ arbitration of the labour disputes; set up the *Office of Mediation and Arbitration of collective labour disputes* near the Ministry of Labour, Family and Social Protection, regulating the procedures to start and participate in the strike.

1.3. Fighting against undeclared work

In the context of flexible labour relations achieved by amending the *Labour Code*, a special attention will be paid to the fight against the undeclared work. In this respect, in the year 2010, *the National Action Plan to implement the National Strategy on reducing the incidence of the undeclared work for 2010-2012* was approved by GD No. 1024/2010. In the year 2011, it is expected to be carried out about 80,000 inspections aiming at reducing the undeclared work. The total budget for implementing the action plan is RON 1.441 million.

The Romanian authorities will take into account to increase the quality of the inspections to fight the undeclared work.

In the year 2011, by promoting the *Law on activities provided occasionally by the day labourers*, it will be regulated the way to perform these activities. The law will stipulate how the day labourers – the natural person performing occasionally the unskilled activities - might work exempting the provisions of the *Labour Code* (the agreement of a day labourer and the beneficiary is concluded without a work contract), and set up the areas where the day labourers may perform the work, how to perform it (time, rights, duties, how to pay the day labourers, and the records).

The application of the law will lead to more flexible and simple employment procedures in case of the day labourers, but also it will reduce the cases of illegal work, provided that, in practice, it seemed that undeclared work comes out also by the illegal use of the day labourers.

1.4. Prolonging the active life

Providing a sustainable economic growth, the fiscal consolidation should be accompanied by a set of reforms of the public pension system, so that it becomes sustainable on a longer term. Details of such reform measures (the *Law No. 263/2010 on the unitary public pension system*) are presented by the *Convergence Programme*, and in the section related to the macroeconomic surveillance in this document. Measures on stimulating the employment of older people are presented in subsection *II - Facilitating the transition from unemployment or inactivity to employment*.

Reforms of public pension system aiming at ***prolonging the active life*** are based on: the gradual increase of the standard retirement age, and of the complete and minimum contribution stages for women and staff in the national defence, public order and national security sectors; the discouragement of the anticipated and invalidity retirements; the inclusion of persons registered in the special pensions' systems within the unified public pensions' system.

In order to ***discourage the number of partial anticipated retirements***, the *Law No. 263/2010 on the unitary public pension system* stipulates the tightening granting conditions of this type of pension, establishing a 0.75% penalty for each anticipated retirement month, against the standard retirement age. The anticipated retirement cannot exceed 60 months (5 years) over the standard retirement age, and the maximum penalty increases to 45% against 30% provided by the previous law. During the anticipated retirement period, a retired person cannot cumulate the partial anticipated pension with a salary (exception the local or county counsellors). Reaching the standard retirement age, the penalty is cut out, the transition to the age limit pension being done *ex officio*.

Concerning the ***implementation of several tightened criteria for achieving the invalidity pension and the discouragement of the abusive invalidity retirements***, medically unjustified, the *Law No. 263/2010 on the unitary public pension system* stipulates that the medical documentary filled in by the physician (expert in the invalidating illness) is replaced by the evaluation medical

report, filled in by the social insurance expert physician. Supplementary, there are enclosed regulations - terms and especially penalties – related to the medical expertise procedure, and the increase of the subsequent controls. This way, it is assured the responsibility of the social insurance expert physician. In order to support them, the law provides the possibility to conclude a convention between pension houses and hospitals, laboratories, clinics for reconsidering the medical cases that rise suspicions.

With the aim of developing the **complementary private pension system**, in order to increase the pension earnings by adopting, in the year 2011, the draft *Law on the Private Pension Guarantee Fund*, Romania regulates the setting up, management and function of the fund. The fund is set up to guarantee the participants and beneficiaries' rights that have been acquired within the private pension system, regulated and monitored by the Private Pension System Supervisory Commission, according to agreed conditions and limits:

- Compensation of losses of the participants and/or beneficiaries of the private pension funds both for the contribution accumulation period, and after the establishment of the right to pension (the losses outcome by administrator incapability or pension providers to pay the due obligations), and the assurance of the payment rights of participants or beneficiaries to privately managed pension funds, when the impossibility in providing them is caused by the managers and providers of privately managed pensions;
- It will be organized so as the setting up, register and use of the resources of the compensation payment to the voluntary pension funds is done distinctly related to the ones of the privately managed pension funds.

At this time, the law draft is submitted to the Parliamentary debate procedure.

In the year 2011, it would be approved the draft **Law on management and functioning of the payment system for pensions on pillars II and III**, according to the provisions of the *Law No. 204/2006 on voluntary pensions* and to the *Law No. 411/2004 on the private managed pensions*. The concerned persons are the participants and the beneficiaries of the private pension system. The document contains provisions regarding the principles to set up, manage and operate the payment system for pensions on pillars II and III.

In the year 2011, by drafting and endorsing the draft **Law on the occupational pensions**, Romania aims to regulate, manage and operate the occupational pension system. The beneficiaries of this law are the employees that contribute to a system of occupational pensions. The document contains the following provisions: principles of establishment of the occupational pension schemes and funds; the authorising conditions for such schemes; the transfers among schemes; setting up the occupational pension funds by a civil enterprise contract; types of participants; the principles of management and operation of administrators, as well as the co-ordination of other involved parties - actuaries, depositories, banks etc; the contributions to the occupational pension funds and the financial resources investment; the payment of occupational pensions; prudential regulations and supervision of the occupational pension fund administration.

1.5. Promoting equal opportunities between women and men

The National Strategy on equal opportunities between women and men 2010 – 2012, and the *General Action Plan* for the strategy implementation were endorsed by GD No. 237/2010. The general objective focuses on improving the implementation of the gender equality policies for all national policies and programmes.

From the labour market perspective, the relevant objectives are *closing the gender pay gap* and *encouraging the family and professional life reconciliation*:

- *Close gender pay gap* – organise the conferences at national level concerning the role of policies to reduce the wage gap between women and men, in partnership with trade union organisations and employers’ associations, as well as the representatives of business area (publish of promotional and informative data, and meetings with trade unions and employers, etc);
- *Encourage family and professional life reconciliation* – organise the information and awareness campaigns dedicated to fathers about the need of their involvement in education of their own children; publish a guide book of conciliation of family and professional life, including the legal provisions; sign a co-operation protocol the concerning equal opportunities with the social partners and their involvement in the awareness campaigns on gender issues.

The allocated budget to implement the above measures is of RON 0.039 million.

II. Facilitating the transition from unemployment or inactivity to employment

During the period 2011-2013, the package of measures concerning the labour stimulation focuses on supporting the jobseekers in order to improve their individual employability (personalised career information and counselling programmes, vocational training programmes and individual entrepreneurship stimulation), and enforcement of the legal framework regarding the unemployment insurance systems and the employment stimulation.

II.1. Reform of the legal framework on employment stimulation

The modification and completion to the *Law no 76/2002 on unemployment insurance system and the employment stimulation* addresses the development of the new employment stimulation measures, and the adaptation of their implementation to the current needs of the labour market. The draft law stipulates the introduction of the following elements: providing free services to assess the skills acquired in the informal and non-formal system; grading the financial support to the unpaid unemployed persons during the participation at the continuous vocational training (CVT) programmes; more flexible conditions for subsidizing the CVT programmes have been organized by the employers; the access of the unpaid unemployed persons to the mobility bonuses; the reduction of the conditionality for the companies that hire unemployed persons and persons belonging to the vulnerable groups. The draft law will be promoted under the Parliamentary procedure during the year 2011.

II.2. Active employment measures

During 2011-2013, the National Agency for Employment (Public Employment Service) will implement the active employment measures benefiting from a total budget of 793,674 thousands RON. In the year 2011, *the Employment Programme* provides the inclusion in the active employment measures of 908,780 persons, out of which approx. 20% young people under the age of 25 years, 40% women and about 10% older workers – persons over 50 years old. In the year 2011, by the measures provided by the programme, it is foreseen to be employed 324,000 persons, out of which: 20% young people less than 25 years, approx. 43% women and about 12% older workers – persons over 50 years old. For the year 2012, it is foreseen the inclusion in active measures of about 920,000 persons, out of which 37% will be employed (340,000 persons). For the year 2013, the estimated inclusion in active employment measures is of 930,000 persons, out of which 350,000 persons will be employed.

During the period 2011-2013, through the European Social Fund (SOP HRD, Priority Axis 5)

there are funded projects aiming at facilitating the insertion of unemployed people on the labour market, especially those with a precarious situation (long-term unemployed). By the end of 2013, it is estimated that a total of 59,000 long term unemployed will participate on integrated programmes³⁸. The integrated employment programmes include a comprehensive set of measures aimed at developing individual capacity for searching a job and employment (vocational counselling and guidance, personal motivation, vocational and entrepreneurial skills development), and facilitating the insertion on the labour market (labour mediation, setting up a business, etc.).

II.3. Developing the institutional capacity of Public Employment Service – at national, regional and local level

The development of the institutional capacity of the *Public Employment Service* (PES) – at national, regional and local level - induces the need to: modernize the working methods with the clients (unemployed and employers), strengthen the activation component by shifting the resources from the passive component (registration, unemployment benefits payment) towards the implementing measures to boost employment, and develop the partnerships with educational institutions, employment and training service providers, trade unions and employers associations, NGOs and professional associations, etc.

During the period 2011-2013, the National Agency for Employment (ANOFM) is implementing projects funded under the European Social Fund through SOP HRD (Priority Axis 4):

- ***Call centre PES*** - increasing the quality and efficiency of services offered by the implementation of “call centres”. The project aims to increase the opportunities for vocational guidance/ training/ development and socio-professional integration on the labour market of jobseekers by developing an innovative system for providing the information. The value of the entire project is RON 11.2 million;
- ***Proself - PROMoting SELF-service services*** – the project aims to render more modern and flexible the system of providing public employment services. A study on the needs of the agency customers will be prepared, and 47 "self-service" centres will be set up. The project budget is RON 18.5 million;
- ***MedForm*** – the project aims to adapt the agency employees to new forms of organization and management, due to legislative changes, by vocational training of the staff to meet the new requirements. The project aims to train 210 persons as facilitators, and 10 persons as facilitators' trainers. The project budget is RON 11 million;
- ***RATIO L3*** - the project aims to create the general framework for increasing the professional skills level of PES staff based on an innovative approach of continuous training. The project budget is RON 18.3 million;
- ***COMPROF - Increasing the level of professional skills*** for ANOFM staff in order to provide personalized services to unemployed, vulnerable groups and jobseekers. The project aims to develop and test a model for providing training programmes for agency staff, to improve staff skills to provide customized employment services. The project budget is RON 18.5 million;
- ***CAMPION - Autonomous and modern training centres by implementing a new***

³⁸ Since the amounts available for DMI 5.1 were contracted, the projects that are under the implementation process would contribute to achieve the proposed target.

organization. The project aims to modernize and improve the institutional capacity of the 8 regional vocational training structures of the agency (Vocational Training Regional Centres for Adults) to become more competitive in providing quality services tailored to the market demands. At the same time, there will be agreed protocols and co-operation agreements with companies, other national and international training centres, and the collaborative networks will be set up. The project budget is RON 20.8 million;

- ***ECOP - Performance-oriented continuous training dedicated to the professionals involved in the unemployed training.*** It aims at increasing the level of professional, social, civic and communicational skills of the personnel involved in training the unemployed people. The project budget is RON 20.9 million.

II.4. Anticipating changes on the labour market and ensuring adequacy of public interventions to improve employment

To improve the way of implementing the active employment measures it is necessary to develop the ANOFM capacity to investigate and forecast the labour market trends. In this respect, during 2011-2013, the Agency will implement some projects financed from SOP HRD (Priority Axis 4):

- ***ASC - Anticipating changes on labour market.*** The project is intended to increase the capacity of anticipation regarding the short and medium term developments on the labour market at local, regional and national level. The project aims at anticipating the development or regression trends of companies, number of jobs, job characteristics, training and support needs, and barriers to business/ production development. The project has to identify the adequate employment measures and to improve and develop the new ones for a labour market participation of a large number of jobseekers through 16 forecasts on regional labour market and 2 at the national level. The total value of the project is RON 7.5 million;
- ***SAPeRe - Studies, analyses and forecasts of the labour market to enhance the ability of PES in Romania at national and local level.*** The project is dedicated to strengthen the analytical capacity of agency staff (at central and local level) for an updated and consistent analysis of the various relevant aspects on the labour market in Romania. The project aims at developing a set of methodological tools, based on a computer system, for studying and monitoring the labour market at national and local level; to select and develop a set of indicators to analyze the impact of the active measures on the labour market; develop a methodology for using the administrative data for statistical purposes and its application on the data collected by PES at local level, develop an administrative system for registering the job vacancies based on the international standards and their adaptation to the local labour market structure. The total value of the project is RON 15 million.

III. Improving the vocational skills of the labour force

In order to develop qualification related tools, MMFPS and MECTS aim at finalizing the National Qualifications Framework, reviewing the Classification of Occupations in Romania and developing the occupational analyses, standards and qualifications. During the period 2011-2013, MMFPS, MECTS, and ANOFM are implementing programmes and/or projects (state aid and co-financing schemes) to stimulate the continuous vocational training (CVT) of employees and the involvement of the social partners in linking education and training systems with the labour market evolution.

III.1. In the year 2011, *reforming the legal framework on adult training* envisages the modification and completion of the *GO No. 129/2000 on the vocational training of adults, with subsequent amendments and completions*. This approach aims at adapting the legislation to the legal provisions related to the education system, and to strengthen the system of authorization and the quality assurance system of CVT.

Amending and completing the *Law no. 279/2005 on apprenticeship at work* will reduce the administrative burden by repealing the procedure of authorization of the employer and certification of the apprenticeship master, as well as facilitating the implementation of measures to stimulate the apprenticeship at the work. Both draft laws were approved by the Government in 2010 and are under Parliamentary procedure for their adoption.

In the period 2011-2013, in order to *strengthen the capacity of service providers for the adult vocational training* it is foreseen to ensure the quality of continuous vocational training through the implementation of projects dedicated to the authorized training providers. Their purpose is to introduce the quality assurance standards and the vocational skill development. By these projects there are expected to be supported at least 1,000 suppliers of CVT and minimum 600 vocational qualifications CVT. In the year 2011, it is foreseen to be launched a new call for projects funded by the ESF (SOP HRD, Priority Axis 2), with an estimated budget of EUR 9 million.

III.2. Continuous vocational training for jobseekers

During the period 2011-2013, the National Agency of Employment offers free training programmes through the implementation of *National Training Plan for the period 2011-2013*. For the year 2011, the National Training Plan, with a budget of RON 30.674 million, provides the training courses for 45,124 persons, out of which about 50% women and 18% older workers - persons over 45 years old. After completion of training courses, a labour market placement rate of 50% will be achieved, within 12 months after graduation. For the period 2012 – 2013, it is expected to be included in the training programmes about 45,500 people per year, maintaining a labour market placement rate of 50%, within 12 months after graduation.

III.3. Continuous vocational training of workers

During 2011-2013, the European Social Fund (SOP HRD) will make an essential contribution to promote the adaptability of workers to the new labour market requirements, and to the technological and economic developments. By the end of 2013, a total of 354,100 employees will participate in the CVT programmes (and retraining), by projects financed under SOP HRD (Priority Axe 2). In the year 2011, it is foreseen to be launched a new call for strategic projects estimated at EUR 80 million.

To ensure the adaptability of enterprises and employees, SOP HRD (Priority Axis 3) will support the participation of 13,500 persons in training programmes on management and organization of work and 252,700 students in programmes aimed to update and improve skills.³⁹

³⁹ As for KAI 3.2, all the available amounts were contracted so the projects that are currently under implementation will contribute to achieve the proposed target.

IV. Increasing the quality of employment of persons living in the rural area, youth and women

The Romanian rural area is characterized by agricultural self-employed activities, as well as by the fact that the productivity and average incomes of the population remain at low levels. Romania shows regional disparities regarding the employment rate, so that the number of the unpaid family workers is significantly larger in the rural area.

The statistical data indicate an employment rate in the rural area, for the age group 20-64, of 65.9%, in the years 2009 and 2010⁴⁰. Considering the employment structure, the secondary and tertiary sectors have a significant lower weight, only 40%, compared to the 60% employment level in the primary sector (compared to the same indicators at the level of national economy show an employment rate of 29% in the primary sector, and of 71% in the secondary and tertiary sector)⁴¹.

Until March 2011, according to the monitoring of MADR, for the measures financed by the National Rural Development Programme (NRDP), the submitted projects amounted more than EUR 13 billion, the signed contracts valued EUR 3.5 billion, and almost EUR 1.9 billion represent the payments to the beneficiaries.

A total number of 16,374 projects are subject to assessment and selection process, they were submitted during the calls for projects in October and November 2010.

During 2007-2010, as regard the *setting up of young farmers*, 5,706 projects were selected, with a public value of EUR 11,805 million. Monitoring the measures dedicated to *support for setting up and development of micro-enterprises* and *encouragement of tourism activities*, the situation is as follows⁴²: 5,308 submitted projects with a value of almost EUR 780 million, out of which 3,273 selected projects with a value of approx. EUR 485 million, and 1,929 contracted projects, with a value of almost EUR 298 million.

The completion of the NRDP Mid-term Evaluation Report 2008-2010 indicated that 26,684 jobs were created, out of which 19,315 jobs set-up following the implementation of Axis 3 measures, including the one dedicated to village renewal and improvement the life quality through basic services for rural population, for which the financial allocation ran out in 2009⁴³. Also, until October 2010, the data included in the selection reports indicated the creation of 1,314 micro-enterprises, out of which 99% were set up by women and youth.

IV.1. Increase the competitiveness of the agricultural sector and ensure long term sustainability of the rural areas.

One the objectives of the NRDP financial interventions stands for the increase of the employment quality in the rural area, under measures aiming at: vocational training and information actions of the adult persons working in agriculture, forestry and food industry; increasing the number of young farmers taking up for the first time the farm management, as a head of holding; setting up and development of micro-enterprises in the non-agricultural sector; developing the tourism activities in the rural area; improving the physical infrastructure and the access to basic public services for the rural population and encouraging the development of the local initiatives.

⁴⁰ Provisional INS data, Household Labour Force Survey

⁴¹ INS data processing, 2009

⁴² NRDP monitoring situation of March 18, 2011

⁴³ The evaluation was based on the data of the first two years of implementation, period during which were carried out the main submission/selection/contracting phases, thus the analysis was based on the values declared by the beneficiaries

Romania lays emphasis on the *vocational training, information actions and knowledge dissemination*⁴⁴, thus it is intended to improve the necessary competences, by acquiring knowledge in the economic fields specific to the rural area. During the period 2011-2013, the measure benefits by an allocation of EUR 10,7 million, and it consists of implementing short term vocational training programmes (initiation, improvement and specialization), and developing information actions and dissemination of knowledge regarding the Common Agricultural Policy and the rural development, as well. It is put in practice by implementing 5 projects contracted for farmers owning semi-subsistence farms and 4 projects dedicated to the vocational training for young farmers. During the period 2011-2013, by means of these 9 projects, they are to be trained 3,992 young farmers and 10,295 owners of semi-subsistence farms.

In order to support the youth to take up for the first time, the farm management as a head of holding, without increasing the overall active farming population, Romania takes into consideration to finance the *set up of young farmers*. The multi - annual financial intervention has a double objective, to encourage the persons younger than 40 years old to invest in order to improve the agricultural holding management, and to increase the competitiveness of the sector. During the period 2011-2013, it is estimated that 8,776 young farmers are to benefit from this measure, the public financial values is of EUR 219.16 million.

The restructuring of the agricultural farm activities and the request for improving the capital of the commercial farms brings the dismissal of a significant percentage of the labour force from the agricultural sector.

This situation explains the necessity to create alternative jobs, as well as to provide additional income sources, together with the redirection of the labour force to non-agricultural productive activities and development of services for the rural population. Under these circumstances, during the period 2011-2013, the financial interventions, corresponding to Axis 3 of the NRDP, respond to the need to offer more jobs in the non-agricultural sector for the population living in the rural area, and to encourage the entrepreneurship, especially among young persons and women.

Thereby, by supporting the *set up and development of micro-enterprises* and the *encouragement of tourism activities* it is taken into consideration the job creation in the non-agricultural sector as a choice to the agricultural employment, as well as ensuring other income sources for persons living in the rural area. Thus, it is encouraged the redirection of the labour force to profit-making activities in the tertiary sector and towards the development of services, including the tourism ones. The financial allocation (public value) available for 2011-2013 is of approximately EUR 260 million. For the 2011-2013 period, by implementing both measures it is estimated the creation of approximately 20,000 new jobs.

Complementary to the measures financed under NRDP, during the period 2011-2013, to ensure the *long term sustainability of the rural areas*, the financial interventions supported under the ESF (HRD SOP) take into consideration: guidance, counselling and vocational training of the persons living in the rural area in entrepreneurship and non-agricultural fields, as well as integrating the inactive persons on the labour market, including those who earned their living from the subsistence farming. Until 2013, it is estimated that 135,500 persons from rural areas are to participate to the integrated programmes dedicated to developing human resources and

⁴⁴ The ration to lifelong learning education of persons living rural area was in 2009 of 1.4% lower by 1.2 p.p. than EU average

employment.⁴⁵

IV.2. Integrating young people and women on the labour market

For the period 2011-2013, in order to promote entrepreneurship among women and young people, MECMA implements measures (financed by the State budget) to support the development of business infrastructures and help women and young people to start off a company.

By encouraging the *set up and development of micro-enterprises* it is aimed at strengthening the entrepreneurship among young people being up to 35 years old. For the year 2011, the programme is provided with a budget of RON 21 million. The finance is allocated to set up at least 1,100 SMEs that are to carry out investments in manufacturing and services area and to create as many jobs as possible, to invest in rural area and/or to put in practice an innovative business.

The projects benefit by grants up to 10,000 EUR, but not more than 50% of the value of the business plan. The programme is dedicated both to young people co-financing the business plan by their own resources, and to those getting credits. The National Guarantee Funds guarantees up to 80% of the credit value, but not more than EUR 80,000. The new employer is exempt from the payment of social contributions for maximum four employees, but it is called upon to hire at least two persons.

During the period 2011-2013, MECMA in partnership with the local authorities undertakes the *support to develop the business incubators*. The objective is to decrease the unemployment rate and to develop the entrepreneurship in some disadvantaged areas. For the year 2011, it is foreseen a budget of RON 6.15 million. It is envisaged to be set up two new business incubators, to be created 50 new SMEs and 450 new jobs, and to be incubated 100 SMEs, out of which 30% are to be managed by women.

Financial resources - including the contribution of the European funds

For the period 2011 – 2013, the estimated financial resources for implementing the employment measures are:

- Unemployment Insurance Budget (mainly the component of active employment measures) – RON 586.9 million;
- State budget – RON 28.62 million;
- European Social Fund (Sectoral Operational Programme for Human Resources Development) – RON 5,693 million The financial support will contribute to increase the participation on the labour market of skilled labour force, continuous vocational training, adaptability of enterprises and employees, to ensure the necessary qualifications for integration and labour market mobility of workers, equal opportunities in employment, social inclusion of persons belonging to vulnerable groups (SOP HRD, Priority Axis 2-5);
- The European Agricultural Fund for Rural Development: The NRDP Monitoring Committee has approved the calendar of calls for projects and the allocation

⁴⁵ Taking into account that for Key Area of Intervention 5.2 they were contracted all the available amounts, to the achievement of the proposed targets shall contribute the projects under implementation

corresponding to the vocational training, information and diffusion of knowledge, setting up of young farmers, support for creation and development of micro-enterprises and encouragement of tourism activities measures, amounting EUR 489.86 million.

Link with *Europe 2020* flagship initiatives

According to “**An Agenda for New Skills and Jobs**” flagship initiative, the government will undertake the necessary steps for the implementation, at national level, of the flexicurity concept and of measures leading to the increase of chances of integrating persons of disadvantaged groups, women and young people on the labour market. Moreover, the National Framework of Qualifications will be completed, the Classification of Occupations in Romania will be revised and the development of partnerships between the education system and the labour market will be supported, especially by involving social partners in the planning of education and training offers.

The measures of facilitating young people’s entry in the labour market (guidance, counselling, apprenticeship, company set-up) will also contribute to the implementation of the “**Youth on the move**” flagship initiative.

Monitoring mechanism

The monitoring system of the target is based on the Labour Force Survey (LFS) and other relevant statistic researches of INS, and on the analyses carried out by ANOFM regarding the evolution of the registered unemployment, job vacancies have been communicated by the employers and the implementations of active measures.

In order to monitor the measures proposed for the achievement of the target, each institution responsible for implementing these measures establishes its own monitoring mechanism; the results are to be included in the annual implementation reports. The stage of achievement will be analysed twice a year in the framework of the *Sectoral Working Group on Employment*, in view of adopting the necessary corrective measures and substantiating certain political decisions.

Following the progress registered in the measure implementation process, Romania envisages a reassessment of the level of the national target in 2014.

6.2 RESEARCH, DEVELOPMENT, INNOVATION

The analysis of the national research, development and innovation (RDI) system - using a set of key indicators on capacity and performance of the system and its impact on the economic environment - reveals the following situation:

Regarding the capacity of the RDI system, the discrepancies against the European average are considerable. Thus, the share of researchers in total employed population is 3.64‰ in Romania⁴⁶, compared to 9.2‰ in EU27⁴⁷, and the share of employees in R&D activities, in total employed population, is 5.04‰ in Romania³⁷, compared to 15.5‰ in EU 27³⁸. There was registered, however, a positive trend of the investment in research infrastructure, which increased over six times in 2010 compared to 2006.

The composite indicator of innovation (Summary Innovation Index - SII, 2010), conclusive for the results of the RDI system, is 0.237 for Romania compared to 0.516 in EU27⁴⁸. Important gaps are recorded as concerns the share in the total employed population of the employees involved in activities with knowledge-intensive intake (6.16% in Romania, compared to 13.03% in the EU27), while the share of services exports of high and medium technology in total exports is close to the European average (44.91% in Romania, compared to 49.43% in EU27), and the share of exports of high and medium technology products in total exports is above the European average (50.14% in Romania, compared to 47.36% in EU 27³⁹).

In parallel with the efforts to ensure the financing of the RDI sector, Romania has stepped up measures to increase efficiency and effectiveness of public spending in this sector. In order to meet the benchmarks set out in the Memorandum of Understanding signed between the European Community and Romania on 23 June 2009, an *Analysis of efficiency and effectiveness of the public spending on RDI* was drafted and sent to the European Commission. Based on this document the *Action plan for increasing the efficiency and effectiveness of public spending on R&D* was adopted (in May 2010) and is going to be finalized. The plan provides the strengthening of the national R&D activities and the improvement of the assessment procedures and evaluation criteria used in national R&D competitions (increasing the weight of the scientific quality of the project, of the scientific performances of the director and of the project team is included). The implementation of the action plan has been carefully monitored on a regular basis (monthly). The progress reports were submitted to the government and communicated to the European Commission.

The need to adapt the national RDI system to the European practices led to revising *the legislative framework*, especially with regard to the institutional financing. Thus, by adopting the GO No. 6/2011 amending and supplementing the GO No. 57/2002 on scientific research and technological development, a new system of assessment, classification and certification of R&D organizations is introduced in correlation with a new system of institutional funding (basic and additional). The legal act stresses also the importance of involving foreign evaluators in the process of assessing the R&D programmes, projects and institutions.

There were also recently adopted legal acts on revising the legislation on contracting, funding, monitoring and evaluating the programmes and projects included in the National R&D and

⁴⁶ 2010 Romanian Statistical Yearbook

⁴⁷ EUROSTAT 2011,

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsc00002&plugin=1>

⁴⁸ Innovation Union Scoreboard 2010, http://ec.europa.eu/enterprise/policies/innovation/facts-figures-analysis/innovation-scoreboard/index_en.htm

Innovation Plan, and for the approval of the methodological norms for establishing the categories of expenditures financed from the state budget in the case of R&D projects.

The RDI approach in the context of *Europe 2020 Strategy*

Assuming the *Europe 2020* objectives implies for Romania, in the first instance, catching up with the gaps against the current EU average level of RDI investment.

Romania is far below the European average, both in terms of the capacity of the RDI system and of its performance, with direct impact on economic competitiveness.

In order to achieve, by 2020, a level of **2% GDP for public and private sector investment in RDI**, the following trajectory of this indicator is estimated⁴⁹:

INDICATOR (%GDP)	2009⁵⁰	2011	2013	2015	2020
Investment in RDI (public sources)	0.31	0.33	0.60	0.80	1.00
Investment in RDI (private sources)	0.17	0.15	0.25	0.50	1.00
Investment in RDI (public and private sources)	0.48	0.48	0.85	1.30	2.00

Key measures to reach the target

In order to reach the assumed target, **three main directions of action** have been identified:

1. Strengthening the capacity and increasing the performance of RDI system;
2. Stimulating the growth of RDI investment in the private sector;
3. Developing the European and international dimension of RDI policies and programmes.

The planned measures for each direction of action are presented below following the priority established on the basis of their effectiveness and possibility to be rapidly implemented.

1. Strengthening the capacity and increasing the performance of RDI system in order to address the socio-economic needs

The implementation of measures concerning the capacity consolidation and increasing the performance of RDI system will contribute to the improvement of the scientific and technical productivity and of the qualitative level of the research results. A significant increase in the number of articles published in prestigious journals, recognized by international classification systems, and of number of internationally capitalized patents is expected.

By capitalizing the programmes of the human resource development, a change of the qualitative structure of the research personnel is estimated to be achieved, by increasing the number of PhDs and of researchers with post-doctoral studies, and a change of researchers' age structure as well, with an increase of the young segment share.

The development at national level, in close collaboration with researchers of Diaspora, of the areas of competence in research could lead to a rapid progress in the areas of top technologies and frontier sciences.

⁴⁹ According to ANCS estimation

⁵⁰ 2010 Romanian Statistical Yearbook, INS 2011

The proposed measures can also contribute to developing the teams with significant performances at international level and, implicitly, to setting up the critical mass allowing the viable integration within partnerships and trans-national scientific and technical communities, representative at European level and globally.

For this direction of action, the financial resources estimated for 2011-2013 are: RON 2,378 million (state budget), EUR 246 million (structural funds), RON 230 million (private sector).

Implementing the measures established by the legal acts recently adopted in the RDI field

The main challenge in 2011-2013 is to implement the recent legislative modifications (GO No. 6 / 2011 and GD No. 133/2011) and to strengthen their effectiveness.

For this purpose, detailed rules for implementing the *unified national system of assessment, classification and certification* of R&D units will be developed and adopted. The implementation of these rules will start in the 3rd quarter of 2011, by the evaluation of the national R&D institutes. Based on the evaluation and classification of R&D units, the certification will be granted exclusively to the performing organizations as a prerequisite condition for the basic institutional and additional funding. It is expected, thereby, the increase of the quality of public funds allocation and their concentration to the performing scientific and technological fields.

Detailed rules for implementing a *new system of institutional financing, including the components of basic and additional funding*, based on performance will be also designed and approved. *The basic institutional funding* is calculated on the basis of *cost standards* and will be granted based on a framework-contract of institutional financing, concluded for a period equal to the duration of the certification. *The additional institutional funding* will be provided through a specific programme of the National Plan, on the basis of quality criteria and standards that reflect the international relevance of results of R&D activities and the economic and social impact of their implementation through the technology transfer and innovation processes as well. The effectiveness of research personnel activity will be also enforced by these rules so that the share of time allocated to the administrative activities should not exceed 10% of the working time, according to the current legal provisions.

By the end of 2011, there are taken into consideration the elaboration and adoption of the *methodology for identifying, evaluating and taking in evidence of the documentation, collections and databases of national interest*, procedures for preserving, archiving and accessing being included.

Developing the human resources for research

Special attention will be paid to developing the human resources for research, while the general current international trend, including Romania, is to lower the technical and scientific skills.

The measure aims to develop new generations of researchers and research schools competitive at European level, including doctoral and post-doctoral schools of excellence and to develop the collaboration with researchers in the Diaspora.

A key priority is attracting, in the country, the Romanian researchers from abroad and opening the Romanian R&D system to the foreign researchers.

Developing the technology base for research

Particularly large high performance research infrastructures (ICT included) with major scientific and technological impact, located in the country, are envisaged.

Mid-term evaluation of the National Strategy for Research, Development and Innovation 2007-2013 and of the National RDI Plan 2007-2013

The mid-term evaluation of the National Strategy for Research, Development and Innovation 2007-2013 and of the National RDI Plan 2007-2013 is estimated to be completed by the end of 2011, based on the contract concluded with the winning company of the tender organized by ANCS.

Launching the project for the development of the National Strategy and National RDI Plan 2014-2020

Based on the conclusions of the mid-term evaluation of the *National Strategy and National RDI Plan 2007-2013*, the documents corresponding to the next financial framework – i.e. the *National RDI Strategy 2014-2020* and the *National RDI Plan 2014-2020* will be developed.

2. Stimulating the growth of R&D investment in the private sector

The implementation of the measures for stimulating the increase of R&D investment in the private sector will contribute to strengthening the research and innovation capacity of enterprises and thereby to increasing the financial contribution of private sector to the implementation of R&D projects financed from public funds and to increasing the number of innovative projects supported by public funds and started by enterprises.

The projects aiming at increasing the productivity and quality of products, technologies and services will play an important role by their contributions to the competitiveness growth and the improvement of the enterprises position on the domestic and international market.

An increase of volume and the improvement of the qualitative structure of exports are estimated by increasing the share of high technology exports.

It is also expected an improvement in the mobility of the public sector research personnel and the stimulation of increasing the number and improving the qualitative structure of the RDI personnel of enterprises.

On the whole, the measures subsumed under this direction of action will contribute to develop an innovative climate in the economy.

For this direction of action, the financial resources estimated for 2011-2013 are: RON 2,650 million (state budget), EUR 369 million (structural funds) and RON 2,250 million (private sector).

The measures aimed to stimulate the growth of RDI investment in the private sector envisage:

Developing enterprises' RDI own activities

The enterprises access to the financing of RDI activities carried out in their own benefit will be *simplified* by: i) promoting the projects achieved in partnership with companies, priority being given to the projects with minimum 50% co-financing ensured by companies (the mandatory international evaluation is not applied to these projects); ii) waiving the certification of

enterprises for their research-development activities (according to the GO No. 6/2011); iii) introducing innovation "voucher", enabling the enterprises to directly contract RDI services; iv) advising the enterprises on the implementation of the Norms regarding the tax incentives foreseen by the joint Order of the Minister of Public Finance and the Minister of Education, Research, Youth and Sport No. 2086/4504/2010.

Actions will be taken to ensure the flexibility and market-orientation of the national R&D institutes, based on GO No. 6/2011 provisions, in order to allow them to freely set up companies or to acquire companies' shares to boost the transfer and capitalization of their own R&D results.

Achieving analysis, consultation and impact studies for establishing new mechanisms to support the public-private partnership

On long-term, *RDI areas of interest and competitiveness niches* of Romanian economy are to be identified on a top-down basis.

Solutions will be promoted to raise the level of R&D investments in the private sector through *regular consultation of innovative clusters enterprises, of the large companies, by elaborating and starting prospective studies* in horizontal industries and by using their findings in the R&D sectoral plans and in the programmes included in the National RDI Plan 2011 - 2013.

Developing the National Innovation Strategy

The *National Innovation Strategy* will be elaborated, while paying a special attention to the measures supporting the set-up *innovative clusters* oriented towards high technology areas and strategic sectors (e.g. ICT, energy, transport - electric car industry, large research investment - Magurele Pole of Technological Development).

3. Developing the European and international dimension of RDI policies and programmes

By implementing the measures aimed to develop the European dimension of RDI policies and programmes contributions are expected to: i) increasing the visibility, the networking and the involvement of Romanian researchers and research teams, in the international RDI bodies and programmes (with direct effects on increasing: the number of participating institutions and contracted projects, the success rate and the volume of funds attracted through international projects and programmes); ii) increasing the access to information and documentation sources, and to European and international infrastructures; and iii) increasing the direct involvement and access level of Romanian researchers and research teams to the scientific and technical production developed in international partnership, in high technology fields.

As an EU state member, Romania will further support the joint efforts to achieve the European Research Area, through measures aiming at:

- ***Financing the participation to the EU Framework programmes for research, technological development and innovative activities and to the R&D programmes, technology initiatives and pan-European R&D infrastructures, including CERN⁵¹, FAIR⁵², e-Infrastructures and ESA⁵³ programmes and initiatives;***
- ***Promoting the project for building up the pan-European research infrastructure Extreme Light Infrastructure - Nuclear Physics (ELI-NP)***

⁵¹ Conseil Européen pour la Recherche Nucléaire

⁵² Facility for Anti-proton and Ion Research

⁵³ European Space Agency

Based on the results of the assessment made with the support of JASPERS⁵⁴ the financial resources will be identified, the potential private investors being included.

- ***Developing bilateral framework-programmes for the co-operation with developed countries, in high technology fields***

Memoranda of cooperation will be developed in areas where the confirmed domain priority and Romanian partners' expertise represent prerequisites to develop sustainable international partnerships (e.g. the collaboration with France in the nuclear and bio-diversity fields).

- ***Supporting strategic projects for integrating of research and its results in the economic environment***

Romanian contributions to the *EU Strategy for the Danube Region* will be supported - such as the "International Centre for Advanced Studies Danube-Danube Delta-Black Sea".

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* *

On the whole, the planned measures can be considered, at the same time, a counterbalance of the identified bottlenecks. Thus, *a slow exit from the crisis*, followed by the need to reimburse the contracted loans, may be additional elements of pressure on the public budget.

Apart from the *budgetary constraints*, the private sector concentrates its efforts on taking over innovative technologies created abroad. *The lack of predictability* in financing R&D programmes and projects may lead to a dissolution and destabilization of the public R&D system, as well as to an even greater decrease of R&D investments in the private sector.

The contribution of the European funds

The Sectoral Operational Programme "Increase of Economic Competitiveness" (SOP IEC) / Priority Axis 2 – *Competitiveness through Research and Innovation* and the Sectoral Operational Programme "Human Resources Development" (SOP HRD) / Axis 1 *Education and training in support of economic growth and development of knowledge-based society* support financing specific operations aiming at:

- Developing human resources and of the technology base for research in the public institutions, including the major research infrastructures;
- Developing RDI infrastructures and activities in the enterprises.

For the SOP IEC/ Priority Axis 2, for 2011-2013, the reimbursement requests of beneficiaries are estimated to EUR 515 million.

At the end of 2010, 469 Romanian organizations were involved in 371 projects of the 7th EU Framework Programme (FP7), the EC contribution for the Romanian participants amounting EUR 62.5 million (0.4% of the total amount contracted by the EC). For the year 2011, 567 projects are expected to be financed, with a total budget rising to EUR 77.6 million.

The projects using European funds will be synergistically correlated with the RDI programmes

⁵⁴ Joint Assistance to Support Projects in European Regions

supported by the state budget.

Link with *Europe 2020 Strategy* flagship initiatives

The human and material resources for research, especially the large research infrastructures, are strategic measures in line with the objectives laid down at European level for the achievement of an *Innovation Union*. These measures are the response, at national level, to the recommendations of the flagship initiative regarding the training of a sufficient number of researchers, the promotion of attractive employment conditions in public research institutions, as well as the capitalisation on the innovative potential of the research infrastructures.

Romania's active participation in the major initiatives of the European Research Area (joint programming, technology initiatives and pan-European research infrastructures) represent a modality to promote and support cross-border cooperation in the fields of science and technology, an important aspect of the *Innovation Union* flagship initiative.

Monitoring mechanism

Each institution responsible for implementing the proposed measures will monitor, based on the established internal mechanism, the registered progress. The stage of achievements will be reported quarterly to ANCS, the institution coordinating the *Sectoral Working Group for RDI - Europe 2020* (represented institutions: the Romanian Academy, MECTS, ASAS, INS, SGG, DAE, MADR, MApN, MFP, MCSI, MAI, MECMA, CNP).

Representatives of private sector companies and of employers' and professional associations, significantly involved in research and development activities were attracted in the working group.

Based on the analysis of the recorded progress, ANCS will signal any delays or side slips in the implementation of the envisaged measures and will propose initiating corrective measures.

6.3 CLIMATE CHANGE AND ENERGY

One of the major priorities of the Romanian Government is to increase the quality of life and of the environment in human communities, in order to reduce the gap compared to other EU Member States, as well as the gap between development regions. This involves reducing the risk of natural disasters and increasing the level of public safety, preserving biodiversity and the natural heritage and promoting a more competitive and efficient economy in terms of use of resources.

In this context, the policy of economic development must be judiciously correlated with the major objective regarding the fight against climate change in order to support the transition towards a low carbon emissions economy and also with the implementation of principles regarding the sustainable development to all the sectoral policies.

6.3.1 Tackling climate change and promoting sustainable development

Romania has adopted series of policies and legislative measures on climate change, oriented towards the two **major approaches** in the field, namely **reducing greenhouse gas emissions** and **adapting** to climate change effects, pursuant to the provisions of the United Nations Framework Convention on Climate Change, the Kyoto Protocol for this Convention and the European Union policy. According to such approaches, the National Strategy on Climate Change 2011-2020 shall be developed, associated to the approaches in the legislative package "Energy - Climate Change", with the „Roadmap for a low-carbon economy by 2050”, as well as the European policy in the field of adaptation („White Paper on Adapting to Climate Change”). Regarding the component of **emission reduction**, Romania undertook a national level commitment as per the Kyoto Protocol for **reducing by 8% the greenhouse gas emissions (GHG) by 2012**, as compared to base year 1989 (a reduction of 280 million tons of CO₂ equivalent).

In order to properly develop the emission inventory of greenhouse gas emissions, a new legal proceeding was issued, which ensures transparency, consistency, comparability, completeness and accuracy of national inventory. Thus, GD No. 1570/2007 empowers the National Environmental Protection Agency (ANPM) as competent authority, in charge with the management of the *National System for estimating the level of anthrop greenhouse gas emissions resulted from sources or from capture and storage of carbon dioxide (SNEEGHG)*.

The total GHG emissions (excluding LULUCF⁵⁵) decreased by 54.17% during 1989-2009, and net GHG emissions (including LULUCF) decreased by 62.81% during the same period. In the same time, as EU member state, Romania supports the implementation of the legislative package „Energy – Climate Change”, this representing the legal framework for EU fulfilling its independent objective of **reducing GHG emissions by 20% by 2020**, as compared to base year 1990.

In order to reduce cost-effectively CO₂ emissions, Romania participates to *EU ETS*⁵⁶, a priority issue for Ministry of Environment and Forests (MMP).

The *National Allocation Plan (NAP)* for the year 2007 and 2008-2012 was drawn-up for Romania, in order to be part of EU ETS scheme. *The National Allocation Plan* is the main implementation instrument of the scheme, being the document by which the Government established the total number of allowances for GHG emissions, assigned both at national level and for each plant part. The implementing of this plan leads to increase the liability level for the operators involved in the

⁵⁵ LULUCF - land-use, land-use change and forestry

⁵⁶ ETS – Emissions Trading System

scheme regarding CO₂ emissions.

The EU-ETS was extended for the period 2013 - 2020, by including aviation activities. Also, from January 1st 2013, the scope of the scheme shall be extended by including new sectors and greenhouse gases (e.g.: chemical and petrochemical industry, aluminium industry, processing of non-ferrous metals, i.e. other greenhouse gases such as: N₂O and pentachlorophenol - PCP). During this period, the basic rule for allocating EU ETS allowances in the electricity sector (except that produced by using combustion gases and the transitional derogations granted to some Member States) shall be the full purchase of GHG allowances through auctioning. For other sectors, a transitional free allocation system of GHG allowances shall be created based on a harmonized set of rules within the Member States (EU-wide measures of implementation), ensuring an even interpretation and application of scheme rules by the Member States and avoiding the emergence of competitive distortions.

Together with the EU ETS scheme, MMP coordinates policies and strategies for diminishing GHG emissions **in the non-ETS sector**, (sectors not covered by the EU ETS - transport, agriculture, waste, residential sector), pursuant to the Decision on the Member States' effort to reduce their GHG emissions in order to meet the Community's greenhouse gas emission reduction commitments up to 2020.

With regard to **investments that ensure the reduction of greenhouse gas emissions**, MMP plays an important part in **implementing flexible mechanisms**, provisioned through the Kyoto Protocol, by the review and approval of projects supported through these flexible mechanisms. Therefore, by means of the Joint Implementation, MMP approved **17 Joint Implementation projects**, with a **reduction** potential of approximately **21 million tons CO₂ equivalent**.

Another important mechanism of the Kyoto Protocol is the International Trading of Emissions within Green Investment Schemes by means of **trading the excess of Assigned Amount Units (AAUs)**. Thus, the legal framework was created by GEO No. 29 of March 31, 2010 on the sale of Romania's exceeding Assigned Amount Units by the Kyoto Protocol, approved and amended by Law No.145/2010 and GD no. 432/2010 on the initiation and development of green investment schemes. Our country can use the amount resulting from transitioning excessive AAUs, as a financing source for „green investments”, within projects designed to reduce GHG emissions and ensuring the environmental integrity.

GHG emissions

For the year 2020, **a target for reducing GHG emissions by 20% as compared to the reference year 1990 is envisaged**. The path to reach the national goal of reducing GHG emissions has been established from a study conducted by the Institute for Studies and Power Engineering (ISPE), which included both historical developments and forecasts on the national level annual emissions of greenhouse gases. 1990 is the reference year for the calculation of the necessary effort for meeting the settled objective.

Within the ISPE study, forecasts regarding the economic factor are very optimistic (GDP growth by 0.5% in 2010 and by 2.4% in 2011) and, consequently, GHG emissions (excluding LULUCF) as compared to 1990 reference year, have the following trajectory: **decrease by 21.05% for 2013, decrease by 17.36% for 2015 and decrease by 8.68% for 2020**.

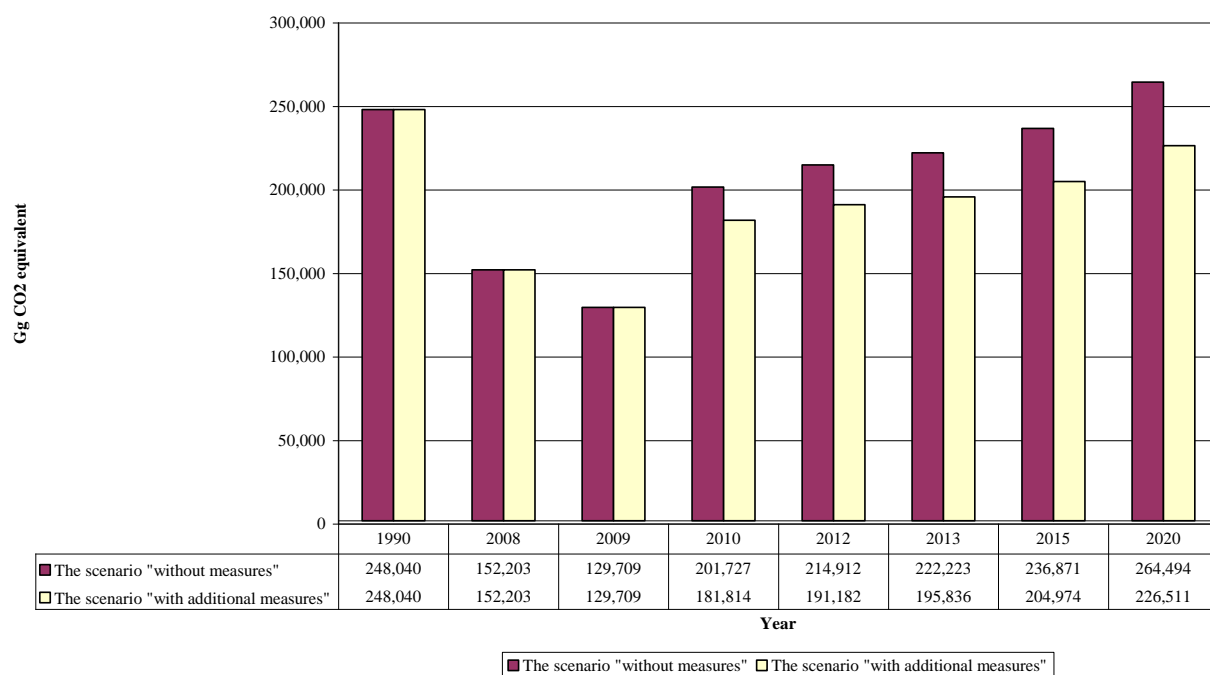
The trajectory of the national target regarding the reduction of GHG emissions by 20%, as compared to 1990 reference year, is highlighted in the following table:

Greenhouse gas emissions

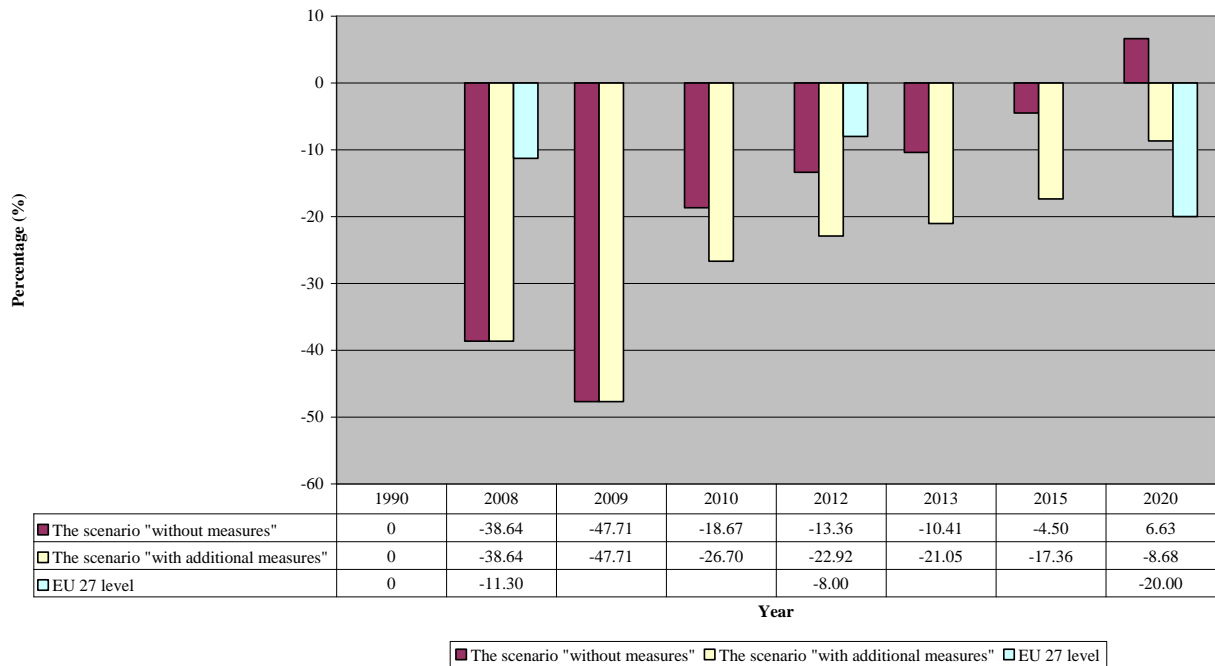
Indicator	M.U.	1990	2008	2009	2010	2012	2013	2015	2020
The scenario "without measures"									
Total GHG emissions (excluding LULUCF)	Equivalent Gg CO ₂	248,040	152,203	129,709	201,727	214,912	222,223	236,871	264,494
Percentage of GHG emissions reduction (excluding LULUCF)	%	0	-38.64	-47.71	-18.67	-13.36	-10.41	-4.50	+6.63
The scenario "with additional measures"									
Total GHG emissions (excluding LULUCF)	Equivalent Gg CO ₂	248,040	152,203	129,709	181,814	191,182	195,836	204,974	226,511
Percentage of GHG emissions reduction (excluding LULUCF)	%	0	-38.64	-47.71	-26.70	-22.92	-21.05	-17.36	-8.68
Percentage of GHG emissions reduction (excluding LULUCF) –EU 27 level	%	0	-11.3			-8.00			-20.00

Source: ANPM

Total GHG emissions (excluding LULUCF)



Reducing GHG emissions (excluding LULUCF)



Source: ANPM

By means of the *Kyoto Protocol*, Romania committed to achieve by 2012 an **intermediary target for reducing GHG emission by 8%**, as compared to 1989 reference year - in Romania, the forecast for 2012 indicates a **decrease of GHG emissions (excluding LULUCF) by 22.92%, as compared to 1990**.

It should also be noted that, according to the provisions of the Climate Change-Energy Legislative Package, for the Romanian **non-ETS sectors** (agriculture, transport, services, waste, buildings), GHG emissions may be increased up to a percentage of 19% as compared to 2005 levels.

An **intermediary re-evaluation** is envisaged by the year 2015, which shall take into account new findings of further studies that will be developed on this theme. The current economic crisis on the Romanian economy and the impact of measures implemented during this period of time to achieve the goal will be approached.

The bottlenecks and constraints identified on a national overview on tackling climate change field in Romania can be organised in the following categories:

- *Institutional bottlenecks*: (i) for each ministry, lack of specialized staff in charge with climate change; (ii) Insufficient human resources at institution level, responsible for formulating policies on climate change and for implementing them; (iii) Lack of firm implementation of environmental protection strategies, for institutional and educational reasons.
- *Procedural, legislative bottlenecks*: (i) Lack of the National Climate Change Strategy for 2020 and lack of studies that are assumed by stakeholders and provide guidelines for other ministries, in order to integrate the climate change policy on the development of other sectoral policies; (ii) Delayed implementation of the *Action plan for Romania's preparation*

for the enforcement and implementation of the legislative package "Energy - Climate Change" provisions, by which the reduction commitments for greenhouse gas emissions shall be applied by 2012;(iii) The lack of studies for the national inventory of GHG emissions, which shall be submitted each year to European and international bodies, can lead to Romania's loss of eligibility in the implementation of the flexible mechanisms of Kyoto Protocol.

- *Budgetary bottlenecks:* (i) lack of financial resources for developing research studies with the purpose of identifying tendencies and measures that must be conducted for diminishing GHG emissions and for adapting to climate change effects; (ii) Weak sector financing for clean technologies applied research.

Integrated measures outlined in this document were designed to address the above mentioned bottlenecks, the direct impact on them being assessed on a regular basis.

Integrated measures to achieve the target

In the field of climate change, Romania suggests two main lines of reform, in order to attain the goal of diminishing GHG emissions, established by *Europe 2020 Strategy*: (I) *supporting and promoting an economy with low-carbon emissions* and (II) *Tackling climate change through measures for reducing GHG emissions*. The suggested measures aim at supporting sustainable growth and at creating new jobs, as major objectives of the *Europe 2020 Strategy*.

The priority criteria for the suggested measures to reduce GHG emissions refers to the medium-term contribution that these measures bring for obtaining sustainable growth.

I. Supporting and promoting an economy with low-carbon emissions

Reducing GHG emissions in the energy sector

The programme for increasing the production from renewable energy sources was materialized by putting into operation of 45 MW/h capacities, in 2010, for obtaining electricity from alternative sources. „*Green House*” Programme aims at improving air quality by reducing water and soil pollution, caused by burning fossil fuels that were used to produce thermal energy for heating and hot water and to obtain and stimulate the use of systems based on renewable and clean energy sources.

For reducing GHG emissions and pollution in the energy sector, measures to support *increasing the share of energy from alternative, clean and without GHG emissions sources* are generated. With this purpose, the Administration of the Environmental Fund (AFM) conducts *the programme for increasing the energy production from renewable sources*. This programme seeks the use of renewable energy resources: solar, wind, hydro energetic, geothermal, biomass, biogas, gas from fermentation waste / sludge from treatment plants to produce electricity and / or heat; improving environmental quality; reducing emissions of greenhouse gases; rational and effective use of primary energy resources, conservation and ecosystem protection.

On a medium term, 505.79 MW/h capacities of shall be completed and put into service for obtaining electricity from renewable sources.

MMP, through the Environmental Fund, also finances *the installation of heating systems based on renewable energy, including the replacement or the completion of classical heating systems for the use in individual households, landlord associations and agricultural farms*. These

measures are implemented by means of the „*Green House*” Programme, conducted each year by AFM.

Projects for *supporting the "green energy" production technology installation for households from the rural environment and for agricultural farms* are eligible for financing, as well within the *National Programme for Rural Development (PNDR)* ongoing until 2014.

In order to reduce the pollution generated by the energetic sector, measures for the *refurbishment of large combustion plants and supporting energy production from non-polluting sources* shall be taken. With this purpose, within the Sectoral Operational Programme Environment (SOP Environment) measures for pollution reduction and climate change effects mitigation are provided until 2015, for restructuring and restoring urban heating systems, in order to reach the energetic efficiency targets in the most polluted localities.

Investments financed by the Priority Axis 3 of SOP Environment have significant contribution to the basic infrastructure development, according to the European standards. An estimated number of 7 restored central heating systems lead to the decrease of the GHG, SO₂ and NO_x emissions, generated by the urban heating systems (from 80,000 to 15,000 SO₂tons, namely from 7,000 to 4,000 NO_x tons), with impact in the growth of energetic efficiency in the heating systems. Only 3 projects with the approximately value of EUR 183 million were approved until the end of 2010 and other 4 projects with the total value of EUR 209 million will be approved in 2011.

Restraining GHG emissions in the transport sector

The transport sector will be modernized, in order to use resources more efficient and to reduce GHG emissions. For this purpose the degree of public transportation use will be increased, passenger and freight railway transport will be upgraded, the national car park renewal will be encouraged and „clean vehicles” will be promoted.

MTI purchased in 2010: new passenger carriages amounting RON 148 million, modernized passenger carriages for long and medium distance trains amounting to RON 262.722 million, new electrical locomotives amounting RON 9.395 million and railcars amounting RON 10.502 million. Thus, during 2000-2010, significant decreases of GHG emissions were registered in the transport sector.

The *Decommissioning of Old Motor Vehicles Programme* facilitates in 2010 for 189,323 cars older than 10 years to be quashed, and for 62,550 new cars to be purchased. Therefore, approximately 1,460 tons of CO₂ were reduced, as a result of reducing exhaust gases from old cars. Consequently, air quality and population’s health were improved.

MTI implements measures for *modernising passenger and merchandise railway transportation*, thus contributing to the efforts of reducing GHG emissions. The programme shall be developed during 2011 – 2013 and aims for acquiring rolling stock performance, including new carriage purchase.

Another important measure for reducing GHG emission in the transport sector is supporting *the renewal of old cars, with a high level of emissions, and supporting the purchase of new cars with low emissions level*. This measure shall be implemented through the *Programme for Renewing the National Car Park (RABLA Programme)*.

MMP (AFM) estimates for 2013 a supplementary CO₂ emissions decrease of approximately 3,000 CO₂ tons.

Furthermore, the GEO project for the national level implementation of the Directive 2009/33/EC *on the promotion of clean and energy-efficient road transport vehicles* is developed and in pending for inter-ministry approval.

II. Tackling climate change through measures for reducing GHG emission

Romania initiated actions of ***implementing technologies for the carbon capture and storage (CCS)***. Therefore, MECMA manages the project „*National Programme for Carbon Capture and Storage – until 2020*, within *The Sectoral Research & Development Plan in the Industrial Field – 2010*. From the *economic* point of view, a reduction of the investment and operational costs concerning the CCS technologies is estimated, with a direct influence over the electricity cost price. From the social point of view, the notification manners shall be identified, in order to raise public awareness and to accept the implementation of these technologies at a local level. Regarding the *environment* impact, the effects over the ozone layer of the energy production and of the industrial activities expect a decrease.

Apart of the research programme, a demonstrative project on ***the carbon capture and storage*** in Romania - GETICA CCS is implemented. MECMA Order No. 1508/2010 approved the elaboration and promotion of the application documentation for *The demonstrative project on carbon capture and storage for S.C. Complexul Energetic Turceni S.A*; thus, *No. 6 building (330 MW, operating on lignite)* will be restored.

The project includes the whole chain, namely the capture, transport and storage of CO₂, and is considered an integrated project, due to the fact that it shall be conducted within an existent energy complex, that shall be refurbished and a post-combustion technology of the CO₂ capture shall be applied. The geological storage shall be in a saline aquifer and shall be located in a geographic area outside other CCS projects.

The consortium in charge of elaborating the project documentation consists of: Institute for Studies and Power Engineering - Bucharest (SC ISPE SA) and the National Institute for Research and Development of Marine Geology and Geo-ecology - Bucharest (GeoEcoMar).

Funds were obtained, the feasibility study was conducted for this project and NER 300 financing mechanism shall be used for the execution works of this project.

Growth of the afforested area. In Romania, the process of afforesting lands owned by the State, as well as afforesting damaged agricultural lands shall be continued and intensified. This sort of programmes are provided within the measure 221 „*The first afforesting of the agricultural lands*” within PNDR, having 2015 as implementation deadline. The *damaged lands afforesting* programme is financed by the Environment Fund, which envisages the expansion of the afforested area at national level, the progressive improvement of the agricultural land production capacity, maintaining the biodiversity and the continuous development of the ecological and social functions of the forests. Until March 2011, financing contracts for the afforesting of 3,717 ha were signed. During the year 2011, contracts for the afforesting of other 4,109 ha shall be signed.

The expansion of green areas in localities. In order to improve environment factors and life quality in localities, the *National programme for improvement of the environment quality through the expansion of green areas in localities* was created. The green areas from localities are expected to grow and the compliance with the European standards, according to the number of inhabitants, through the development and modernisation of green areas from localities and establishment of new parks, road squares and planted alignments or the restoration of the existing

ones.

III. Reinforcing the administrative capacity in order to fight against climate changes and promoting sustainable development in Romania.

According to the Action Plan for preparing Romania's enforcement and implementation of the "Energy-Climate Change" legislative package, approved in 2009, the institutional capacity was improved by assigning/reassigning the necessary staff for good functioning of structures from energy, climate change and financial resources sectors, and for the assessment and substantiation of the measures proposed and adopted by the Romanian Government. Each ministry involved in the climate change field shall establish its own structure or shall train its own staff, in charge of the climate change field. The expansion of the research, development and innovation in the field of climate change shall be as well needed. Studies for the assessing the economy development impact on the GHG emission evolution, as well as other studies in the field, shall be drafted.

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Link with *Europe 2020* flagship initiatives

In the context of sustainable growth, the main issue from the flagship initiative „*A resource efficient Europe*” aims to disconnect the economic growth from resource use. In Romania this objective will be implemented with considerable efforts for encouraging ecological, low-carbon emissions economy, that mainly uses renewable energy sources and green and energy efficient technologies; the conservation of natural resources and biodiversity must prevail in the efforts of developing non-polluting environment and transport infrastructure. The revealed measures within this section for reducing GHG emissions in the energy sector and for restraining GHG emissions in the transport sector, shall lead to the reduction of the energy and resources consumption, as well as to the development of intelligent, modern and interconnected energy and transport infrastructure.

In order to *support the flagship initiatives and to respond to the new perspective regarding „A circular Europe”*, the following measures are suggested in Romania, for leading to a more efficient waste recycling, to environment infrastructure development and to guarantee water quality:

- **Improving waste management, including dangerous waste.** In order to provide a sustainable waste management, measures regarding water, soil and air pollution, determined by the inadequate waste storage, shall be conducted in Romania. The following aspects are envisaged: increasing the ratio of inhabitants that benefit from municipal garbage collection and from adequate quality management services and acceptable fees; diminishing the quantity of deposited waste; increasing the amount of recycled and recovered waste; establishing an effective waste management structure; reducing the number of historically contaminated sites.

In order to support waste management in Romania, within the Priority Axis 2 from SOP Environment - *“Developing integrated waste management and rehabilitating of historically contaminated sites”* - investments for 10 projects have been approved, amounting EUR 317 million. By the end of 2012, the approval of 28 new projects amounting to a total of

approximately EUR 840 million. These projects aim: to create 30 waste management integrated systems at county/regional level; to close 1,500 non-complying rural waste stores and 150 non-complying urban waste stores, and to increase the total number of waste management integrated system beneficiaries (8 million inhabitants by 2015).

The waste management sector is also supported by *Waste and Dangerous Waste Management Programme*, financed by the Environment Fund. The programme aims to reduce as much as possible the negative effects of waste on the population's health and on the environment, to reduce resource consumption and to promote the practical application of the waste hierarchy, to prevent waste generation and their noxious effects, to increase waste quantity exploited by recycling, reusing or by any other process which aims the attainment of secondary raw materials, or the use of certain waste categories as energy source, which shall lead to the achievement of the objectives stipulated by the legislation in force, within the established terms.

- ***Protecting water resources and creating integrated water supply systems, treatment plants, sewage and wastewater treatment plants.*** In order to protect water resources, to develop the integrated water supply systems, to create and rehabilitate the treatment plants and sewage and wastewater treatment plants, many multi-annual projects managed by the Ministry of Environment and Forests are developed in Romania, investments being made by SOP Environment (Priority Axis 1- ***Expansion and modernization of water and wastewater systems***), the Environment Fund and other programmes at regional level, carried out by MDRT.

The measures taken in this field aim at increasing access to the water and wastewater infrastructure (52%) for the communities, to tackle non-complying quality of drinking water and the lack of sewage and wastewater treatment plants facilities in certain areas. Furthermore, the issue of low effectiveness of water public services mainly caused by the great number of small operators must be solved. The measures aim: to provide the water and sewage services at accessible fees; to provide the adequate quality of drinking water in all human agglomerations; to improve the quality of watercourses; to improve the management degree of the sludge from wastewater treatment plants; to create innovating and efficient water management structures.

SOP Environment through Priority Axis 1- „Expansion and modernization of water and wastewater” financed 30 major projects, amounting a total of EUR 2,204.80million, and by the end of 2011 other 23 new projects amounting a total of EUR 2,542.63million are estimated to be financed.

These measures support for: 300 localities to benefit from new/rehabilitated water facilities within the regional system; 200 wastewater treatment plants to be established-rehabilitated; 70% from the population to be connected to the main water services within regional system; 60% of the wastewater from the total of wastewater volume to be properly treated.

The programme shall have an impact on the reduction of water consumption per person (m³) and on the reduction of the losses in the water supply network as a percent of the total water production.

New investments regarding water supply works, water treatment and wastewater treatment plants, as well as the modernization, refurbishment and purchase of urban and rural wastewater treatment plants are developed under the Environment Fund. By providing sewage networks and wastewater treatment plants and pure and safe and hygienic drinking water supplies, the protection degree of the population against the negative effects of wastewaters on the human health and environment shall be enhanced. Romania shall fulfil the obligation assumed regarding

the wastewater treatment (transposed in the national legislation by GD No. 188/2002 for the approval of certain rules on wastewaters discharging conditions in the aquatic environment, as amended and supplemented) and shall provide an adequate water source for the drinking water supply (under the stipulations of the Law No. 458/2002 regarding the quality of the drinking water, as amended and supplemented).

By the above-mentioned programmes, by the end of 2010, 39 wastewater treatment plants were finished and commissioned for communes, cities and traders. This led to the reduction and restriction of the negative impact over the environment, caused by domestic urban and rural wastewater sewage, from households and services, usually resulting from human metabolism and domestic activities or a mixture of domestic wastewaters with industrial and/or meteoric wastewater and with wastewater resulting from the industry. During 2011-2013, over 200 projects of wastewater treatment plants shall be financed and sewage systems shall be established in communes.

In order to improve the national infrastructure according to the European standards, a **National Programme for Infrastructure Development** (NPID) was approved by GEO No. 105/2010, a programme with impact upon the economic development and the business environment as well as social and environmental issues. The implementation of the NPID will be the framework for developing a series of infrastructure investment projects; it will promote the economic growth, and it will create job opportunities, also contributing to improving the quality of life and public safety. Thus, for enhancing the development of the infrastructure at national level, road rehabilitation and construction works will be carried on, access to sewerage systems will be provided, as well as constant access to drinking water.

According to the GEO No. 28/2011 revising the GEO No. 105/2010 for the NPID's approval, the Ministry of Regional Development and Tourism has, together with the Ministry of Environment and Forests, the role of main credit release authority for the priority projects developed in the framework of this programme and addresses to the administrative-territorial units as beneficiaries represented by the local public administration authorities.

The priority projects of the NPID for which the MMP is the main credit release authority will be managed by:

- a) The MMP for the "Multiannual environment and water management programmes";
- b) The "Romanian Waters" National Administration for the "Water management infrastructure, hydro-technical works for flood prevention, increasing the safety level of dam, coastal area protection and rehabilitation".

MDRT represents the credit release authority for priority projects regarding:

- The construction, *modernizing and rehabilitation of 10,000 km of county roads of local interest* (project with a total value of RON 8,600 million);
- Modernizing *settlements* in order to improve life quality through investments in rehabilitation and modernizing roads, early education and care institutions i.e. nurseries, kindergartens (project with a total value of RON 5,590 million);
- Developing *sewage systems and wastewater treatment plants* (project with a total value of RON 1,935 million) and *developing water supply networks for settlements* (project with a total value of RON 1,075 million).

MMP represents the credit release authority for priority projects regarding:

- Multiannual environment and water management programmes for developing integrated systems of water supply and sewage – wastewater drainage, water supply in accordance with the European standards, expansion and/or upgrading of water distribution networks and sewage - wastewater drainage networks (project with a total value of RON 1,300 million);
- Infrastructure investment in water management, technical works for flood protection, in the enhancement of the safety degree of dams, rehabilitation and protection of coastline (project with a total value of RON 2,400 million).

Funding of the priority NPID projects is provided from the annual budgetary allocations for this purpose, by the budget of MDRT and MMP, from external reimbursable funds and grants, as well as from other legal financial sources, on the basis of the approved technical and economic documentation, according to the legislation into force.

During the works, funding is supported for the 2011-2020 period, from own financial sources and/or loans, by the contractors, service providers and suppliers in charge of a part of the works as a result of the public procurement procedures, according to the Law.

The payments for the received works inside the priority projects, made to the contractors, service providers and suppliers, are to be carried out gradually, within the limits of the respective annual funds approved in the budget of MDRT and MMP for 2013-2020, according to the annex of the GEO No. 105/2010 and the payments diagram attached to the contract.

Biodiversity protection. Supporting the objectives on biodiversity stipulated within the flagship initiatives and the integrated guidelines is performed in Romania, by preserving the biological diversity, the natural habitats, the flora and fauna and the effective management of the protected areas, especially the *Natura 2000 European network*.

Financial investment in biodiversity protection (through SOP Environment/Priority axis 4 “Implementation of Adequate Management Systems for the Nature Protection”) has the purpose to implement adequate management system within the sectoral nature protection. Thus, around 60% of the total surface of the protected areas and the *Natura 2000 sites* benefit from the nature preserving measures.

By approving this type of interventions, they contribute to the administrative capacity consolidation within the nature protection field, aiming at achieving around 240 management plans for the natural protected areas. By the end of 2010, 72 financing projects were approved, amounting to a total of approximately EUR 75.6 million, representing approximately 95% of the corresponding financing for the period 2007-2010. By the end of 2011, Romania estimates to use the entire amount approved to this field for the period 2007 - 2013.

Major investments supported by the state budget and the European structural funds, as well as **investments for demonstrative projects** are supported by MMP. This help to certain *innovative systems* to be tested for supporting new orientations regarding the “Circular Europe” . A good example is the ECOREG Project regarding the *Application of industrial ecosystems principles within the regional development*. This pilot project aims to test in Romania the concept of “industrial symbiosis”. Consistent resources savings are generated by innovative waste recovery from certain economic operators that can use those resources for other economic activities. It is therefore, desirable to create a company’s network that acts symbiotically, meeting the needs for resources by taking over the waste and secondary products from other companies.

The expected environment impact is: the reduction of natural resources consumption by 5 – 20% for every pilot industrial unit, by implementing certain methods and innovative instruments; the reduction of energy consumption, the reduction of waste and polluting emissions generation by 5 - 20% for every partner; the conversion of secondary waste/products into resources (secondary materials). The increase of economic efficiency (through technological improvements, the production costs reduction) and the diminishing of environment protection expenses will help to create new jobs and to improve the public image and the networking of industrial units. The project deadline is October 1st, 2011.

Monitoring mechanism

The National Environmental Protection Agency (ANPM) annually draws up the final national inventory of GHG emissions, for the n-2 year. This report will be sent to the European Commission, the European Environment Agency and, respectively, the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), according to the reporting obligations assumed through the Convention ratification.

Romania reports every two years (according to Decision 280/2004/EC concerning a mechanism for monitoring Community greenhouse gas emissions and for implementing the Kyoto Protocol) quantitative estimations concerning the emissions reduction, resulted as a consequence of promoting these strategies, plans and sector development measures.

Advanced studies will be drafted for more rigorous impact assessment regarding the implementation of “Energy - Climate change” legislative package on the Romanian economic sectors. New statistic and forecasts instruments concerning the estimated GHG emissions on short and long term are considered.

6.3.2 Renewable energy sources

Romania has a significant and diverse potential of renewable energy sources (RES), estimated at 1.2 TWh solar energy, 23TWh wind energy, 36TWh hydropower (out of which 3.6 TWh hydropower below 10 MW), 318PJ biomass and biogas, and 7PJ geothermal energy⁵⁷. The hydro technical potential which can be arranged is exploited at a rate of about 48%, in the wind sector, currently, a 500 MW capacity is installed, while producing electricity by using the solar, biomass and geothermal potential is still insignificant.

The legislative framework on RES is ensured by Law no. 220/2008 establishing the system of promoting energy production from RES (republished in MO No. 577/13.08.2010), which establishes the mandatory quotas system combined with green certificates trading. Specifically, electricity production system from SRE is regulated by GD No. 1479/2009 (MO No. 843/07.12.2009).

The following structures are included in the institutional framework for RES promotion: Ministry of Economy, Trade and Business Environment – which implements the Government policy in the energy sector (including renewable sources); Ministry of Environment and Forests; Ministry of Administration and Interior; Ministry of Transport and Infrastructure; Romanian Energy Regulatory Authority (in charge with elaborating the secondary legislation in the field, issuing upon producers request the guarantees of origin and verifying the providers’ fulfilment of the

⁵⁷ The figures indicate the theoretical potential

mandatory quotas); Transmission and System Operator *Transelectrica* (issuing green certificates to electricity producers from renewable sources) and Electricity Market Operator (which organizes the centralized green certificates market).

In 2010, 276,255 green certificates were traded, on the centralized green certificates market, with 63% more than in 2009, the electricity produced from RES representing 38%.

Regarding the granting of authorizations for setting up installations for energy generation from renewable sources, the situation in the first quarter of 2011 was as follows: biomass and biogas - 17 MW; wind power - 1082 MW; hydro - 116 MW; photovoltaic - 18 MW.

In 2010, in the framework of the Sectoral Operational Programme "Increasing Economic Competitiveness" (SOP-IEC) - Priority Axis 4, Key Area of Intervention 2 - Valorisation of renewable energy resources for producing "green" energy, 420 projects were submitted amounting RON 14 billion, out of which approx. RON 8.3 billion represent non-reimbursable financial assistance.

RES approach in the context of *Europe 2020 Strategy*

For Romania, Annex I of Directive 2009/28/EC provides that, **in 2020, the share of energy from renewable sources in the gross final energy consumption should reach 24%**. The indicative trajectory to achieve this target, established according to the mentioned annex, is shown in the table below:

INDICATOR	2005	2011-2012	2013-2014	2015-2016	2017-2018	2020
Share of energy from RES in the gross final consumption (%)	17.8	19.04	19.66	20.59	21.83	24.00

The analysis of the energy potential of renewable energy sources shows that, in order to achieve the target set for 2020, Romania will have to capitalize 63.5 % of the total potential of renewable energy sources available.

To achieve the assumed national target on RES, the main directions of action - encompassed under the general objective of *Romania's Energy Strategy for 2007-2020* - will focus on: increasing the RES capitalization in the electricity and heat production through facilities in the investment phase, including facilitating access to electricity grid; improving the green certificates (GC) market; promoting the mechanisms to support renewable energy resources in the production of heat and hot water; better use of structural funds.

The implementation of these directions of action will lead to increasing the capacity of energy production from RES and increasing the number of GC, so that GC offer will exceed the demand, which will lead to lower prices on the trading market of GC. This situation will encourage the RES-E producers to take the necessary actions for improving the effectiveness of energy production and thereby for the competitiveness increase.

European funds, state budget and extra budgetary sources will also be mobilized in order to achieve the expected results.

Key measures to reach the target

In order to achieve the national target, between 2011 and 2013 the proposed measures aim both at

launching new projects and continuing the existing ones. Prioritization of measures took into account their impact on increasing the share of RES in energy production, the absorption of structural funds and the impact on the state budget. The measures are presented below in descending order of priority:

I. RES promotion through green certificates will be continued. The system consists of granting green certificates to producers for the electricity produced from renewable resources, which will then be sold through competitive mechanisms to the electricity suppliers, who have to acquire a number of green certificates depending on the amount of energy delivered to final consumers. Green certificates are traded on the centralized market of green certificates and / or through bilateral contracts.

If providers do not fulfil the mandatory quota based on the number of green certificates acquired and on the electricity delivered to end users, they are obliged to pay EUR 110 for every certificate not acquired. The resulting amount is collected by the transmission and system operator, C.N. Transelectrica SA, and under the Law No. 220/2008, republished, will feed the Environment Fund in order to finance the RES-E produced by natural persons who invest in energy capacities with an installed power up to 100 kW.

By implementing the system of RES-E promotion established by Law No. 220/2008, republished, the cumulated installed electric power is estimated to reach, in 2020, 3400 MW in wind power plants, 685 MW in hydro power plants (367 MW in new hydro power plants, 159 MW in refurbished hydro and 161 MW in old hydro), 510 MW in biomass power plant and 183 MW in solar panels. The impact on price to the final consumer will range from about 0.0084 EUR / kWh in 2011, to 0.0234 EUR / kWh in 2020, with a maximum of 0.0333 EUR / kWh to be recorded in 2017.

The factors involved are the final consumers and the suppliers that will contribute to financing the RES-E promotion system through the price paid for electricity and, respectively, through their efforts to streamline the activity.

II. To increase energy production from renewable sources, investments in **upgrading and building new electricity and heat generating capacities** will be supported. The exploitation of biomass, hydropower (in units with installed capacity less than or equal to 10 MW), solar, wind and bio fuels resources is considered. The measure will be financed in the framework of the SOP-IEC - Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change / Key Area of Intervention 2 - Valorisation of renewable energy sources for producing “green” energy. The following schemes will be applied:

- The regional state aid scheme on valorisation of RES, applied in the investment phase foresees a non-reimbursable financial support from the structural funds to the economic operators (small, medium and large enterprises) during the project implementation;
- The co-financing scheme without applying the state aid rules; the scheme applies in the investment phase and foresees a non-reimbursable financial support from structural funds to the local public administration and to the intercommunity development associations during the project implementation.

Investments will be achieved by a more active involvement of business environment and of local authorities and will contribute to: reducing the dependence on primary energy resources imports (primarily fossil fuels) and improving the supply security; diversification of energy production sources, of technologies and infrastructure for the production of electrical/heat energy; protecting the environment by reducing the polluting emissions and combating climate changes.

III. With the financial support of the **Environment Fund**, there will be continued:

- *The Programme concerning the installation of heating systems using renewable energy, including replacing or supplementing traditional heating systems*

By using a budget estimated at RON 605.899 million (for 2011- 2013), noticeable effects are expected as concerns: the improvement of air, water and soil quality by reducing pollution caused by burning fossil fuels (currently used for heating and domestic hot water production), and to stimulate use of clean energy systems using RES.

- *The Programme for increasing the energy production from renewable sources - by mobilizing an estimated budget of RON 1,116.633 million in the period 2011-2014, capacities of approx. 505.79 MWh will be finalised and put into operation for electricity generation. Thus, contributions to meet the objectives of regional economic development, the environmental standards (by reducing pollution) and to reduce the dependence on imported primary energy resources (primarily fossil fuels) are expected.*

IV. Certification schemes or equivalent qualification schemes for installers of small-scale biomass boilers and stoves, solar photovoltaic and solar thermal systems, shallow geothermal systems and heat pumps **will be developed**.

To practice this profession, qualification of installers is required through vocational training courses provided by accredited companies. After the graduation, qualification certificates valid for a specified period of time will be issued. They will be periodically renewed. Developing occupational standards (for installers categories listed in Directive 2009/28/EC) and incorporating these skills in the Classification of Occupations in Romania (COR) will determine qualified installers to take into account the best use of RES when assembling equipment. The introduction of these qualifications in COR shows the correlation between the labour market in Romania and the new occupations generated by the increased use of RES and hence, the related technologies.

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The planned measures represent at the same time a response to the bottlenecks identified: i) low purchasing power of the population; ii) insufficient education of building owners, iii) insufficient budgetary resources required for investment co-financing, iv) the reluctance of banking sector to lending (for increased use of RES in buildings); v) low capacity of power grids, following which the electricity produced from RES can not be fully taken into the system.

Monitoring mechanism

Each institution with responsibilities in the implementation of the proposed measures will establish an internal mechanism for progress monitoring.

Regarding the promotion of RES by means of green certificates, ANRE will publish annually (in accordance with the law) a report on the green certificates market. There will be also monitored costs and producers' incomes, the impact of the support scheme on the price to the final consumer, the producers' and suppliers' degree of fulfilment of the annual quota.

For the programmes financed under SOP IEC - Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating the climate change / Key Area of Intervention 2- *Valorisation of renewable energy resources for producing green energy*, the monitoring consists of tracking physical and procedural progress made in implementation under the provisions of the European Regulations in the field of structural instruments management and according to the accredited procedures aiming at reaching the programmes objectives and indicators.

Monitoring is an ongoing process by which the Intermediary Energy Body (IEB) monitors the project implementation and the accomplishment by the beneficiary of the performance indicators established through the financing contract. To support the monitoring of projects by the IEB, the beneficiary develops complete and accurate reports, according to the model attached to the financing contract.

For all measures on RES included in NRP, the stage of accomplishment will be reported to MECMA, the institution coordinating the *Sectoral Working Group for Energy from Renewable Energy Sources*.

The contribution of European funds

Structural funds have a major contribution in reaching the target on renewable energy sources. Thus:

- Sectoral Operational Programme "Increasing Economic Competitiveness" (SOP-IEC) - Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change/ Key Area of Intervention 2 - Valorisation of renewable energy resources for producing "green" energy promotes investment both for economic operators and local authorities.
The total funds allocated for the Key Area of intervention 2 are of approximately EUR 363 million (EUR 319.68 million - ERDF and EUR 43.59 million national co-financing);
- Regional OP, through Priority Axis 1: "Support for the sustainable development of the towns – potential growth poles" also finances projects on capitalizing RES;
- SOP HRD may finance projects on education and professional training in order to capitalize RES.

6.3.3 Energy efficiency

The legislative framework for energy efficiency is ensured mainly by GO no. 22/2008 regarding the energy efficiency and promoting the use of renewable energy sources at the end-consumer. The legislative act requires, on the one hand, that operators of the power distribution system take measures for energy efficiency and, on the other hand, requires operators who consume an annual amount of energy greater than 1000 Toe to conduct annual energy audits and draw up energy efficiency improvement programmes.

In order to promote facilities that generate electricity or thermal energy in high efficiency cogeneration *GD no. 1215/2009 laying down the criteria and conditions necessary to implement the aid scheme to promote high efficiency cogeneration based on useful heat demand* was adopted. Thus, a state aid scheme for high efficiency cogeneration power plants is established, in order to maintain them on the electricity and thermal energy market, provided they meet the requirements of high efficiency, achieve significant fuel and emissions economy but have high production costs.

The institutional framework for energy efficiency policy is ensured by: the Ministry of Economy, Trade and Business Environment, applying government policy in the energy sector, including energy efficiency; Minister of Regional Development and Tourism, which applies the energy efficiency policy in building sector; Minister of Administration and Interior, with responsibilities for energy efficiency at local administration level; Ministry of Transport and Infrastructure responsible for energy efficiency in the transport sector; Ministry of Environment and Forests and, last but not least, Romanian Energy Regulatory Authority (ANRE) which ensures implementation and monitoring for the national energy efficiency policy, monitoring programmes for efficient use of energy and energy savings, technical evaluation of projects for energy efficiency investments that require financing, licensing energy auditors and certificating energy managers. Together with the National Authority for Regulating and Monitoring of Public Procurement, ANRE develops and publishes guidelines for energy efficiency and energy savings as possible criteria to evaluate the tenders of procedures for awarding public contracts.

Among the energy efficiency measures, thermal rehabilitation of residential buildings continues to be a national priority. Therefore, in 2009, RON 360 million was committed through the national multi-annual programme to increase energy efficiency of residential buildings, which represent 17 times more than the allocated budget in 2008. The number of rehabilitated apartments increased in 2009 compared to the previous year, reaching at 24,834 apartments, and in 2010, at 29,000 apartments.

In order to increase the number of rehabilitated buildings, with effect on reducing energy consumption, the *GEO No. 69/2010 on the thermal rehabilitation of apartment buildings financed by bank loans with government guarantee* was adopted, the rules for the ordinance implementation being approved by GD no. 736/21.07.2010. For 2010, the maximum amount of government guarantee was RON 200 million.

Regarding the functional, *energetic and environmental implementation and monitoring of a modular system of green building*, the National Research Institute URBAN-INCERC, under the coordination of MDRT, has built an experimental building with smart functions, and the functional monitoring of the building will continue until the end of 2012.

Energy savings were achieved through the implementation of the National Energy Efficiency Programme (2009 -2010). In 2009, by finalizing 25 projects selected under the programme, the energy savings were of 120,521 toe / year. In 2010, seven projects were funded, which received a grant of RON 1.975 million. The energy savings were estimated at 56,251 toe / year. The low volume of investment is due on the one hand, to the local authorities' lack of funds to cover their contribution, and on the other hand, to the reduction of budgetary allocations as an effect of the crisis and to delayed approval of funds as well.

In 2010, within SOP IEC– Priority Axis 4: Increasing energy efficiency and security of supply in the context of combating the climate change / *Key Area of Intervention 1 - Efficient and sustainable energy*, 27 projects were submitted, amounting RON 640 million, out of which approx. RON 250 million representing non-reimbursable financial assistance.

Energy efficiency approach in the context of *Europe 2020 Strategy*

The national target for 2020: Romania established a **reduction of 19 % in the consumption of primary energy** (estimated at about **10 Mtoe**).

When establishing the national target for saving energy, the estimate for 2020 of energy consumption achieved according to PRIMES 2007 model was taken into consideration. Romania

chose to use *the primary energy consumption as an indicator* because, on the one hand, the primary energy consumption includes areas where Romania has a great potential for saving (e.g. energy sector) and, on the other hand, in the reduction of consumption, besides the savings occurred due to enforcing the measures of energy efficiency, the effects of the current economic crisis, of the impact of enforcing environmental legislation (primarily the legal acts on reducing CO₂ emissions), of the economic adjustment and of the changes in the energy mix structure will also be taken into account.

Given the value estimated for the primary energy consumption in 2020 (PRIMES 2007 *business as usual* scenario) and the value achieved by the National Commission for Prognosis (taking into account energy efficiency measures), it was estimated that, in 2020, Romania should achieve a primary energy saving of approximately 10 Mtep (which stands for a reduction of approximately 19 %, as compared to PRIMES 2007 projections).

Evolution of reduction of the national primary energy consumption is presented bellow:

INDICATOR	2013	2015	2020
Reduction of primary energy consumption, Mtoe	8	9	10

Measures to reach the target

To reach the target set at national level, between 2011 and 2013, the **main lines of action** will be directed towards the application of financial instruments dedicated to increasing energy efficiency, informing public and business environment on the importance of energy efficiency, improving the centralized system of energy production and distribution.

Financing energy efficiency investments can be achieved: from the state budget and local budgets, based on a performance contract signed with an energy service company (ESCO); by loans from international financial institutions or commercial banks; by Romanian Energy Efficiency Fund; by co-financing from SOP IEC, which stimulates growth through its Priority Axis. Priority Axis 4 of the SOP IEC deals specifically with energy efficiency and security of supply in the context of combating the climate change.

The envisaged measures are presented below in the descending order of their priority. The measures prioritization took into consideration, on the one hand, their impact on energy efficiency (both in terms of energy savings and time of completion), and the budgetary impact, on the other hand.

I. Applying state aid support scheme to promote high efficiency cogeneration

Starting the 1st of April 2011, the state aid support scheme to promote high efficiency cogeneration has become operational; the scheme will be applied until 2023, with an allocated budget of RON 20,283.9 million (out of which, for 2011-2013, RON 4,165 million).

The scheme foresees a financial support given to the electricity and heat energy producers who own or use for a commercial purpose high efficiency cogeneration power plants that save fuel of at least 10% compared to the differentiated production.

The support scheme establishes a transparent support mechanism aiming at compensating the difference between cost of energy production in high efficiency cogeneration and its sale price.

Based on the established support scheme, the electricity and heat energy producers receive on a monthly basis, for each electricity unit (in MWh) produced in high efficiency cogeneration and

delivered to electricity networks of the National Energy System, an amount of money entitled “bonus”. Bonuses are determined for three fuels used to produce electricity and heat energy in cogeneration: solid fuel, gaseous fuel provided by the transmission network and gaseous fuel provided by the distribution network. The value of the bonus is the same for all electricity and heat energy producers who use the same type of fuel.

The annual value of bonuses is established by ANRE during the scheme implementation and takes into account the analysis of the costs for high efficiency cogeneration production and the incomes from the sale of electricity and heat energy produced by cogeneration. The bonus given to each producer has a digressive evolution during the scheme implementation.

Taking into consideration the existing cogeneration technologies that can benefit from the aid schemes, the maximum number of beneficiaries is estimated at 500. Through the cogeneration plants, the electricity and heat are both produced with superior global production efficiency that allows primary resources savings compared to their differentiated production and therefore the reduction of CO₂ emission.

Applying the scheme for high efficiency cogeneration will contribute to the objectives of: increasing security in energy supply or Romania; ensuring a sustainable development using energy sources that affect the environment less than the alternative sources of production and that lead to saving conventional energy sources; diversification of energy sources and raise of the share of cogeneration production in the energy sources mix used in the production of electricity; raising the security in the heat supply of consumers, compared to the situation of using individual natural gas installations, due to the possibility of cogeneration plants to use several fuels.

The funds for bonus are extra budgetary, coming from the monthly collect of contributions from all the electricity consumers and from the suppliers that export electricity.

II. Continuing the information campaigns for the population and the business environment regarding the importance of energy efficiency

The population and business environment information campaigns on the importance of increasing energy efficiency will continue. The campaigns will aim at:

i) Informing and educating the household consumers on:

- The use of efficient appliances and lighting equipment, in accordance with the energetic labelling systems;
- The energy saving possibilities through behavioural changes and minimum investments in the household using thermostats and heating cost allocators, choosing thermo isolated windows with high performance, using water savers etc.

ii) Developing information centres on high efficiency (similar to the one opened in Cluj in February 2011);

iii) Promoting the energy performance contract (EPC) and the ESCO companies in the public sector by:

- Information and municipalities’ training on using EPC;
- Making a help-desk to prepare the auctions for the EPC implementation.

iv) Promoting energetic management in industry through:

- Information and professional training of authorized energetic managers;

- Developing a new training model for the agreed universities in order to prepare the authorization of energetic managers and auditors;
- Information campaign for SMEs on the *ExBESS model*.

Following the specialists training on energy efficiency and the ESCO companies' promotion in the public sector, important energy savings are estimated in the industrial sector and at municipalities' level. The information campaigns will be made in order to determine the consumption reduction through: i) changing household consumers behaviour, that can determine savings of 1-15% by using correctly the appliances, lighting systems and thermal energy thermostatic regulators; ii) attracting private investment in municipalities' projects using the energy performance contract, with savings estimated at 15% for public buildings and at 25-30% for public lighting projects; iii) reducing industry energy consumption with minimum 10%, by improved energetic management and by applying measures of „low-cost/now-cost” type.

III. Extending to 2020 the implementation period of the programme District Heating, Heat and Comfort

The implementation period of the *Programme District Heating, Heat and Comfort* will be extended to 2020 and the actions will mainly target at upgrading the infrastructure for transmission and distribution of thermal energy in centralized systems.

The Programme *District Heating, Heat and Comfort*⁵⁸ aims to improve the centralized system of thermal energy production and distribution and includes two components: rehabilitation of the centralized district heating system and thermal rehabilitation of buildings.

For the rehabilitation of centralized district heating system, eligible costs for the projects submitted under the Programme are co-financed from state budget at maximum 70%, through MAI budget. Local authorities owning centralized district heating system are the beneficiaries of this component.

For the thermal rehabilitation of buildings, eligible costs are co-financed from state budget, through the budget of MDRT. In this case, programme beneficiaries are owners associations from blocks of apartments - condominiums connected to centralized heating systems.

The programme finances investments for the rehabilitation of centralized district heating systems, unit /units for the thermal agent production, transport network of primary thermal agent (hot water), heating stations or thermal modules for buildings (where economically justified), distribution network of hot water and thermal agent, thermal rehabilitation of buildings, interior building network for hot water supply and heating thermal agent, individual metering and thermostatic valves, rehabilitation of buildings thermal envelope, respectively facades, roofs and exterior woodwork.

The programme expected results are: a significant reduction of thermal energy costs for heating and preparing hot water for consumption; reducing primary energy consumption by at least 1 million Gcal / year (about 100,000 Toe / year) compared to primary energy consumption used to provide heat energy to the population, in 2004; reducing the technological losses in the transport and distribution networks of primary thermal agent, up to a maximum of 15% of the circulated energy.

⁵⁸ According to GD no. 462/2006 (republished in MO no. 345/2008)

IV. Extending of the National Energy Efficiency Programme

Extending the *National Energy Efficiency Programme* (2009 - 2010) for 2011-2013 will ensure the co-financing of the investment projects on raising energy efficiency in urban heating, public buildings rehabilitation and public lighting sectors.

The rehabilitation of transport and distribution networks for thermal energy needs important investments with long recovery period, justifying the financial facilities provided through this programme. State budget co-financing increases the projects attractiveness and allows the attraction of other financing sources, in this sector.

The investments in public buildings rehabilitation have also long recovery periods, which make them unattractive for commercial financing sources. Therefore, stimulating mechanisms as those provided by the *National Energy Efficiency Programme* are needed. Investments in rehabilitation of lighting systems reveal important potential on electricity saving. By the saved energy the lighted public area could be increased in several towns or counties, without increasing the municipality electricity bill.

Taking into consideration the budget of RON 21.4 million foreseen for the period 2011-2013, about 135,000 Tce are estimated to be saved by finalizing the financed investments.

V. Modernization and achievement of units, installations and new equipment in industrial enterprises

To improve the energy efficiency and the sustainability of the energy system, investments in facilities and equipment which lead to energy savings in industrial enterprises will be supported. To this end, the funds under SOP - IEC – Priority Axis 4: Increasing energy efficiency and security of supply in the context of combating the climate change / Key Area of Intervention 1 – *Efficient and sustainable energy* will be used.

Eligible applicants for this area of interventions are large enterprises and SMEs from the industrial sector and the eligible activities envisage investments in: i) specific facilities / equipment for companies (e.g. air compressors, pumps, installations / equipment / ventilation systems, heating / cooling systems, boilers, burners, heat exchangers, frequency converters, integrated systems for energy consumption management and others), in order to achieve energy savings based on energy balance, ii) high efficient cogeneration units of industrial enterprises (upgrading high efficiency cogeneration power plants or building new ones), iii) construction related to industrial process included in an energy efficiency project (but only those related to upgraded equipment).

In 2011, based on the experience gained from the evaluation of projects submitted in 2010, projects with an annual energy saving greater than 5% and those targeting high efficiency cogeneration will be considered.

VI. Continuing the activities of thermal rehabilitation of existing buildings

Thermal rehabilitation of existing buildings will be continued. To this end two funding mechanisms are considered:

- By the *Programme of thermal rehabilitation of residential buildings*, set in GEO no. 18/2009 on enhancing energy performance of residential buildings, works financing will be ensured as follows: 50% from the state budget, 30% from local budgets and 20% from the owner's

association funds.

The Programme aims at increasing the energy efficiency of residential buildings - condominiums, built between 1950 and 1990, so that the annual specific energy consumption calculated for heating decrease under 100 kW h/m² useful area in terms of economic efficiency.

The financed works will deal with: i) insulation of exterior walls; ii) replacement with energy efficient frames of existing windows and exterior doors, including frames corresponding to access of the block iii) terrace thermo - waterproofing / thermo insulation of the floor over the last level where roof structure exist iv) thermo insulation of the floor above the basement, where, by design, the blocks are equipped with apartments on the ground floor.

The thermal rehabilitation measures can be implemented in stages, their effects, in terms of reducing energy consumption, will cumulate and the investment can be recovered in approx. 6-8 years, depending on the package of measures developed.

By implementing the measures of thermal rehabilitation of residential buildings, energy savings of approx. 25% from baseline could be achieved.

- Under the GEO No. 69/2010 on the thermal rehabilitation of apartment buildings financed by bank loans with government guarantee, a new funding mechanism for both thermal rehabilitation works of blocks of flats and single family dwellings, and for acquisition and/or installation of the equipments for renewable energy use was established. By applying this mechanism, the budgetary effort is limited only to subsidizing the bank interest, the interest level being ROBOR 3 months + fixed margin of 1.9% per year.

Thermal rehabilitation works that may lead to energy savings in buildings, in terms of achieving and maintaining conditions of comfort and economic efficiency are envisaged: i) thermal rehabilitation of the building envelope and related equipment; ii) repair, if necessary, replacement / purchase of boiler for block / entrance, or boiler for single-family housing, iii) the introducing, where appropriate, of alternative systems for providing partial / total energy consumption for hot water, lighting and / or heating.

The contribution of European funds

Structural funds have a major contribution to achieving the target on energy efficiency by financing the following sectoral operational programmes:

- SOP IEC – Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change / Key Area of Intervention 1 - Efficient and sustainable energy (increasing energy efficiency and sustainable development of the energy system in terms of environment) supports financially:
 - a) Investments in plants and equipment for the industry enterprises, which should lead to energy saving;
 - b) Modernizing the transport networks for electricity, natural gas and oil, as well as distribution networks for electricity and natural gas, in order to reduce network losses and to achieve under terms of safety and continuity the transport and distribution services;
 - c) The investments in flue gas desulfurization installations, low NO_x burners and filters for large combustion installations from modernized/re-engineered groups.

In 2007-2013, the funds allocated to Key Area of Intervention 1 are about EUR 332 million (EUR 292.8 million - ERDF and EUR 39.82 million national co-financing) out of which EUR 58 million (EUR 51.04 million - ERDF and EUR 6.96 million national co-financing) for the period 2011-2013.

- SOP Environment - the Priority Axis 3 “Reducing pollution and diminishing climate change by restructuring and renovating the urban heating systems to achieve energy efficiency targets in the areas most affected by pollution”. For Priority Axis 3, the financial allocation for 2007-2013 is of approx. EUR 458 million, out of which EUR 229.27 million from Cohesion Fund and EUR 229.27 million national co-financing.

Monitoring mechanism

Each institution responsible for implementing the proposed measures will establish an internal mechanism for monitoring the registered progress. The stage of accomplishment will be reported to MECMA, the institution coordinating the Sectoral working group for energy efficiency.

For the investments carried out by ANRE within the National Energy Efficiency Programme for 2011-2013, there are clauses in the co-financing contract for providing data regarding the monitoring of the investments implementation and of the development of achieved savings.

Monitoring the energy consumption and specific consumption is made on the basis of the annual consumption statement transmitted by industrial consumers with a higher consumption than 200 toe / year and on the basis of energy analysis questionnaire, sent by industrial consumers with a higher consumption than 1000 toe / year.

Monitoring of the certified managers’ activity is done both by the re-authorization process carried out every three years, and by the energy efficiency report established under the GO No. 22/2008.

For programmes financed under SOP IEC - Priority Axis 4: Increasing energy efficiency and security of supply in the context of combating climate change/ Major Area of Intervention 1 - Efficient and sustainable energy, the monitoring consists of tracking physical and procedural progress made in implementation according to the provisions of the European Regulations in the field of structural instruments management and to the accredited procedures aiming at reaching the programmes objectives and indicators.

Monitoring is an ongoing process by which the Intermediary Energy Body (IEB) monitors the project implementation and the accomplishment by the beneficiary of the performance indicators established through the financing contract. To support the monitoring of projects by the IEB, the beneficiary develops complete and accurate reports, according to the model attached to the financing contract.

Link to *Europe 2020* flagship initiatives

Measures proposed to achieve the target and especially those aimed at the thermal rehabilitation of buildings are consistent with the actions recommended to Member States by the flagship initiative “Resource Efficient Europe”.

6.4. EDUCATION

At European level, improving quality and increasing investment in education and vocational education and training, increased participation to all levels of education and a larger educational and professional mobility of pupils, students and teachers should represent, according to the European Commission, priorities envisaged by Member States to achieve the two targets set by the *Europe 2020* Strategy in the field of education, namely: reducing early school leaving rate to maximum 10% and increasing the share of 30-34 years old having completed tertiary or equivalent education to at least 40%.

The analysis of the Romania's education reveals that youth participation in education is not stimulated, Romania being ranked on one of the last places in Europe in terms of participation in education of young people aged 15-24 years. Thus, by gender, in Romania, only 54.8% of women and 48.8% of men participate in education (compared with 73.1% of women and 66.1% of men in Lithuania and 72.0% of women and 68.1% of men in Poland)⁵⁹. Early education, at its turn, is not valued as it should, namely exactly those educational activities for children aged 0-6/7 years that stimulate the full use of learning opportunities of the student and adult of tomorrow. Another sensitive issue is the overloading of the curriculum, its high rigidity and low relevance for adult life and labour market, the supply of information prevailing over the formation of skills and competences. There are also noticed a centralization of primary and secondary education, a lack of transparency in financing education, and a very low rate of participation in lifelong learning (a share of 1.5% compared to 9.3% EU average⁶⁰). Romanian higher education is characterized by an excessive differentiation of academic specializations and a dispersion of resources (human, material, financial) and it lacks a set of benchmarks to measure its quality and efficiency.

In order to modernize the Romanian educational system, to better accommodate it to the current requirements of the knowledge-based society and smart, sustainable and inclusive growth, the Romanian Government elaborated and the Parliament passed the Law on National Education⁶¹. In drafting the law, besides the expertise and national policy documents in education, and in order to prepare the proposed legislative solutions, one identified and analyzed other states' legislation. Particular attention was paid to recent trends in education, as legislation represents a mandatory yet not sufficient part of the solution needed to modernize education in Romania. The legislative endeavour has to be followed by administrative action and appropriate financial allocations.

6.4.1 The impact of Law on National Education on the Romanian education system

The major guidelines for substantiating the new law on education in Romania are clearly identified both in the national programming documents and in those developed by the European institutions, namely the documents jointly agreed by the Government of Romania and the European institutions.

⁵⁹ According to Eurydice, *Key-data on Education in Europe 2009*

⁶⁰ According to Eurostat data of April 1, 2011 on adult aged 25-64 participation to lifelong education in 2008. A panoramic view over the participation in lifelong education is available at: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tsdsc440>

⁶¹ Law no. 1/2011. The Parliament of Romania adopted the Law on December and the act entered into force on February 10, 2011.

According to the Law on National Education, the Romania's education reform covers the following changes:

1. Synchronising education cycles with the requirements of a modern education system and the European Qualification Framework

Regarding the reorganization of the structure of primary and secondary education, the law regulates *early education* as ante-pre-school education (for children aged 0 - 3 years) and pre-school education (for children aged 3 to 6 years), the introduction of the preparatory grade in primary education, increasing the duration of lower-secondary education to 5 years and the perspective of generalization of primary and secondary education to 12 grades.

With regard to *early education*, the law creates the potential of a uniform approach of education for lower ages, highlighting the importance of this education period for the subsequent development of the child. A transition is being made, for the first time in a legal document of such importance, from "care" oriented to "education" oriented approach for children aged less than 3 years old.

Increased duration of primary education to 5 years by introducing the preparatory grade is for the benefit of children, taking into account the advantages of making the school starting age uniform and providing equal opportunities in terms of school attainment. Preparatory grade is designed to provide children with an extra year they can make use of to ensure a gradual transition, in an organized and unified context, from pre-school education or family life to primary education at school.

Increased duration of lower secondary education (Grades V - IX) to five years provides a continuing, unitary and coherent, educational course organized usually within the same school and which allows the completion of compulsory education simultaneously with the completion of the lower secondary education. Both in Romania and the European Union, 16 years is the age when a person may enter the labour market legally.

2. Modernization and decongestion of school curriculum

Creating a coherent curriculum framework involves improving school programmes (curricula) by reducing the amount of knowledge to be memorized and making the content of these programmes more attractive. The Law introduces the curricula based on the eight key-competences every person needs to be endowed with for personal fulfilment and development, active citizenship, social inclusion and to enter the labour market⁶². Reducing the number of class hours, depending on age, completes the modernization of school curriculum, namely: maximum 20 class hours per week for primary education, up to 25 class hours for lower-secondary education and less than 30 class hours for upper-secondary education. A part of the school curriculum will be decentralized, the decision will reach the school level, and the teacher may use up to 25% of his/her hours at class to meet the individual needs of pupils and students.

3. Reorganization of students' assessment system

An educational portfolio is introduced and the assessment system of student is modified. The portfolio will include all diplomas, certificates and other documents obtained following the assessment of skills acquired in formal, non-formal and informal learning frameworks. Out of

⁶² From the perspective of the analysis of European framework for key competences for lifelong learning, the Law estimates that the following key-competences should become targets in education: communication in mother tongue and foreign languages, mathematical competence and basic competences in science and technology, digital competence (the use of ITC and problems solving); social and civic competences, sense of initiative and entrepreneurship, cultural awareness and expression, "learning to learn" competences.

this individual educational portfolio one should be able to extract the following data: student educational pathway, his/her inclinations and skills and particular performances. *Student evaluations* will be conducted at the end of the preparatory grade and at the end of 2nd, 4th, 6th and 9th grade.

4. Ensuring a high degree of decentralization, accountability and financing of the system

Decentralization will be achieved by means of transfer of responsibilities to the School Board of Administration and local authorities. The Board will play a central role in the endorsement of curricula placed at school disposal; it will organize the job contests for teaching departments, for the school principal position, etc. The school principal will conclude a management agreement with the Mayor that will be validated by the City Council. Schools conclude an educational agreement with parents, upon students' registration, which includes mutual obligations of the parties. Local community members will hold the majority seats in the Board of each school.

The Law introduces the principle of "financing follows the student" by means of which the allocation of public funds will become transparent and in line with strategic targets in education. The Law on National Education provides the allocation of at least 6% of GDP for education chapter every year.

5. Ensuring equal opportunities to education for disadvantaged groups

Equal access to education in order to both uphold students at risk in school and attract those who have left education early are ensured by means of "School after school" or "Second chance" programmes. Moreover the state will subsidize the costs of high-school attendance for students from rural or social and economic disadvantaged areas as well as for those attending vocational education and training (VET) schools and scholarships will be awarded on the basis of an agreement with companies or other legal or natural persons.

6. Upgrading vocational education and training (VET)

The support granted to vocational education and training will be substantiated as follows: ensuring the skills acquisition, re-founding of vocational education and training schools; developing and supporting upper-secondary (vocational pathway) and post-secondary education; extending the use of credit transfer system (i.e. between upper-secondary vocational education and the post secondary education); providing the possibility to complete at least one vocational training programme by those low-secondary education graduates aged < 18 who have previously left school; such a VET programme would allow for the acquisition of appropriate qualifications in accordance with National Qualification Framework and will be provided free of charge by state VET schools.

7. Reform of human resource policies in education

Initial training of teachers will include BA studies in a related qualification, a 2 years MA in teaching qualification and 1 year vocational traineeship. The teaching career pathway will be ensured through the award of the 1st and 2nd teaching professional degrees and through acquiring the *Honoured Teacher* title in primary and secondary education.

Management quality of education institutions will improve after the establishment of the *National body of experts on educational management*, set-up after selecting, through competition, those teachers who provide proof of completion of an accredited training programme in educational management; only these teachers will be able to occupy leadership, mentoring and control positions in education. A step forward in practicing the right to education is the state support through the opening, since the birth of each child, of an education account (equivalent of EUR

500).

8. Stimulating lifelong learning

The Law on National Education defines the concept of lifelong learning education and vocational education and training in an integrated and coherent manner and sets the recognition and certification of skills acquired through formal, non-formal and informal education contexts. Moreover, the law provides for the establishment by local authorities of the *Community Centres for Lifelong Learning* designed to implement lifelong learning policies and strategies at community level.

9. Modernization of management and leadership of universities

One of the objectives of the new law has been to support, at managerial level, the course of Romanian higher education institutions towards performance and competitiveness. While being familiar with both the strong and weak points of the collegial management system - currently in force -, the law proposes a system that adds an entrepreneurial dimension to the current academic democracy. The share of at least 25% of students is preserved in both representatives bodies in higher education, confirming their status as partners in the academic approach.

10. Universities ranking

Under the new law, higher education institutions in Romania will be ranked into three categories based on the evaluation of their curricula and institutional capacity, as follows: universities focused basically on education, universities focused on education, scientific research and artistic creation, and universities focused on advanced research and education. The pathway endorsed by University Charter will have to be supported by each and every university within the process of evaluating the quality of curricula and institutional assessment; this document will provide the way the institutions can reach the recognition of access to one of the three afore mentioned categories.

11. Quality assurance in higher education

Providing quality education requires prioritizing higher education programmes through a process of curricula quality assessment; this quality criterion will be one of the basic criteria in ranking universities into one of the categories afore mentioned. Financing higher education will depend on quality and performance criteria through focusing resources and prioritizing investments (financial resources will be allocated with priority to higher-education consortia – merged universities).

12. Competitive financing and incentives for academic excellence in higher education

The universities ranking mechanism will be supported by an incentive based financing system of academic excellence, aiming at providing institutional performance and quality of education and which is structured as follows: a minimum of 30% of core financing will be granted for public universities on the basis of the set quality criteria; an institutional development fund is guided towards the best higher education institutions in each of the three categories; additional financing is allotted by the Ministry of Education. Institutional excellence will be complemented by a coherent system designed to support for individual excellence which will provide a high level of competitiveness for the activity of each member of the academic community (professors, students, researchers, etc.), the cumulative effect of this approach converging towards the overall university performance.

MECTS has set the deadlines and teams for the development of methodologies, rules and

regulations that will ensure the uniform implementation of the Law on National Education.

6.4.2 Reducing Early School Leaving Rate⁶³

Over the past 10 years, the educational policies developed by MECTS have been constantly promoting the strategic priority on ensuring equal access to quality education in terms of effectiveness; this priority has been focused on the inclusion of main disadvantaged groups: rural population, Roma, children with special educational needs (SEN), other vulnerable groups (i.e. children from social and economic disadvantaged groups, children without parents or tutors, migrants, etc.). In order to encourage school attendance and prevent premature exits from the educational system, MECTS has developed a regulatory system focused on specific issues, and national plans and it has been implementing intervention programmes addressing different target groups and issues, as follows:

- *Social protection* through the system of child allowances conditioned to school attendance and through national programmes: *School supplies*, *Croissant and milk*, and *Money for high-school*;
- *Access to quality education*: the programme *EURO 200*⁶⁴;
- *Stimulating school attendance by children from rural areas*, through the national programmes: *Project for Rural Education (PRE)*, the *Romanian Government scholarship for top students in rural areas*, *Purchase of school buses* and the setting up of *Research and Information Centres*;
- *Increasing participation to education for children and youth of Roma origin* by teaching the Romany language at all levels, as well as *Roma's History and traditions*, introducing a chapter on Roma history in the curriculum of History subject, the allocation of special places for admission of Roma in high-schools and higher education, creation of school inspectors positions for Roma children, etc. The Phare programmes *Access to education for disadvantaged groups*, carried out between 2001 – 2010, had amongst their objectives the following ones: increasing participation and improving the quality of early education in order to prepare children for school; development of remedial support programmes to prevent school dropout; development of methodologies and curriculum in *Second-chance* programmes for primary and lower secondary schools in order to tackle the school dropout phenomenon. The programmes targeted Roma children and children with special educational needs, integrated in mainstream education. Through these programmes tools have been developed to support the concepts of inclusive education, combating discrimination and segregation and they were followed by training programmes for teachers, principals, inspectors, school mediators;
- *Support for children with special educational needs* (in special schools or by their integration into mainstream schools or through endowing them with education and training in school or hospitals / at home) by providing support / travelling teachers and the development of the adapted / specific curriculum;
- *Extension of compulsory education to 10 classes*;
- *National programmes for the reform of early education* (2006-2011), etc.

Following the implementation by MECTS of the actions above mentioned and while enjoying a period of economic growth, early school leaving rate dropped to 15.9% in 2008, namely by

⁶³ The share of population 18-24 aged who have completed lower secondary education at most, have not completed upper secondary education and/or have not attended any form of vocational education and training out of the total population aged 18-24 in the 4 weeks prior the moment of inquiry

⁶⁴ Details as regards these programmes are included in the Annex no. 10 to NRP

approx. 7 p.p. as against the 23% level recorded in 2002. The indicator rate for 2009 was 16.6%, namely up by 0.7 p.p. as against the previous year, while for 2010, in the middle of the economic crisis, the provisional statistics provided by National Institute of Statistics estimates an early school leaving rate of 18.4%, which is evidence of the interdependence between this indicator and the social and economic framework yet unfavourable.

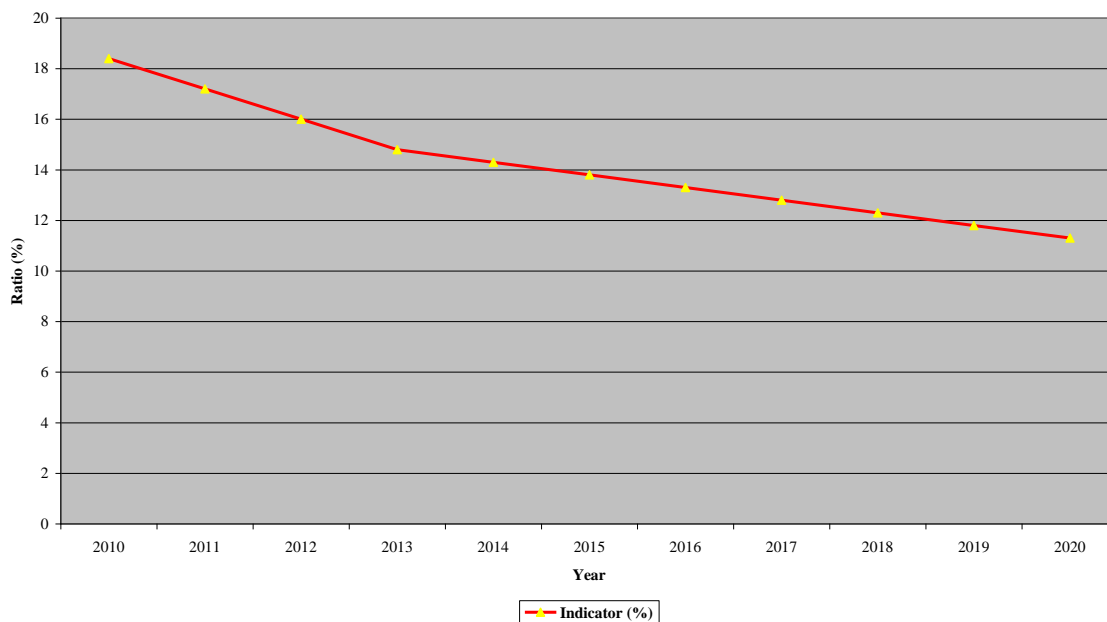
The target course for the period 2010-2010 aims at achieving a level of 14.8 % in 2013, 13.8 % in 2015 and **11.3 % in 2020** under a realist scenario underpinned by economic growth and the implementation of the proposed measures.

MECTS envisages the *accomplishment of an interim assessment* in 2014, to evaluate the impact of measures in achieving the target course and make potential corrections.

Forecasted course of early school leaving rate

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Indicator (%)	18.4	17.2	16.0	14.8	14.3	13.8	13.3	12.8	12.3	11.8	11.3

Forecasted early school leaving rate



The main risks and bottlenecks impeding upon the implementation of education policies at national level are as follows: *the current economic crisis coupled with the lack of a strong strategy for prioritizing public spending, increasing the share of population at risk of poverty, limited institutional capacity and the sluggish institutional communication.*

The main action lines to achieving the target are as follows:

- a) **Expanding the application framework of early education reform** through implementing programmes and specific activities related to this type of education. *Expected impact:* the development of widespread and free of charge early education at a scale that will prevent failures that may occur on the subsequent education pathways and potentially hinder school attainment;
- b) **Providing the necessary support to prevent early school leaving** by developing

"School after school" social programmes, promoting affirmative action for disadvantaged groups, providing support teachers, education counselling and remedial training. *Expected impact:* granting equal access to primary and secondary education and the retention in education of students / youth placed at risk of early leaving school;

- c) **Supporting early school leavers return to school** by providing facilities and developing "Second Chance" type programmes. *Expected impact:* higher level of youth participation in education and lifelong learning;
- d) **Increasing the relevance of pupils and students' education and training by guiding education towards skills formation.** *Expected impact:* formation of key-competencies of pupils and students, and increasing the quality of teaching - learning - assessment, as well as increasing appetite of student for learning;
- e) **Opening the school to community and business environment**, with focus on disadvantaged areas. *Expected impact:* enhancing institutional capacity of schools to implement policies that support access and participation in education and school attainment, including by means of an appropriate response to community needs and labour market;
- f) **Focusing teacher training on those impact / change oriented fields that encourage school attendance in terms of quality.** *Expected impact:* qualified teachers to implement intervention measures on supporting reinsertion in and participation to education;
- g) **Development of vocational education and training.** *Expected impact:* increasing young people's interest to achieve a qualification in line with the job offers existing on the local and national labour market.

The concrete key-actions substantiating action lines are detailed in the **Annex. 10 – Reducing early school leaving rate.**

The global financial support of primary and secondary education is provided both by MECTS' budget and European funds. Thus the national budgetary effort estimated for MECTS programmes in primary and secondary education field is as follows: RON 12.849 billion (2011), RON 13.235 billion (2012) and RON 13.335 billion (2013). The overall contribution of the European funds supplementing the estimated financial resources for all MECTS programmes and projects in primary and secondary education for 2011–2013 is of RON 285.51 million, through SOP–DAC (ESF)⁶⁵ and RON 359.16 million through SOP HRD (ESF)⁶⁶. SOP-IEC (ERDF) brings a contribution of RON 24 million during 2009-2011.⁶⁷

The target monitoring mechanism requires measuring by INS and MECTS (through the National Database on Education) of two supplementary indicators: *the rate of early school leaving by gender – girls / boys* and *the rate of early school leaving according to residence milieu - urban / rural*. The enforcement of the mentioned measures is based on an implementation

⁶⁵ Priority Axis 1: Structural and process improvements of the public policy management cycle - KAI 1.1 Improve of the political – administrative decision-making process; KAI 1.3: Improve of organizational effectiveness, Priority axis 2: Improved quality and effectiveness of the delivery of public service with focus on decentralisation - KAI 2.1: Support for sectoral services decentralization process

⁶⁶ Priority Axis 1: Education and training in support of growth and development of knowledge-based society – KAI 1.1: Access to quality education and initial professional training - KAI 1.3: Development of human resources in vocational education and training and Priority Axis 2: Linking lifelong learning and the labour market - KAI 2.1: Transition from school to active life – KAI 2.2: Preventing and correcting early school leaving.

⁶⁷ Priority Axis 3: Information and communication technologies (ICT) for private and public sectors – KAI 3.2 Developing and improving electronic services.

schedule, including deadlines and responsibilities.

The monitoring of measures' implementation will be undertaken at the three decisional levels, namely: school management, county school inspectorates, and MECTS' dedicated directorates. Relevant data⁶⁸, measures' status of implementation, weaknesses, results and the redressing proposals will be reflected in the quarterly reports of school units and county school inspectorates as well as in the (county and national) *Report on the status of national education* which will guide the policies in this area in the forthcoming years.

The link with Youth on the move flagship initiative is ensured through those measures that meet the first major guidelines of this flagship initiative which aims at supporting vocational education and training, preventing early school leaving, developing early education, and ensuring access to education for disadvantaged groups.

6.4.3 Increasing the share of population aged 30-34 with tertiary level of education or equivalent⁶⁹

The last *Report on the status of national education* (2010) noted that after a spectacular growth, the gross rate of participation in higher education has dropped over the past two years, down to 45% in 2009-2010 (compared to 51.7 % the previous year).

At the same time, the fact that nearly one in four young Romanian who has completed higher education is unemployed can be placed both on the account of economic recession and the still weak capacity of the higher education system to connect itself to the labour market requirements.

The measures implemented by MECTS over the last years with impact on youth participation at this level of education have targeted national higher education in order to align it to Bologna Process' objectives.

Amid economic growth and the increased number of higher education institutions, the rate of higher education graduates aged 30-34 increased by approx. 8 p.p. from 8.88% in 2002 to 16.8% in 2009. For the year 2010, the provisional data confirm this upward trend, the ratio reaching 18.1%.

The target's course aims at reaching a level of 20.25% in 2003, 22.17% in 2015 and **26.7 % in 2020**.

Forecasted course of rate of population aged 30-34 with tertiary education qualification (PPET)

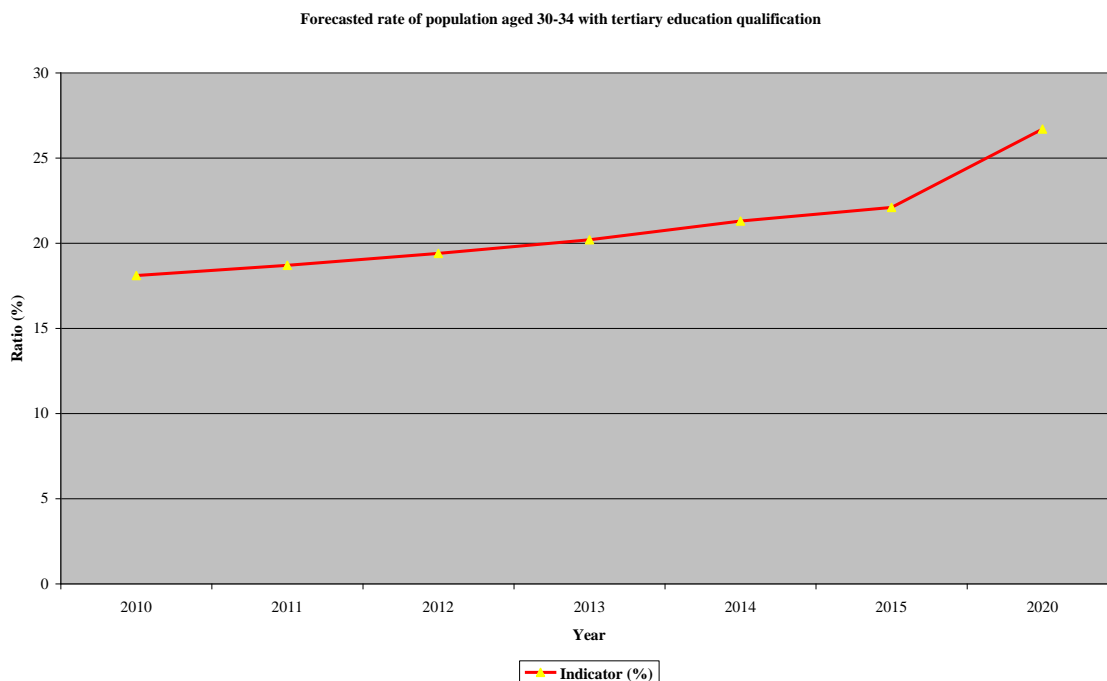
Year	2010	2011	2012	2013	2014	2015	2020
Indicator (%)	18.1	18.7	19.4	20.2	21.3	22.1	26.7

MECTS envisages an **interim assessment** to be performed in 2015 in order to estimate the impact of the measures on reaching the target. The status of Romania as emerging economy still in recession makes its recovery dependant on both the recovery of the EU Member States and the

⁶⁸ Data will be collected both from National Institute of Statistics and the National Database on Education

⁶⁹ In accordance with EUROSTAT, it represents the share of population aged 30-34, having successfully completed tertiary level of education or equivalent i.e. -ISCED level 5 and 6 - of the total population. In Romania there is no clear definition of tertiary education therefore in the calculation of this indicator only the higher education data have been taken into account

global economic redressing. These considerations require revising the forecasted target in 2015, on the basis of statistical indicators provided by INS.



The bottlenecks faced by Romanian higher-education are as follows:

- A poor correlation between higher education qualifications and labour market requirements;
- A small-scale transfer of the higher education research outcomes towards the economy;
- A too strong theoretical component of higher education which does not provide graduates with practical skills and competencies.

MECTS' main actions lines to reach the target and overcome bottlenecks are as follows:

- a) **Developing a *National Qualifications Framework* adequate for the current economic development stage and its assimilation in the labour market.** *Estimated impact:* the creation of sustainable jobs, a better integration of graduates in the labour market, increasing the potential for attracting foreign capital in the Romanian economy based on an adequate supply of labour force, increasing labour force mobility;
- b) **Setting a selection framework on objective criteria which will allow attracting skilled young people to qualifications that ensure the implementation of a pre-set economic growth pattern** (i.e. ICT, engineering, natural sciences, services, agriculture). *Estimated impact:* increasing professional performance of graduates and increasing employment rate;
- c) **Creating mechanisms for recognition of skills acquired through formal and non-formal education for tertiary education pathways for all young people with appropriate intellectual potential.** *Estimated impact:* increase participation in high education by the possible partial validation of post-secondary studies as tertiary studies;
- d) **Stimulating lifelong learning, *inter alia* through the finalization and adoption of *National Strategy on Lifelong Learning*.** *Estimated impact:* Increase the number of tertiary education graduates, increased interest in informal and non-formal learning contexts and the recognition of the results obtained through these types of learning.

In order to substantiate the main actions lines, MECTS will implement the key-actions detailed in

the Annex 11 - Increasing the share of population aged 30-34 with tertiary level of education

The global financial support of higher education is ensured both by MECTS budget and European funds. The table below shows the European funds estimated financial contribution⁷⁰ and the national contribution for 2011-2013 supporting MECTS programmes and projects in higher education⁷¹.

The estimated contribution of European funds and the national contribution (2011-2013) for MECTS projects and programmes in higher education field

Financial Year	Budgetary allocations (million RON)	Funding from various sources, other than the state budget (million RON)	Non-refundable EU funds (million RON)
2011	2,035	2,448	908
2012	2,076	2,557	944
2013	2,128	2,700	991

Source: MECTS

The target monitoring mechanism requires the monitoring by INS and MECTS of two additional indicators: *the evolution of the percentage of population aged 30-34 / percentage of the total population with tertiary education (PPETS)* and *by development regions (PPETRD)*.

The aggregated indicator will be assessed for all the 8 development regions in order to design redressing policies in those regions where the indicator drops under the assumed target.

MECTS (through its Directorate General for Higher Education, Validation and Recognition of Studies and Diplomas) will coordinate the monitoring of measures to reach the target, in collaboration with the Romanian Agency for Quality Assurance in Higher Education (ARACIS), the National Council of Rectors and the management of universities. MECTS will monitor benchmarks, analyse the effectiveness of measures and adapt them or introduce other redressing measures every semester based on the data provided by INS and universities.

The link with the flagship initiative *Youth on the Move* is ensured through those actions guidelines designed to enhance jobs performance of graduates and a better integration of young graduates on the labour market as well as improving the performance and enhancing the attractiveness of Romanian universities.

The completion of National Qualification Framework and of *National Strategy on Lifelong Learning* will provide an answer to the current demands and requirements of the labour market and thus ensuring **the link with the flagship initiative *Agenda for new skills and new jobs***.

⁷⁰ In order to achieve the reference values, higher education will receive Structural Funds assistance, by through SOP HRD, as follows: Priority Axis 1: Education and training in support for growth and development of a knowledge based society; KAI 1.2: Quality in higher education; KAI 1.5: Doctoral and post-doctoral programmes in support of research

⁷¹ According to MECTS, the financial resources assessed as necessary to achieving the objectives provide for budgetary funding and other resources for higher education at a level of at least 1 % of the GDP and attracting additional resources from taxes, by rendering the system of student loans operational.

6.5 SOCIAL INCLUSION/ POVERTY REDUCTION

During the period 2005-2009, in Romania, the relative poverty rate⁷² has shown an increasing trend reaching the level of 18.5% in the year 2009.

Analysing the data provided by the National Institute for Statistics regarding the relative poverty rate in Romania in 2008, high values were registered for the following categories: children - 25.9%, young people (16-24 years) - 20.9%, unemployed people - 37.6%, self employed (including the population from rural area) – 40.8%, single parent families - 30%, families with three or more children - 47%.

During the period 2005-2010, in Romania the social benefits system, including 14 types of benefits⁷³, it was developed without a coherent strategy, a coordination and correlation with the social services and active measures, and especially, without a result-based approach. The amount allocated for social benefits which are administrated by the Ministry of Labour, Family and Social Protection increased from RON 2,035 million, in 2005, to RON 9,043 million, in 2010.

Under these circumstances, some problems were arisen as sure as fate:

- Increase the spending of the social benefits from 1.4% of GDP-in 2005 to 2.86%-in 2010. This increase did not lead to a noticeable improvement of the indicators measuring the life quality;
- The amounts granted to the families with low incomes⁷⁴ fallen from about 48%-in 2005 to 43%-in 2009;
- In the year 2010, the level of irregularities related to the social aid programmes and social benefits for disabled people was 12%, namely 14%;
- A high level of dependency, out of the approximately 11 million working-age adults of families receiving social benefits, 2.2 million persons are not working and/or are not included in the educational system or training courses.

The organization and function of the national social assistance system is regulated by the *Law No. 47/2006 on the national social assistance system*. In the year 2010, as regard the social assistance field, there were adopted the following regulations:

- The Law No. 276/2010 for modification and completion of the Law no. 416/2001 on the guaranteed minimum income;
- The Law No. 277/2010 on the family allowance;
- GEO No. 84/2010 for modification and completion of the Law no. 448/2006 on protecting and promoting the rights of the disabled persons;
- The Strategy on the reform of the social assistance approved by the Romanian Government through a Memorandum on 28 February 2011.

As regard the social inclusion of children and young people, the *Law No. 1/ 2011 on the national education* provides equal opportunities for young people belonging to disadvantaged groups, remedial education for students with learning disabilities and state-subsidized costs associated with school attendance for students living in rural areas or belonging to socio economic

⁷²Two additional indicators have been put forward at European level, namely *material deprivation rate* and *percentage of population living in households with very low intensity*. In 2009, Romania registered the following values: 32.2% of the population is affected by material deprivation and 7.7% of the population is living in households with very low intensity of work

⁷³ The social benefits paid from the state budget by the Ministry of Labour, Family and Social Protection, include: state allowance for children, child raising benefits, monthly placement allowance, complementary family allowance, single parent family allowance, emergency aids, financial aid granted for the persons with severe health problems for abroad medical treatment, aid for refugees, monthly benefit for the persons infected with HIV or sick of AIDS, benefit for the payment of the person who attend the blind adult with severe handicapped, monthly benefit for severe handicapped persons, complementary personal budget, heating allowance

⁷⁴ These represent 20% from the total number of persons which incomes per capita, in the absence of the social benefits are the lowest

disadvantaged groups, as well as for those attending vocational schools.

Concerning the development of the social infrastructure, in the year 2010, 47 projects were approved for *the rehabilitation, modernization and equipping of health services*, 106 projects were approved for *the rehabilitation, modernization, development and equipping of social services*, and 177 projects were approved for *the rehabilitation, modernization, development and equipping educational infrastructure and university continuing vocational training facilities*.

Healthcare reform continued with the implementation of the decentralization process, rehabilitation, modernization and equipping of health services, starting the implementation of the co-payment mechanism in the health care system, all these key actions aiming at increasing the health system efficiency and the quality of services provided to the citizens. According to the draft law approved by the Romanian Government at the end of the year 2010, and promoted under the Parliamentary adoption procedure, the resource allocation should be based on the patient needs through the implementation of the co-payment mechanism. The main categories of recipients of medical services - children and elderly persons - will not bear these additional costs resulted from the co-payment mechanism.

The main responsible institutions are: Ministry of Labour, Family and Social Protection and National Agency for Social Benefits. The implementation of the strategic objectives is based on cooperation, mainly with: the Ministry of Education, Research, Youth and Sports, the Ministry of Health and the Ministry of Regional Development and Tourism.

Reducing the number of people at risk of poverty and social exclusion

The national target is to reduce by 580,000 the number of people at risk of poverty and social exclusion, by the year 2020, as compared to the year 2008, meaning a reduction by approx. 15% of the number of people living in poverty.

The analyses were carried out relying on calculations based on the forecast of the relative poverty rate. By the end of 2020, according to the estimates, the general trend is to gradually decrease the relative poverty rate.

Key actions to achieve the target

For Romania it is a priority to implement measures targeted to the most disadvantaged groups, so that the reduced financial resources can be used properly in order to get the desirable effects.

The key actions have been grouped into four categories, for each of them there are foreseen measures to be implemented in a proper manner by the responsible institutions.

A detailed description of the actions is shown in the Annex no. 12.

I. Reform of the social assistance system

Access to social benefits and social services as a means of strengthening social cohesion and reducing social exclusion for people who are unable to ensure their social needs, to develop their own capabilities and skills so that to be able to integrate socially. Currently, in Romania, the majority of the social assistance expenditures finance the social benefits.

I.1. During the period 2011-2013, the implementation of the social assistance system reform aims to better redistribute the financial and human resources within the system, including the level of the decentralized structures of the local public administration.

It is estimated that the implementation of the corrective measures will lead to: fiscal savings of

approximately 0.78% of GDP for 2013; increasing the share of the expenditure on social benefits for the first deciles, which reach about 50% of the total; reducing the costs for accessing the social benefits by the recipients by about 20% through the harmonization and simplification of the application and recertification procedures; budgetary savings by reducing errors and fraud in the social benefits system by about 0.1% of the annual GDP; reducing the number of working people depending on social assistance at least by 100,000 persons (preliminary estimation).

For the period 2011-2013, in accordance with the *Strategy on the reform of social assistance*⁷⁵, the main corrective measures provided by the Government are to:

- Focus the programmes dedicated to low-income families (social benefit, family allowances, heating allowance) to the very poor ones;
- Harmonize the eligibility criteria for all programmes dedicated to low-income families and to bring them together in a single programme up to the year 2013. The programme is to be called the *minimum insertion income*, and it is to be paid by National Agency for Social Benefits. It is foreseen the co-responsibility of the beneficiaries of the minimum insertion income by granting the rights provided that the children are participating in the education system and their school results, and that the parents are actively seeking employment. The estimated budgetary effort for this programme is about RON 5,267 million for the period 2011-2013;
- Introduce the income testing for the wealthier families, and the controls (inspections) for all the social assistance programmes, which have a high risk of error or fraud (social aid, family allowances, heating allowance, social allowances for disabled people, child raising benefit). Regulation of the inspections methods for the eligibility conditions of the beneficiaries is to be carried out during the year 2011;
- Develop an integrated management information system used both to pay the benefit and to detect the errors or frauds by cross checking of the information in the public databases, and to support a result-based management model. The cross-checking programme will be rendered operational during the year 2012 with a budget of RON 24.680 million (funded under the Operational Programme for Administrative Capacity Development);
- Increase the administrative capacity for analysis, forecasting, strategic planning, monitoring and assessing of the Ministry of Labour, Family and Social Protection. Until the end of the year 2013, it is foreseen the interconnection of the data base systems regarding the beneficiaries of the social rights with some other data sources (databases of the National House for Public Pension and other Social Insurance Rights, National Employment Agency, Civil Registry, and National Agency for Fiscal Administration).

The social assistance system reform plays an important role in fiscal strengthening and in improving the economic growth. During the period 2011-2013, Romania is to finalize the legislative framework regarding the social assistance system, including all social benefits and services.

Therefore, the social assistance system will be reorganized and modernized, the new legislative framework aims at setting up a *new classification and definition of the social benefits and social services*, and the indicators whereby the social services are accredited and financed.

Definition of the social benefits will be based on the type of requirements for granting benefits, and classified as follows:

- Support for families with low incomes in order to reduce poverty by setting up a single social benefit based on income testing (incomes and tangible and intangible goods), and

⁷⁵ Adopted through a Memorandum in 28 February 2011

achieved by unifying of the guaranteed minimum income⁷⁶ (GMI), the allowance for family support, and the heating benefits;

- Family allowances granted to families with children that include state child allowance, child raising benefit, allowance for child given in foster care, and other social benefits of family policy.
- Support for dependent persons such as disabled persons who cannot work and for dependent elderly persons. It is granted according to the own incomes and compared with those of the legal sponsors. For disabled persons it will be set up a single benefit with different amounts, depending on the degree of disability and specific needs.

Regarding the modality of *setting up the social assistance rights*, during the period 2011-2013, the legislative modifications aim at:

- Formalizing the eligibility criteria so that these will be applicable in case of many other benefits;
- Introducing a single application form for means-tested rights/incomes, as well as for requesting other social benefits that contribute to the increase of the family income and does not represent strictly individual rights;
- Formalizing the social assistance rights is to be achieved by National Agency for Social Benefits based on personal statements and control of the data existing in other informatics systems, respectively National Agency for Fiscal Administration, population records, local financial administrations, other systems subject to the registration of people income and/or assets.

During the period 2011-2013, concerning *the financing of the social benefits*, the foreseen legislative modifications are as follows:

- Takeover by the Ministry of Labour, Family and Social Protection the payment of some social assistance rights managed by other institutions and provided by the State budget to avoid the budget fragmentation and the significant reducing of the administration costs;
- Set up a maximum limit⁷⁷ that a person/ family may receive as social benefits, depending on the situation of its members.

I.2. Starting with the year 2011, by adopting the *Law No. 276/2010 for modification of the Law no. 416/2001 on guaranteed minimum income*, Romania undertakes to ***grant the social aid so that a minimum income is guaranteed to every citizen.***

The legislative modification stipulates that the payment of the social aid to be made by the National Agency for Social Benefits (ANPS) through its local agencies, which will guarantee the payment of this right from the State budget. The responsibility of the local public authorities/municipalities consists of setting up the right to grant the social benefit, based on documents submitted by the applicant and on the social investigation carried out by specialized services. The payment will be made by the County Agencies for Social Benefits. It is regulated the suspension possibility of the social aid in the case of families and single person who do not meet their monthly obligation to prove that they are looking for a job, or that they did not refuse a job, and for those who do not submit a quarterly statement on family members and the incomes.

Also, it is provided the access to health services by paying a contribution from the State budget to the Health social insurance for persons in families receiving social aid. The financial resources are provided by the national budget in the amount of RON 740 million/ year.

⁷⁶ Guaranteed minimum income

⁷⁷ In order to establish the maximum limits simulations are to be carried out that are reported to the actual costs of daily living needs, care of dependents, education and children life

1.3. In order to support the poorest families with children⁷⁸, the programme for granting complementary family allowance and allowance for supporting the single parent family has been reviewed. This way, it was set up a single allowance – the allowance for family support. The new programme focuses this type of financial transfer towards the families with extremely low-incomes (the first three deciles of the population), and it provides a supplementary advantage by encouraging school attendance of children from the beneficiary families, increasing the opportunities of ensuring the personal welfare through the own efforts. During the period 2011-2013, this measure benefits from allocation of the national budget by RON 466 million/ year.

1.4. Starting with the 1st of January 2011, in order to increase the women participation on the labour market, a new way of granting the child raising allowance was set up in Romania. Under this programme, the parents can choose from two options of granting the parental leave allowance, the legislation assures the employment protection of the beneficiaries, the employer is forbidden to dismiss them for a period of six months after they return to work.

The first option (parental leave and child raising allowance until the child is one year old) provides a monthly allowance amounting 75% of the net average income achieved in the last 12 months. The programme provides a professional insertion subsidy; this amount may cover all costs or a part of the costs related to child daily-care, for parents returning to work. The second option (parental leave up to the child is two years old) provides a monthly allowance, amounting 75% of the net average income achieved in the last 12 months, with no subsidy for the professional insertion.

During the period 2011-2013, in order to ***increase the life quality of persons belonging to vulnerable groups, including older people***, Romania is to reorganize and modernize the system of social services. The draft law on social assistance establishes a new classification and definition of the social services in order to facilitate the access to services of all categories of people in need, including elderly persons, and providing the system sustainability at the same time.

The Romanian Government Strategy on Roma Inclusion 2011-2020 aims at including on the agenda of central and local public authorities, some measures that lead to increase the socio-economic inclusion of Roma people. The implementation of the strategy is based on an action plan including the following sectors: education, health, child protection, employment, housing, justice and public policy and Roma culture.

1.5. Reducing social exclusion among children and young people and increasing their life quality

In the year 2011, in order to ***protect the vulnerable groups of children and young people*** that need a special attention, certain laws are to be drafted. These laws aim at: reviewing the quality standards of services preventing the child being separated from parents and the services dedicated to child temporarily or permanently separated from parents; developing the cost standards for counselling services; regulating the family support for children care and education and the organization and functioning of family care services.

During the period 2011-2012, ***in order to improve the life quality of disabled children, children***

⁷⁸ The programme brings together two previous allowances, namely the complementary family allowance and the support allowance for single parent families provided by *GEO No. 105/2003 on the complementary family allowance and support allowance for single parent families, approved with modifications by the Law no. 41/2004, with its subsequent modification*, and repealed, being applicable by 31st of December 2010

suffering from HIV/ AIDS and serious/ terminal chronic illnesses, children in special protection, Romania undertake to set up the rehabilitation centres and homes and/ or flats. Implementing this initiative, 24 new homes and/ or flats and two recovery centres will be set up, so that 300 children, including those with special educational needs, suffering from HIV/ AIDS can receive quality specialized care. The initiative has a financial allocation, from the national budget, of RON 15.2 million.

Also, for 2011-2013, Romania supports *the social integration of disabled children/ youth* and assures their access to rehabilitation services and specialized medical care. To that effect, services for children/ young people suffering from autistic spectrum disorder (ASD) will be diversified, a network of counselling centres and specialized care for young people with ASD will be set up and a national strategy on social and professional integration of these people will be drafted. The measure is funded on RON 1.69 million provided by the ESF through SOP HRD.

During the period 2011-2013, aiming at active social inclusion and increasing the women participation on the labour market, Romania undertakes *to set up the standardized public day-care system for children*. It is established the public network of qualified and accredited nurses and the monitoring system to assure the quality of these services. Implementing the initiative will lead to the following results: drafting the rules for the application of legislation on the set up, organization and function of the child day-care services; setting up within the local authorities (municipal, city and/ or villages) at least 35 departments for management and coordination of child day-care services; the selection of 2,115 women to be qualified as a nurse; issuing occupational standards for the qualification of nurse working at home, and the vocational training to acquire this qualification; developing the methodology for quality assurance of child day-care services at nurse home and the curriculum for training of supervisors in the local/ county councils. This initiative has a budget of RON 1.10 million provided by the ESF (SOP HRD)

During the period 2011-2013, in order to *prevent the school drop out among children belonging to disadvantaged socio-economic groups*, MMFPS and MECTS are involved, in partnership with non-governmental organizations, in a project aiming at providing educational services for these children. Implementing this initiative will lead to the following results: set up 32 school training centres; financial support granted to 7,680 children aged between 6 and 16 years that are from disadvantaged communities or Roma ethnics to be sent to kindergarten and/ or to school. The initiative receives funds from the ESF (SOP HRD) amounting RON 19.96 million.

II. Active social inclusion

II.1. In order to assure the active participation of people at risk of poverty, and of disadvantaged communities to implement the most appropriate measures of combating poverty, Romania plans to set up the appropriate framework to *facilitate the access and participation of persons belonging to vulnerable groups on the labour market*.

In this way it is aimed at developing the profit-making activities and services to help people at risk of social exclusion to integrate or (re)integrate into the labour market, into the social economy enterprises and/ or in the formal economy; developing specific programmes for (re)integration on the labour market of persons belonging to vulnerable groups and training programmes dedicated to acquire basic skills and qualifications. The programmes address the following categories of persons: the Roma people, disabled persons, young people aged under 18 years leaving the institutional child care system, persons benefiting by the minimum guaranteed income, homeless, and people living in remote communities.

During the period 2011-2013, it is estimated to be set up 500 structures of social economy and 10,000 jobs within these structures of social economy, and 150,000 people will participate in training/ (re)training programmes for vulnerable groups. During the year 2011, three requests for project proposals are scheduled to be launched, funded from the ESF, with an estimated budget of EUR 162 million.

II.2. During the year 2011, it is to be completed *the legal framework on the social economy sector*. The draft law intends to regulate the social economy sector, the concept definition and identification of the related legal entities, as well as to introduce dedicated measures to support and promote the social economy.

III. Developing the social infrastructure

The economic crisis, in the recent years, has affected unequally the country's regions, leading to significant regional disparities in the poverty rate. In the year 2008, the region with the highest relative poverty rate was North-East Region (27.2%), and the less poor one was Bucharest - Ilfov Region (4.7%). Also, there was a high poverty rate in South - West Region (23.3%) and South - East Region (22.7%).

III.1. In the period 2011-2013, it is supported the sustainable urban development in order to achieve a balanced economic and social development of Romanian regions. The financial support is granted based on integrated urban development plans, which may include *social housing projects* (ROP - Priority Axis 1, Key Area of Intervention 1.1 Integrated Urban Development Plans). This financial assistance aims at improving the social infrastructure of cities (child care centres, centres for elder people, health centres for people with disabilities, youth centres, and centres for people in difficulty), as well as ensuring decent living conditions for people belonging to disadvantaged groups that cannot have access to private housing or cannot rent a home. As regard the social housings, the measure foresees that the financial support is granted only for activities of renovation and/or changing the usage of the existing buildings that are owned by the local public authorities. In addition, applicants of such projects can be only the local public administration authorities. For the period 2011 - 2013, the financial allocation for the Key Area of Intervention 1.1 is of EUR 745 million (RON 3,129 million), and according to European regulations, the maximum amount that may be spent on housing rehabilitation do not exceed 2% of ERDF allocation (approx. EUR 180 million).

III.2. In the period 2011-2013, in order *to reduce the regional disparities and to improve social, health and education infrastructure*, Romania takes into account of:

- Making investments for the rehabilitation of buildings accommodating residential and multi – functional social centre. The financial interventions aim at improving the quality of the social service infrastructure, including to set up/modernize the access facilities for the disabled persons, and to provide the equipment suitable to the needs of the beneficiaries of services provided by these social centres;
- Carrying out the infrastructure investments for improving the quality of medical care assistance and their balanced regional - territorial distribution, in order to ensure the equal access of the population to healthcare services;
- Making investments for the rehabilitation/ modernization/ development and equipment of the infrastructure for the pre-university, university education and the continuous vocational training in order to ensure the appropriate conditions for public education and to increase the people attendance at education and training system.

For 2011-2013, the financial allocation for these interventions is amounting EUR 297 million (RON 1,247 million)⁷⁹.

IV. National healthcare system reform

Improving the access of vulnerable persons to healthcare services will be achieved by developing an adequate healthcare infrastructure and raising the quality of the medical services.

IV.1. A first step in order to achieve this objective is to *implement the national healthcare programmes in order to address the primary public health issues and the needs of people belonging to the vulnerable groups*. The measure aims to decrease the rate of communicable diseases, mortality caused by non-communicable disease, as well as of infant mortality. For the period 2011 – 2013, the funds awarded are of RON 5,249.082 million.

IV.2. By the end of 2011, in order to *ensure the medical care in the remote and economically disadvantaged areas* and to improve the health of people living in rural disadvantaged areas, the *Strategy for primary healthcare assistance and medical care services in rural areas* will be developed. The estimated budget for implementing this measure is of EUR 0.2 million.

IV.3 *The efficiency of the healthcare system* involves the reduction of costs incurred by the hospital units, this way it is allowed a redistribution of funds to other medical care segments (primary healthcare, ambulatory care, day care, home care, etc). These ones might ensure the treatment to a larger number of patients, with lower costs than those in hospitals, but also a higher quality of healthcare, a better access to services, and a higher satisfaction of patients and healthcare personnel.

To provide and guarantee the access of all citizens to high quality healthcare services, by ensuring qualified human resources, the following activities will be carried out: computerization of healthcare system, development of private health insurances, implementation of the decentralization process within the healthcare system, reorganization and efficiency of hospitals (including monitoring the implementation of the *Strategy for decentralization in the healthcare system*, the *National strategy for rationalization of hospitals*⁸⁰, and the drafting and implementation of the *National Plan for hospitals*), development of the primary and outpatient assistance system with the purpose of finding some viable formulas to provide permanent primary care, including in the rural areas. For the period 2011 – 2012, the allocated funds are RON 4,753 million.

IV.4. In order to increase people access to quality healthcare services meeting their needs, especially to persons belonging to vulnerable groups, it will be ensured the *development and modernization of the infrastructure of healthcare services providers*, mainly by providing them medical apparatus/equipment and specific vehicles.

During 2011-2013, it will carry forward the development and modernization of the medical unit infrastructure (including building up new hospitals). The funds awarded for such interventions

⁷⁹ The requested amount (ERDF + national budget) for projects submitted until the year 2011 has exceeded the allocated budget, for Priority Axis 3 of the ROP, by RON 3,306 million For the financing applications that are under evaluation the requested amount is RON 3,906 million

⁸⁰ The strategy proposes the classification of hospitals in five categories, depending on skill level, establishing a national plan for hospitals and a regional and local plan for hospital system. The strategy aims at setting up a national fund to rebalance hospital budgets, the main criteria of which will be hospital classification and the principle "money follows the patient"

are of RON 1,609 million.

Public healthcare units, such as *Tg. Mureş Emergency Unit* and *Obstetrics and gynaecology and Neonatology departments in 20 hospitals* will be rehabilitated. By improving the efficiency of healthcare sector, particularly for maternal and child healthcare, it will be reduced the maternal and infant mortality, and it will be ensured the equitable access to healthcare services. For the period 2011-2012, the funds allocated for these measures are of EUR 61 million.

During 2011-2013, the **acquisition of medical devices/equipment** will carry on for approximately 70 hospitals, under the programme "Healthcare sector reform - phase II (APL II - Adaptable Programme Loan)". The financial allocation for this measure is of EUR 15.4 million, being provided by external refundable funds. Simultaneously, the Ministry of Health will carry out the State budget-funded programme *Provision of medical apparatus/equipment and devices* for which the allocated funds are of RON 723 million. Also, it has been taken into account the **provision of specific vehicles** (681 ambulances and medical vehicles, 2-6 medical helicopters), having an estimated budget of RON 260 million.

Financial resources – including the contribution of European funds

For the period 2011-2013, the envisaged financial resources are as follows:

- State budget – RON 7,841.082 million (The healthcare programmes and infrastructure);
 - RON 5,267 million (The estimated costs to finance the programme *minimum insertion programme*).
- European Social Fund through:
 - SOP Human Resources Development (Priority Axis 6 – Promotion of social inclusion). In the year 2011, it will be launched 3 requests for project proposals with an estimated budget of RON 162 million;
 - OP Administrative Capacity Development– RON 4.753 million.
- European Regional Development Fund through the ROP:
 - The financial allocation for the Priority Axis 1: *Supporting the sustainable development of cities - urban growth poles* is of EUR 745 million (RON 3,129 million), out of which the social infrastructure around EUR 186 million (RON 782 million)⁸¹;
 - The financial allocation for the Priority Axis 3: *Improvement of social infrastructure* (Keys Area of Intervention 3.1., 3.2. and 3.4) is of EUR 297 million (RON 1,247 million).
- External refundable funds – EUR 76.6 million.

Link to Europe 2020 flagship initiatives

Inclusive growth means empowering citizens by ensuring high levels of employment, investing in skills development and fighting against poverty.

In order to implement the flagship initiative *The European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion*, steps will be taken at

⁸¹ 25% from funds allocated to Priority Axis 1 should be spent for social infrastructure, in accordance with ROP provisions

national level to promote individual and collective responsibility to combat social exclusion. Solutions will be identified to increase the involvement of individuals, families or communities in implementing measures to combat poverty, the lack of involvement being one of the weaknesses of the Romanian system. Under the National Reform Programme, measures will be implemented for the social (re)integration of persons belonging to vulnerable groups (single parent families, disabled people, Roma people, homeless people, children, and young people).

Monitoring mechanism

The implementation of these measures will be monitored by means of an internal mechanism established by each implementing institution. In order to achieve the national target to reduce poverty and social exclusion, social policies should be viewed as a whole, linking social inclusion policies with related policies for employment, health and education.

The implementation of measures for poverty mitigation will be monitored by MMFPS, based on information received from all institutions concerned; the results will be centralized and included in a joint annual report on social protection and social inclusion.

At the end of 2014, following the analysis of the implementation of specified measures and the efficiency of using EU funds, Romania aims to reassess the level of the national poverty reduction target.

Chapter 7 - HORIZONTAL AND METHODOLOGICAL ISSUES

7.1 SETTING THE NATIONAL TARGETS OF EUROPE 2020 STRATEGY

Immediately after the European Council held in March 2010, and based on its conclusions, Romania has started the process of setting *Europe 2020* national targets. That moment may be considered as the starting point for building the National Reform Programme.

In order to ensure a coherent and consistent approach with the simultaneous actions at European level, the Department for European Affairs has developed a methodology for setting national targets of the *Europe 2020* Strategy.

According to the methodology, a working group has been created for each objective of the strategy, but for the objective "20/20/20" - energy, climate change, for which there are three working groups. Therefore, there are seven sectoral working groups aiming at establishing national targets according to *Europe 2020* Strategy, each group consisting of representatives of all institutions with responsibilities in areas related to the objectives. Each sectoral working group was coordinated by the Ministry with major powers in that area of expertise.

Based on three scenarios - optimistic, realistic and pessimistic – the working groups have formulated preliminary proposals regarding the values of the national targets according to *Europe 2020* Strategy. The values thus determined have been assumed by the High Level Working Group on 29 April 2010, and approved during the Government meeting.

They represented, at the same time, the mandate of the Romanian delegation to the Trilateral meeting between the Commission - Spanish Presidency of the EU Council - Romania, held in Brussels on 3 May 2010.

The results of the dialogue at European level have been discussed also in the working groups and in the EU Council formations, especially regarding the matters that required clarification and methodological harmonization.

In the period preceding the European Council meeting of 17 June 2010, the sector working groups have focused on defining key policies, programmes and measures designed to achieve national targets. Special attention was given to estimating the financial resources and to assessing the legal and institutional framework, needed in order to implement these policies and reassess the feasibility of the set national targets. Both the intermediate results and the final ones, deriving from the process of setting national targets were discussed during the meetings of the social dialogue committees within ministries coordinating sectoral working groups.

The joint efforts of all stakeholders at national level (central administration structures, social partners, civil society, and academia and business environment) have sought to ensure the necessary conditions for the adoption of *Europe 2020* Strategy at the European Council meeting on 17 June this year.

To this end, the final set of values related to the national targets under *Europe 2020* Strategy has been validated by the *High Level Working Group* (on June 8, 2010) and subsequently approved in Government session. The Trilateral meeting European Commission - Belgian Presidency of the EU Council - Romania, held in Brussels on 7 October 2010, the Romanian party presented this set of values of the national targets under *Europe 2020* Strategy. The items deriving from this process of transposing on national level the objectives of the *Europe 2020* Strategy represented one of the main pillars of the new National Reform Programme.

7.2 DRAFT NATIONAL REFORM PROGRAMME (NRP)

The draft of the *2011-2013 NRP* focused primarily on the methodology SG COM recommended to the Member States in the document attached to the letter SG/D1/SW/cf ARES, letter dated 09/22/2010.

Based on the structure of this methodology it was designed this NRP draft, which aims to ensure at the same time, the continuity of the reforms from the previous stage. For this purpose, the draft of the current programme borrowed from the Action Plan for the implementation of the *2007-2010 NRP* the main reform measures agreed with the European Commission and international financial organizations and seeks a strict monitoring of these, as part of the general mechanism for implementation control.

The draft of *2011-2013 NRP* was accomplished under the coordination of DAE, based on the contributions of the institutions represented in the *Working Group for Europe 2020 Strategy*.

The first version of the document was sent for consultation and approval to all the institutions involved in its implementation. The supplementing and amending proposals submitted by them were considered and assumed (when appropriate), and the resulting document was debated at the meeting of the *High Level Working Group*.

The version resulting from this process has been submitted to and approved by the Romanian Government at its meeting in the first week of November 2010.

7.3 ELABORATION OF THE FINAL VERSION OF THE NATIONAL REFORM PROGRAMME (NRP)

The final version of the NRP was developed based on the contributions of the seven sectoral⁸² working groups and three operational groups⁸³ (*Task Forces*), constituted especially for this purpose. In addition, the final NRP includes, when appropriate, the measures recommended by the COM in the *Growth Annual Review*, actions for MS within the seven flagship initiatives of *Europe 2020 Strategy*, as well as the recommendations of COM resulting from the evaluation of the NRP draft and from the bilateral talks held on February, 15 and March, 11.

The final version of NRP also ensures consistency with the main benchmarks related to the implementation of the commitments assumed by Romania in the new preventive-type agreement concluded with the EU and IMF, respectively *Euro Plus Pact*.

7.4 PUBLIC COMMUNICATION

In order to make *Europe 2020 Strategy* visible in Romania and to ensure transparency regarding its implementation, the background documents on the national targets and their values have been published on the websites of the DAE and of the ministries that coordinate the sectoral working groups.

At the same time, both the preliminary and final ones proposals of *Europe 2020* national targets were subject of public debates organized by the institutions involved, as well as nationally.

⁸² One working group for each target related to *Europe 2020 Strategy*: CDI, employment, environment, climate change, energy efficiency, renewable resources, education, social inclusion

⁸³ The work of these three task forces addressed the macroeconomic reforms 2011-2014 and the two priority reforms: increasing efficiency and effectiveness of public administration, respectively the improvement of the business environment

Between 21 – 29th of May 2010, DAE, in partnership with ministries and other public authorities involved, organized public debates under thematic roundtables. Also, on June 10, 2010, DAE organized in partnership with the Romanian Parliament (the European Affairs Committee) a national conference entitled *Romania and Europe 2020: vision, challenges and strategic priorities*, which was attended by representatives of government agencies, social partners, academic and civil society.

The national dissemination (with the support of local authorities) of the objectives and instruments of *Europe 2020* Strategy was carried out also through *The European Counsellor*, journal of information and analysis on European affairs. To this end, the publication devoted entirely its number from May 2010 to *Europe 2020* Strategy, acknowledging its key role in formulating responses to current global challenges.

DAE along with the Department for International Relations and Integration of the National School for Political and Administrative Studies (SNSPA) organized during September-November 2010, a series of conferences in order to present the *Europe 2020* Strategy as well as the key elements of the *2011-2013 National Reform Programme*.

Information and public consultation process continued in 2011 by organizing events to highlight the measures that must be implemented in order to achieve objectives in the context of *Europe 2020* Strategy, to increase the involvement of local authorities in developing and implementing NRP and to involve the civil society in the elaboration of the final version of the *2011-2013 NRP*. On March 10, 2011, DAE organized in partnership with the Romanian Parliament (The European Affairs Committee), the national conference entitled *Europe 2020 Strategy: objectives and national priorities of reform*. The event marked the culmination of the Romanian authorities' efforts to define on national level, the objectives and priorities of reform in the context of implementing the *Europe 2020* Strategy.

The conference was a good opportunity for debating the most important aspects of the *2011-2013 NRP* (objectives, resources, responsibilities, evaluation, monitoring) and marked **the launch of a series of three thematic round tables**, from 24th to 29th of March 2011, organized with the support of the ministries coordinating the sectoral working groups for *Europe 2020* Strategy, and according to the priorities set by the strategy: smart, inclusive and sustainable growth.

The dissemination of information regarding the measures to be implemented in order to achieve the objectives and the national targets proposed in the context of *Europe 2020* Strategy was accomplished by DAE also through a dedicated leaflet and a booklet (www.dae.gov.ro).

In determining the details of these events, DAE took into consideration the calendar landmarks agreed on European level, respecting also the aspect of transmission - in late April 2011 – of the final version of the NRP.

7.5 MONITORING

For the *thematic coordination* section, the monitoring process focuses on two components: an internal one, provided by each institution responsible for carrying out the measures in the area of competence and another component, at the government level, dealt by DAE, as the national coordinator. The progress on reforms will be examined and assessed periodically (quarterly) based on reports that the institutions coordinating the sector working groups will develop and submit to the national coordinator of *Europe 2020* Strategy. DAE will submit to the government the conclusions of the examination stage, signal any delays or shortfalls regarding the planned measures and propose corrective measures. The monitoring rhythm will be strengthened,

depending on the registered evolutions.

For the effective implementation of the *Europe 2020* Strategy, there are necessary both an integrated approach and a coordination between all stakeholders of the public and private sector. In this context, an important role could be awarded to the *Territorial Pact*, which can be an opportunity for a more effective contribution to local communities, in achieving *Europe 2020* objectives.

The Committee of the Regions, as promoter of the concept of *Territorial Pact*, supports the involvement of municipalities and local authorities in the effort to achieve the national targets related to *Europe 2020* Strategy. With this regard, the opportunity of using this mechanism must be analyzed in collaboration with local authorities, and identifying concrete ways to achieve this task.

Given the fact that the *Territorial Pact* requires the agreement of various levels of government (national, regional and local), the concerned parties must act in a coordinated manner - taking into account territorial potential - both in identifying appropriate policies and in determining the way in which they can be adjusted to ensure more effective achievement of the necessary structural reforms and in terms of financial resources that will be used to achieve objectives.

Thus, developing the *Territorial Pact* at the national level requires:

- A study showing regional differences (at the administrative-territorial unit level) in terms of reaching the *Europe 2020* objectives, to identify appropriate policy measures at regional, county and local levels;
- Analyzing by MDRT, MAI, DAE and associations of local authorities regarding the opportunity and the methods of using the territorial pact in Romania;
- Signing of pilot Territorial Pacts, on voluntary basis, with those municipalities or county councils willing to contribute specifically to achieving the targets set at national level.

At the end of the year 2013, DAE will ask for an external survey regarding the implementation of the measures contained in *2011-2013 NRP*. This survey, made by NGOs or specialized firms, will be based on impact analysis of the specific policy measures. Depending on the conclusions of this evaluation and also on the national perspectives of the economy for the forthcoming 3-5 years, the national targets will be updated for the *Europe 2020* Strategy.

ANNEXES

ANNEX NO. 1 INCREASING THE EFFICIENCY AND TRANSPARENCY OF THE PUBLIC ADMINISTRATION

ANNEX NO. 2 INCREASING THE ABSORPTION RATE OF THE STRUCTURAL AND COHESION FUNDS

ANNEX NO. 3 USING ICT IN ORDER TO MODERNIZE PUBLIC ADMINISTRATION

ANNEX NO. 4 ACTION PLAN FOR IMPROVING THE BUSINESS ENVIRONMENT

ANNEX NO. 5 EMPLOYMENT

ANNEX NO. 6 RESEARCH, DEVELOPMENT, INNOVATION

ANNEX NO. 7 TACKLING CLIMATE CHANGE AND PROMOTING SUSTAINABLE DEVELOPMENT

ANNEX NO. 8 RENEWABLE ENERGY SOURCES

ANNEX NO. 9 ENERGY EFFICIENCY

ANNEX NO. 10 REDUCING EARLY SCHOOL LEAVING RATE

ANNEX NO. 11 INCREASING THE SHARE OF POPULATION AGED 30-34 WITH TERTIARY LEVEL OF EDUCATION

ANNEX NO. 12 SOCIAL INCLUSION