



Joint Assessment of Employment Priorities in Romania

In accordance with the provisions of the Accession Partnership, the Government of Romania has prepared, with the European Commission, Directorate General for Employment and Social Affairs, a Joint Assessment of Romania's short-term employment and labour market policy priorities. This document presents an agreed set of employment and labour market objectives necessary to advance the country's labour market transformation, to make progress in adapting the employment system so as to be able to implement the Employment Strategy and to prepare it for accession to the European Union. Progress in the implementation of these policies will be assessed regularly.

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(Signed)

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Introduction

In accordance with the provisions of the Accession Partnership, the European Commission - Employment and Social Affairs DG - and the Government of Romania are carrying out an Employment Policy Review. The objective of this review is to examine the extent to which Romania has made progress in adapting its employment system so as to be able to implement the European Employment Strategy.

The review aims to provide information, for the use of Romania and the Commission, on the following issues:

- Are the labour market structures that are already in place appropriate for participation in the Single market?
- Are the labour market and employment policy institutions sufficiently developed to allow an early implementation of the employment strategy in line with the Employment Title of the Treaty?
- Is the overall system in Romania moving towards meaningful participation in the EU employment co-ordination process?
- What are the priorities for human resources development strategy as a background for preparatory work for European Social Fund (ESF) or ESF type action planning and programming?

The starting point in the Employment Policy Review is to agree on a Joint Assessment Paper, whose focus is on the fundamental challenges in the field of employment. These challenges consist; first, in recognising that labour markets should reflect the needs of a dynamic market economy as part of a single market, in particular whether labour is mobile, adaptable and skilled. The second challenge is to have policies and appropriate institutions that support the development of a flexible labour market. This includes the need to promote a forward-looking approach to industrial restructuring to adapt to knowledge-based economies and to face up to the impact of demographic change.

The principal tasks of the exercise are summarised under four sections. Section 1 provides a brief description of the economic performance. Section 2 examines the overall labour market situation and the progress made in labour market transformation. Section 3 identifies major challenges and Section 4 draws together the overall conclusions from the review.

1 Economic Situation

After years of disappointing economic performance macroeconomic trends and prospects have recently improved. In particular, following a three years decline and a modest rebound in 2000, last year, the economy expanded faster than expected with GDP growing by 5.3% as investment accelerated and private consumption boomed pulled by rising real wages and income.

Inflation remains high but has been on a steadily declining trend since mid-2000. After totalling 40.7¹% in 2000, CPI inflation fell to 30.3²% in 2001 (December on December) despite strong increases in energy tariffs. It continued to decline into 2002 on the back of a more coherent macroeconomic policy stance, decreased external vulnerability, and some progress in structural reform. In the past, instead, the objective of price stability was repeatedly sacrificed to other goals in a policy environment characterised by soft budget constraints, financial fragility and external vulnerability. Under a continued reform scenario, the authorities now plan to achieve single-digit inflation by end-2004.

During 2001, the current account deficit widened sharply on the back of a rising deficit in goods trade but was kept in check by an increase in transfers from abroad and a tightening in policies later in the year. Despite the slow down in Romania's main export markets, external developments have been favourable in 2002. Better growth and reform prospects, renewed collaboration with the IMF, improved vulnerability indicators and favourable international market conditions have allowed Romania to easily meet its external financing needs and launch its first ten-year international bond in early 2002. Despite these recent positive trends, however, there is little space for complacency. Although lower growth and a tighter policy stance are helping to reduce the current account deficit, sizeable external financing needs are likely to persist in the future. The gains in the availability of external resources could evaporate rapidly, forcing a renewed painful adjustment, if reforms stalled again or the current account began to widen again.

Much of the recent improvement in macroeconomic performance is due to the improved co-ordination of monetary and budgetary policy. In particular, the authorities have been adopting an increasingly responsible fiscal behaviour. After being loosened in 2000 and over the first half of 2001, in fact, the policy stance was tightened in mid-2001 when the deficit target was reduced down from the original objective of 3.7% of GDP. As revenues still fell short of the revised yearly target, expenditures were cut in order to meet the nominal deficit target, equivalent to 3.3% of actual GDP. Developments in the first months of 2002 have been positive and the 3% of GDP deficit objective for the year remains on target.

In the medium term, however, the authorities face major fiscal challenges and consolidation will be hard to sustain without a resolute reform of public enterprises and a significant increase in tax compliance. Further medium-term challenges include the reform of the increasingly unbalanced public pension system, the need to relinquish inflation as a fiscal tool, the provision of sufficient resource to the institutions for a market economy, and, more generally, the necessity to focus fiscal outlays on growth-enhancing expenditures.

¹ Source: Pre-Accession Economic Programme Romania 2001

² Source: Report on the progress in preparing the accession to the European Union - September 2001-May 2002

The authorities have also been less successful in implementing a supportive income policy. Although real wage growth has lately become more aligned with productivity gains, the authorities are still struggling to control the wage bill of public enterprises. After increasing sharply at the beginning of the 2001, real average net wages grew by 4.7% in the first four months of 2002 compared to the corresponding period last year. Public enterprises' wage costs rose strongly in 2001. Although the authorities expressed their intention to reduce the real wage bill in the state-owned sector in 2002, their failure to meet the targets agreed under the IMF programme in the beginning of the year has raised some doubts on the strength of their commitment in this area.

Progress on the structural reform front has also been mixed and unresolved structural weaknesses could still cripple the recovery if reforms were not brought to completion. Despite some further gains, in fact, advances in enterprise reform have remained uneven as the authorities struggle to make a clear break with the practises of the past. Although the 2001 sale of the largest loss-maker in the public sector - steel maker SIDEX - represented an important achievement, the privatisation process has not gained a significant momentum. Disappointing privatisation performance reflects the poor attractiveness of various enterprises. Perhaps, more importantly, strengthening efforts to tighten financial discipline and liquidate bankrupt enterprises with no potential buyers remains a top priority.

The energy sector has continued to play an important quasi-fiscal role. Despite measures taken, in particular significant increases in tariffs from mid-2001 onwards, in fact, the energy sector's losses (not only as a result of prices not yet covering costs but also from low levels of bill collection) continued to mount in the first quarter of 2002, implying a further chronic subsidisation of delinquent users. If implemented, plans to privatise extensively energy operators, coupled with new contractual relationships with energy users that would help enforce energy bill collection would allow abolishing the sector's quasi-fiscal role, thus greatly supporting macroeconomic stabilisation and strengthened enterprise financial discipline.

In the financial sector, Romania has made important advances after many delays. After 1999, several banks were cleaned up and privatised. A stricter prudential and regulatory framework was introduced along with strengthened supervision. Over the last three-year, capital adequacy and asset quality have also improved significantly. Finally, the process of privatising the largest remain public bank in the country has begun and should be completed in early-2003.

Despite these positive trends, however, the Romanian banking system still cannot provide an effective intermediation between savers and investors. Total assets amount to less than 30% of GDP, deposits some 20% and domestic credit just more than 10% percent. Loans are typically short-term and finance working capital needs. More recently, credit to the private sector has begun to expand at a very rapid pace, albeit from a low base. This strong resumption in lending will test the renewed soundness of the banking sector and the strengthened powers of the supervisory authorities.

The Romanian authorities currently face a promising window of opportunity. The resumption of growth and the current easing of the external constraint should not lead to a weakening of the structural reform drive and a relaxation of the macroeconomic policy mix. Quite to the contrary, the positive macroeconomic prospects and the strong political position enjoyed by the current administration should be utilised to fully implement the IMF arrangement and support the resolute acceleration in

structural reforms which would finally allowing the achievement of macroeconomic stabilisation.

2 Situation in the labour market

2.1 Population and labour force

Romania's population has been continuously and slowly declining since the beginning of the nineties with a cumulated fall of 3.4% (or 800 000) since 1990, bringing it down to 22.4 million in 2001. The working age population (15-64) remained stable at around 15.3-15.4 million. The population is expected to further decrease by 1.8 million until 2020 and the decline would concentrate on the younger age groups (10-24). The demographic decline is accounted for both by the negative natural growth rate and by external migrations.

In 2000, 54.5% of Romania's population lived in urban areas compared with 50.6% at the end of the eighties. This increase however hides important changes in internal migrations trends between rural and urban areas since the beginning of the transition period. After a period of restrictions imposed by the former regime, at the end of the 1980s, rural emigration intensified in the early 1990s. In 1990, for example, Romanian cities received a net inflow of more than half a million people from rural areas. Since the mid-1990s, the deterioration of the economic situation resulted in a new flow towards rural districts and subsistence agriculture.

The participation rate (for those aged 15-64) was 69.7% at the time of the first LFS in 1994. By 1996, it reached 72.3% but has been slowly declining since to reach 68.5% in 2001³ below the EU average of 69.2%. At 74.6% in 2001, the male activity rate was by 2 percentage points lower in than in 1994 and well below the EU average of 78.1%. The female rate declined from 63.1% to 62.4% over the same period and was above the EU average in 2001 (60.2%). The female activity rate is by 12 percentage points below that of men.

The decline in participation was particularly strong for the younger age group whose activity rate fell from around 49% to 41% between 1994 and 2001. It was also important for the 45-54 (from 80,5 to 77%) while the activity rate of the 55-64 was slightly higher in 2001 (51%) than in 1994 (50%). A feature of participation in Romania is the high activity rate among those aged 65 and over. The participation of this age group also strongly diverges from the overall pattern with an increase in their activity rate from 31 to 37.5% between 1994 and 2001, a phenomenon accountable for by the place of agriculture in Romania's economy.

More generally, aggregate data on participation hide substantial discrepancies in working life profiles between the urban and rural areas. According to LFS data⁴, in rural areas, since the mid-nineties, activity rates remained over 50% for the younger age group (15-24), at around 80% for those aged 50-64 and between 56% and 60% for those 65 and over. By contrast, in urban areas, the activity rates have been declining and stood at 31% in 2001 for the younger age group, at 37% for the 50-64 and at 4,0% for those aged 65 and over.

The average educational levels of the total labour force (15 and over) have somehow increased since the mid-nineties but remain low by EU standards. In 2000², 8.4% had

³ Data 1994 and 1995, first quarter; following years, second quarter.

⁴ Data for second quarter

higher education (compared with 7.6% in 1994), 77.4% (compared with 74.3% in 1994) had secondary education, of which, around 72% had upper-secondary education and 14.3% had primary or lower levels of education (18.2% in 1994). In 2000², the share of the female labour force having secondary education was 75% compared with 80% for men (in 1994, the respective shares were 70.4% and 77.6% for the female and the male labour force). The share of the labour force having only primary or lower levels of education was 18% for women and 11% for men (compared with nearly 23% and 14% respectively in 1994).

The older age group that represents a significant share of the labour force has very low formal skills levels (95% of the labour force aged 65 and over is low skilled compared with 28% for the 15-64)⁵.

2.2 Employment developments

Overall trend

Total civilian employment⁶ was 10.84 million in 1990. The decline started in 1992 and continued throughout the nineties down to 8.42 million in 1999 (or -22% since 1991). Since then it rose by 3% to 8,68 in 2001. Since 1990, total employment declined by 2,16 million or 20%.

The employment rate for the 15-64 stood at 63.6% in 1994 and rose up to 67.7% in 1996⁷. Since then it has been declining and in 2001 was back at its level in 1994, slightly below the EU average of 64%. The decline observed since 1996 is largely accounted for by the decline of men's employment as the restructuring accelerated and concentrated on male dominated sectors. The male employment rate went down from 74.3% in 1996 to 68.9% in 2001, 4 percentage points below the EU average of 73%. Down from 61.1% in 1996 to 58.2% in 2001, women's employment rate remained significantly below that of men but above the EU average (54.9%).

The decline observed since 1996 was particularly strong for those aged 15-24 whose employment rate was down at 34.2% in 2001 and for the 45-54 (80.2% to 73.1%). Since 1996, the employment rate of the 25-54 stands at around 84%. The employment rate of the older group (65+) continuously increased from 31% to 37.5% between 1994 and 2001.

Employment by sector⁶

Since the beginning of the transition period, employment losses concentrated in industry and, to a lesser extent in services. Employment in industry has been continuously declining since the beginning of the nineties from 4.7 million in 1990 to 2.4 million in 2000. Employment in services displays a fairly irregular trend with successive periods of growth and decline resulting in a net decline by 9.4% between 1990 and 2000. After a peak at 3.3 million in 1991, it was down to 2.7 million in 2000.

After a substantial increase until 1994 (+ 16%), employment in agriculture declined by 10.5% the next year. Since then it has been growing again although at a much slower pace (+ 7.5% between 1996 and 2000). Total agricultural employment went up from 3.2 million in 1990 to 3.6 million in 2000.

⁵ Eurostat LFS data

⁶ Data from Civilian Labour Force (based on administrative sources)

⁷ See footnote²

Agriculture played a buffer role in absorbing the employment losses while due to the low growth and irregular development of the service sector; the reallocation of employment towards this sector has been marginal. In 1990, industrial employment concentrated around 44% of total employment while the remaining was equally distributed between agriculture and services (28% each). In 1995, employment was nearly equally distributed between the three sectors (34% in agriculture and in industry, 32% in the services). In 2000, agriculture was the main sector of employment (41.4% of total employment) and contributed for 23% to the employment of the working age population; services only represented 31.3% of total employment and industry 27.3%, and their contributions to the employment of the working age population were 17.6% and 15% respectively.

According to available information⁸, between 1995 and 2000, net employment creation was negative in nearly all industries. In services, main net job creators were retail and wholesale trade and other business activities, in industry, manufacturing of wearing apparel, dressing and fur dyeing, transformation of leather and extraction of gas and petroleum.

There are two major matters of concerns. First, the considerable size of agriculture with a share in total employment 8 times higher than in the EU (around 5% in the EU compared with 41% in Romania). Second, the insufficient and irregular development of the service sector resulting in a very low contribution to total employment (at 31% its share in total employment is 2 times lower than in the EU).

Employment in the public and private sector.

Employment in the public sector declined by 56% between 1994 and 2001⁹. Most of the decrease occurred since 1996 (-50%) as a consequence of the acceleration in the privatisation and restructuring of state-owned companies. While it still represented 55% of total employment in 1994, its share was down at 24% in 2001. Private employment grew by 60% between 1994 and 2001. Its share in total employment went up from 44% in 1994 to 71% in 2001¹⁰. Its share in the total number of employees went from 11% to 46%.

The development of the private sector has concentrated in agriculture where it already represented 91% of total employment in 1996 compared with 21% in industry and 28% in services. Although it appears to have accelerated since then, the development of a new private sector and of the privatisation progressed slowly in these two sectors. In 2001, private employment remained concentrated in agriculture where it represented 97% of total employment, compared with 57% in industry and 45% in services.

Available studies confirm that the privatisation and restructuring of large enterprises sector has been lagging behind until recent years. A new law no. 137/2002 approved in March 2002 creates scope for a future acceleration of privatisation.

There are still a substantial number of large loss-making state-owned enterprises in the main industrial sectors (mining, chemical, machine building, metallurgy...). In most counties, un-restructured firms still account for 5% and over of the total number of employees. The share is over 10% in 6 regions and goes up to 23% in one case.

⁸ OECD "Economic Assessment – Romania", June 2002.

⁹ LFS data; see footnote²

¹⁰ In addition to the public and private sectors, the mixed sector represented 5% of total employment in 2001 (mainly in industry and services)

The new private sector, in particular SMEs is the main driving force for economic transformation and job creation. In Romania, the SMEs sector accounted for 56% of total turnover in the economy in 2001. Their contribution to total employment is estimated to have substantially increased, from 25% in 1995 to around 50% in 2001. Over the same period, all job creation took place in the SME sector with an estimated total increase of 700 000 jobs, insufficient however to compensate for job losses.

As evidenced in various studies¹¹ there are a number of serious weaknesses in the business environment, which hamper the development of new businesses. While lending to the private sector has been growing strongly in the last couple of years, the total stock of credit is still very low and difficult access to finance remain an obstacle to enterprise development, especially in the SME sector. The clumsy and volatile legal framework is a main source of uncertainties for businesses and gives room for corruption. Romania has also a heavy administrative burden - including tax administration - related to both businesses setting and running.

Providing a stable legislative and administrative framework for developing SMEs and improving the business environment represents an important priority for policy making. A set of legal measures and administrative actions ("Action Plan for business environment") are underway to make further progress in this direction. This includes the principle of the one-stop-shop approach to set-up a business and the setting-up of a single Agency for Foreign Investment. It will be important to monitor whether they lead to the expected improvements.

Self-employment¹²

Self-employment has been on a growing trend since the mid-nineties. The number of self-employed and non-paid family workers increased by 11.8% and 9.7% respectively between 1996 and 2001. In 2001, according to the Romanian LFS, of the total employed population, 54.3% was employees, 24.1% self-employed, and 20.2% non-paid family workers. Employers, whose number has been decreasing since the mid 1990s, represented only 1.2% of the total employed population in 2001. Self-employment is nearly entirely in agriculture (89.2% of all self-employed) while 80.2% of the employers are in the service sector, in particular, in trade (62.8% of all employers).

Informal sector

Romania has a sizeable informal sector. Available information suggests that it has been growing from an estimated 20% of GDP in the mid-1990s to 49% in 1998¹³. Apart from non-declared units, the informal sector includes family associations, self-employed as well as employed in agriculture. An important part of the informal activities are estimated to be subsistence activities providing the main source of income.

According to the National Statistical Institute, the gross added value of the informal sector represented 156,5 billion ROL or 28,7% of the GDP in 1999 and 211,470 billion ROL or 26,4% in 2000 (preliminary data). The non-registered economy in the

¹¹ In particular, OECD *"Economic Assessment – Romania"* June 2002, A. Dochia *"New Private Firm Contributions to Structural Change in the Romanian Economy"*, paper presented at the Conference "Romania 2000-10 years of transition" organised by the Romanian Centre for Economic Policies and the World Bank on 17-18 October 1999.

¹² LFS data; second quarter.

¹³ Report from US Treasury 1999 by Gh. Cercelescu quoted by A. Dochia, op. cit.

informal sector was 29,2 billion ROL (5,3% of GDP) in 1999 and 39,32 billion ROL (4,9% of GDP) in 2000 (preliminary data).

According to estimates by the National Labour Research Institute the share of the labour force engaged in informal activities (either on a permanent or temporary basis) would range from 20% to 27% representing between 2,4 and 3,1 million persons.

The nature of the informal activities has an impact on the measurement of employment and unemployment, as some of those involved in the informal sector can be officially unemployed while actually performing a work.

Regional differences

In 2000¹⁴, the employment rate (for the total population 15 and over) ranged from 51.4% in the Bucharest and Ilfov region, well below the national average of 58.8% to 66.1% in the South -West region. However, a significant part of reported employment in nearly all regions is in agriculture and much of it represents low-productivity subsistence farming. Except for the Bucharest-Ilfov region, where the share of agricultural employment was only 5.7% of total employment in 2000, in all other regions, employment in agriculture represented at least a third of total employment, up to half and more in the South -West, North -East, and South regions, which also displayed the highest employment rates (66.1%, 64.2% and 60.2% respectively). Except for the Centre region where industry and services contribute equally (for around 30%) to total employment, in all regions, services represent a higher share in total employment. If agriculture is excluded, 3 groups of regions emerge:

- The Bucharest-Ilfov region, where nearly 60% of the employed population works in services, which together with industry represent 94.3% of total employment.
- The West and Centre regions with a share of employment in industry and services from 62% to 70%, services accounting for 31% to 35%.
- The remaining regions where employment in industry and services represents between 42% (North-East 44.2% and South-West 41.8%) and around 60% of total employment (North-West 59.1%, South East 54.8% and South 51.9%), the share of services being between 21% and 33%

Labour mobility

Both the migrations flows between urban and rural areas and the growth of employment in agriculture, suggest that labour force mobility has been substantial during the last decade. This is however not fully captured by the statistics, as a move from an urban to rural areas is not necessarily accompanied by a change from one sector to another. Some workers, although located in rural areas may well continue to have an industrial job and combine it with some agricultural activity on a permanent or seasonal basis. It is estimated that an important part of this dual employment is informal.

During the last decade, net mobility flows between counties were about 0.1% per year and never exceeded 0.5%. The most significant outflows were recorded in the counties of the Moldova region, the Southern part of the country and the North and Centre of Transylvania. According to the national LFS 2000, there is a high mobility within each main sector (94% in agriculture, 92% in industry and 91% in the service sector) while the mobility between sectors remains limited: 5% from industry to services, 3% from services to agriculture and from agriculture to industry.

¹⁴ Average annual data; LFS

2.3 Unemployment

There are two official sources of data on unemployment. The first relates to the number of unemployed registered with the Public Employment Services. The second is based on the Labour Force Survey started in 1994 and conducted in line with the internationally comparable unemployment definition set by the International Labour organisation (ILO). The description of unemployment trends below is based on LFS data¹⁵.

Overall trend

The unemployment rate had declined and stabilised at around 5.5% in the mid-1990s. The rise observed thereafter appears to come to a halt in 2001 where the unemployment rate stood at 6.5%, 6.9% for men (over the EU average of 6.6%) and 6% for female (below the EU average of 9%).

Unemployment is concentrated in urban areas. In 1996, the unemployment rate was twice as high in urban areas (8.4%) compared with rural areas (3.6%). The gap has widened since and in 2000, the urban unemployment rate was 11.7% compared with 2.4% in rural areas.

Unemployment rates remain relatively low for those with the lower educational attainments (4.0% compared with 3.9% for those with high skills in 2001).

Like in other countries, youth unemployment is higher than adults' unemployment. In 2000, unemployment among those aged 15-24 stood at 16.5% compared with 6.9% for those aged 25-54.

Long-term unemployment remains high despite the decrease of the overall unemployment level. In 2001, 48.6% (or 3.2% of the labour force aged 15 and over) had been out of work for one year and over, of which nearly 50% for 2 years and more. Long-term unemployment tends to be higher for women than for men. In 2001, the proportion of long-term unemployed among female unemployed was 50.3% (or 3% of the female labour force) compared with 47.4% (or 3.3% of the male labour force) for the male unemployed.

The variation in unemployment at regional level is not very marked. In 2000, all regions except two had an unemployment rate at or very close to the national average. Only the South-East region displayed an unemployment rate well above the national average (8.6% compared with 7.1%) while it stood well below (5.6%) in the South-West. Registration data however suggest that the variation in unemployment is much greater between counties within each of the planning regions. In January 2002¹⁶, the registered unemployment rates ranged from 5.7% in the Satu Mare County to 24.7% in the Ialomita County; around half of the 42 counties displayed a registered unemployment rate well above the national average of 12.4%.

2.5 Wages

It is important that at the macro-economic level, overall wage developments should reflect economy-wide productivity increases and thus support aggregate employment growth. At a more structural level, it is important that labour costs for lower-skilled workers should not discourage recruitment into moderately-paid employment, while

¹⁵ As in other countries, registered unemployment still diverges from unemployment measured in the LFS; data for second quarter

¹⁶ *Monthly Statistical Bulletin*, N° 1/2002, National Institute of Statistics.

at the same time the net wages offered to such workers should provide incentives for unemployed or inactive people to seek and take up work.

Wage developments

Available information¹⁷ suggests that the wage differentials between sectors increased during the 1990s (the standard deviation of inter-industry wage differentials increased 3 times from 16.2 in 1990 to 48.9 in 1998). However, over the same period, the relative wage structure remained fairly unchanged. Apart from the banking sector, where wages were lower than the average for the whole economy in 1990 but among the highest in 1998, the sectors having the highest wages in 1998 were the same as in 1990 (energy and coal mining, metallurgy, transports and chemical industry). Most of them corresponded to sectors dominated by *Regis autonomies*¹⁸ and showing a weak productivity trend.

Despite the restrictive wage policy imposed to the *Regis autonomies* in the second half of the 1990s, the situation remains broadly unchanged at the beginning of 2002¹⁹ with higher than average wages prevailing in those sectors where restructuring made little progress. Banking-insurance displays the highest nominal average net wage (more than twice as high as the national average) followed by petroleum processing (nearly twice as high as the national average). Energy, post-telecommunication, coal mining and petroleum extraction, have all nominal average net wages more than 50% higher than the national average. Wages are also high in the public administration (by 42.3%) while other service activities; in particular retail trade and hotels-restaurants have the lowest wages.

In general, at the beginning of 2002, real wages remained by 44% higher in the public than in the private sector²⁰. This may be partly due to the under-reporting of wages by private companies, in particular SMEs. Already mentioned studies suggest however, that this also reflects an increased wage differentiation based on educational premia in private companies. At the end of the 1990s, staff with lower skills and blue-collars earned in average 15% less in private than in state-owned companies. Relative wages are also below average in most industries creating jobs, including most of the services, except for petroleum extraction and financial intermediation.

As seen in section 1, in recent years, real wage growth appear to be more in line with the development of productivity at macro level. However, the authorities still have difficulties in controlling wage developments in the state-owned sector as shown by the repeated failure to meet wage bill targets agreed with the IMF.

2.6 Labour market institutions

The Ministry of Labour and Social Solidarity has the overall responsibility for elaborating employment and labour market policies, programs and national plans. It has also the responsibility to prepare the draft budget for the Unemployment Insurance Fund on the basis of proposals from the National Agency for Employment, to control its execution and the implementation of employment policies, strategies, plans and programs done by the National Agency for Employment and by the National Training Board.

¹⁷ *Background Study*, A. Dochia, op. cit., "Economic Surveys- Romania", OECD, 1998.

¹⁸ State-owned companies organised as public utilities.

¹⁹ *Monthly Statistical Bulletin*, N° 1/2002, National Institute of Statistics.

²⁰ "Economic Assessment – Romania", OECD, June 2002.

The National Agency for Employment is the main implementing body for labour market policies and programmes. The Agency established in 1998 as an independent public body, managed by a tripartite board started to function in January 1999 taking over an administrative department of the MoLSS as well as the existing network of county-level and local employment offices. The Agency's responsibilities have been confirmed by the recent law on "the unemployment insurance system and employment stimulation" (Law no.76/2002) entered into force in March 2002.

The setting-up as an independent body has been gradual. The current President of the Agency is also a Secretary of State at the MoLSS. The Agency plays an important role for employment policy, and has for example, been the main partner of the MoLSS, for the elaboration of Romania's first National Action Plan for Employment, which was approved in June 2002.

The Agency is responsible for job-brokerage as well as for managing active labour market programmes and organising adult vocational training programmes. It has also the responsibility of collecting the contributions to unemployment insurance to the Unemployment Fund and of administrating the Fund and to pay the unemployment benefits.

The National Adult Training Board, a tripartite, autonomous body set-up in 1999 (has a consultative role in promoting adult vocational training strategies and policies. It became operational in February 2000.

The National Commission for Employment Promotion is a new advisory, tripartite body set up by the new law on the unemployment insurance system and employment stimulation.

3 Identification of main priorities for employment policy

3.1 Strategic issues

After years of disappointing economic performance, successive, however incomplete reforms have managed to establish a sounder basis for growth and more supportive conditions for responsible fiscal and monetary policy-making within the context of a new stand-by arrangement with the International Monetary Fund agreed in October 2000. Reflecting this, macroeconomic trends and prospects have recently improved. In the medium term however, Romania faces major fiscal challenges and consolidation will be hard to sustain without a resolute reform of state-owned enterprises and a significant increase in tax compliance. Progress on structural reforms including enterprise reform, has been mixed and remaining structural weaknesses could endanger the recovery if reforms were not brought to completion.

The labour market is one of the areas in which reform needs to be accelerated. Although real wage growth has lately become more aligned with productivity gains, the authorities are still struggling to control the wage bill of public enterprises. Wage developments and formation do not sufficiently reflect productivity differentials by skills, occupations and regions and therefore do not provide appropriate signals for skills acquisition or for regional and occupational mobility.

Major parts of the industry still need to undergo substantial restructuring. The development of new small businesses and job creation in the service sector has been hampered by an unfavourable business environment. All this, adding to the productivity driven development of agriculture will raise considerable employment challenges in the next future.

Some of the main issues facing employment policy, based on the analysis in preceding sections, are:

- The existence of a dual labour market with a rural labour market concentrating more than half of the labour force and characterised by high participation, including in the younger and older age groups and very low unemployment (twice as low as in urban areas). Agriculture accounts for nearly one fourth of the working age population compared with around 18% and 28.6% for services and industry respectively. It concentrates nearly half of private employment and 91% of all self-employed.
- The restructuring of the economy has led to a strong decline in industrial employment. Agriculture played a buffer role in absorbing the employment losses while due to the low growth and irregular development of the service sector, job growth has been negative and the reallocation of employment towards this sector has been marginal.
- The development of the private sector has concentrated in agriculture and been much slower in industry and services. The new private sector has not yet reached a size enabling a sustainable growth of employment compensating for the job losses in the public sector. There is an insufficient development of small enterprises, which are the main source of job growth - in particular in services - which points to serious weaknesses in the business environment. The implementation of recently adopted measures may contribute to an improvement of the business environment.
(see section I)

- The participation rate has been slowly declining since the mid-nineties and stood below the EU average in 2001. The employment rate has been on a downward trend since the mid-1990s, and in 2001 was back at its level in 1994, slightly below the EU average of 64%. The male employment rate was 68,9% in 2001²¹, 4 percentage points below the EU average. At 58.2% in 2001, the female employment rate was significantly below that of men but above the EU average.
- The unemployment rate has increased since the mid-1990s but remains below the EU average. Unemployment is concentrated in urban areas. There is a substantial long-term unemployment (nearly half of the unemployed in 2001) and a high youth unemployment (their unemployment rate is 3 times higher than adults’).
- The skill level and structure of the labour force is a concern in an immediate and medium-term perspective. While the average educational level remains relatively low it increases since the mid 1990s; the qualifications held by many workers will not meet the requirements of the new jobs; the participation rate of young people in the education system is low at tertiary level, a certain group does not continue beyond compulsory education. All these features represent a major challenge given the important restructuring ahead and the need to support economic transformation by a stronger development of new sectors.

The remainder of this section discusses the principal policy fields that can have an impact on labour-market performance. Employment policy here is seen as widely defined – encompassing human resources policies, wages policy, the system of taxes and benefits, and the public employment service and its active labour market programmes. The discussion also deals with a number of “horizontal” aspects of policy – regional issues, equality of opportunity, and Romania’s preparations for the use of European Social Fund support for employment policy.

3.2 Human resources development

3.2.1 Initial education and training

Compulsory education starts at the age of 6 or 7 and comprises primary education (1st to 4th grades) and lower secondary (gymnasium) education (5th to 8th grades). The lower secondary education ends with a capacity diploma, which allows admission to the upper-secondary education. Upper secondary education in high schools (or lycées) consists of three alternatives – general/theoretical, technological and specialised. Education lasts 4 years in general high schools. Technological high schools offer three main streams - technical, services and protection of the environment. Specialised high schools provide training in the field of military, theology, sports, arts and pedagogy. All these schools allow access to higher education.

Vocational education is delivered by vocational and apprenticeship schools. Education lasts 1 to 2 years in the apprenticeship schools and generally 2 to 3 years in vocational schools²². The apprenticeship schools provide training for the students who do not pass the capacity exam or drop out of compulsory school. General and technological upper secondary curricula end with the baccalaureate examination,

²¹ Source: LFS, second quarter 2001

²² For certain trades it can last up to 4 years

vocational curricula with a school leaving certificate, attesting the qualification obtained²³.

Since the beginning of the 1990s, on the whole, enrolments in technological and vocational streams have tended to decline in favour of general upper secondary education. In the mid-1990s, around 30% of those enrolling in upper secondary went to general high school compared with 4% in the pre-transition period. At the same time, pupils tend to favour technological high schools over vocational schools, in particular apprenticeship schools (45% and 25% of the enrolments in upper secondary education respectively).

Participation rates of corresponding age groups were around 97% in primary education and 94% in lower secondary education in the second half of the 1990s²⁴. Participation was 67.8% in upper-secondary education in 1998, on a declining trend since the early 1990s and the share of those graduating is 71.5% in 2001.

Post secondary education includes non-university education delivered by "post-high schools"²⁵ (1 to 3 years). It also includes vocational schools for foremen, recruiting people having already a work experience. The Bacalaureate is necessary to access higher education. In addition there are entrance examinations for this level of education. Post high schools provide an advanced level of vocational training, including practical training in all specialities offered by vocational high schools as well as administration, banking, media etc.... Students obtain a vocational skills certificate upon passing the final examination.

Higher education comprises short-term education (colleges offering 3-year technological or pedagogical curricula), long-term education (universities with an education period to 4 to 6 years depending on specialities) and post-graduate education.

The beginning of the transition period was marked by a strong increase of private provision of higher education (at the moment, there are as many private as public institutions; both must have their curricula approved by the Ministry of Education and Research and a strong increase of the number of students (by around 59% in the first half of the 1990s).

The participation rate of the corresponding age cohort in post secondary and higher education was 21% in the mid-1990s (compared with 8% in the pre-transition period) and was expected to reach 30% by 2002²⁶ following an increased social demand.

Romania has also developed the provision of non-traditional forms of higher education, in particular open and distance education, addressing mainly adult students.

Issues and policies

- The dropout rates are estimated at 0.8% for compulsory education and at 3.5% for upper-secondary education as a whole. It is higher for vocational schools (6% in the mid-1990s)²⁷. This however may not accurately reflect the situation.

²³ The certification of vocational education in vocational schools occurs in several stages. Students can obtain a first certificate after 1,5/2 years giving access to unqualified professions

²⁴ *"Review of National Policies for Education – Romania"*, OECD, 2000

²⁵ Also named "post-lyceal schools"

²⁶ OECD, op. cit.

²⁷ *"Romania: Secondary Education and Training"*, D.H. Fretwell, A. Wheeler, World Bank Secondary Education Series 22857, Aug. 2001.

According to available information²⁸, related to the situation at the end 1990s, 17% of pupils starting primary education do not complete it and 3 to 5% of children do not enter school. Dropouts are also important in upper-secondary education, in particular in rural area.

- Participation in post-secondary education has been substantially increasing since the early 1990s but remains low.
- Families' poor social and material situation is the main reason for failure to enrol and to continue education beyond compulsory schooling. According to available studies, children from rural areas are particularly disadvantaged in that respect. In addition, imbalances in the provision of upper-secondary schools between urban and rural areas and between regions may partially explain why participation drops at this level. Although about 250 busses were allocated to the disadvantaged areas, the lack of transport facilities or their cost is still a serious obstacle for many children.
- Roma children appear particularly disadvantaged in terms of access to education. Most children of compulsory schooling age not entering school are Roma children. According to the Background Study, their school attendance has been decreasing in the 1990s and nearly half of those entering primary school will not finish it compared with 27% in 1987. The probability for a Roma to access to higher education is 0.007 compared with 0.12 for ethnic Romanians²⁹.

Various measures are being taken to address these problems.

According to the Law on Education (1995), the budget for education should at least represent 4% of the GDP. This level has been actually reached since 1999 and the budget planned for 2002 should represent 4.3% of the GDP. The same law made provision for deconcentrating funding responsibilities between the national and the county levels.

The reform of pre-university education has been progressively implemented, level-by-level, since the adoption of the comprehensive Education Law in 1995 and is expected to be completed in 2003. The reform of upper-secondary education started in school year 1999/2000. The reform involves the revision of curricula, of pupils' assessment, and of professional standards for teachers. There is the possibility to adapt general education curricula to local needs. The reform also established a national assessment and examination board.

From 2003 on, the Ministry of Education and Research intends to prolong the compulsory education by one year including the pre-school period. The main aim of the project is to gradually generalise the preparatory group with a view to train children for primary school education and life and to prevent school failure and drop-outs in compulsory education. The age of graduation will then correspond to the legal working age (15 year) for some activities.

In the pre-transition period, vocational training provision was closely linked to individual state-owned companies. The approach followed for the reform of VET consisted in developing a new model under a PHARE programme on a pilot basis including 75 vocational schools. The reform establishes new curricula, based on

²⁸ OECD op. cit.; *"Modernization of Vocational Education and Training in Romania"*, Romanian National Observatory, 2000

²⁹ *Background Study*

broader occupational standards (15-20) to be the basis for specialisation at upper secondary level after two first years of more general training focusing on transversal fields such as communication, languages, computer, entrepreneurship skills. The reform also includes teachers retraining, the decentralisation of responsibilities and the establishment of local partnerships between training institutions and the local communities, in particular employers, on a broader basis than in the previous system. The project started in 1997/1998 and was extended to the whole VET system in 1999-2000. In 1998, 154 vocational schools implemented the new occupational standards.

Apart from developing the new occupational standards, the Council for Occupational Standards and Assessment (COSA) set-up in 1999 plays a role similar to that of the national assessment and examination board in developing a new system of assessment and certification of the vocational competencies, based on occupational standards.

Following the expansion of private higher education provision, an accreditation system started being implemented in the mid-1990s. Reform objectives include the diversification of higher education programmes and provision, a better orientation of curricula towards market needs as well as a greater autonomy of individual higher education institutions in terms of planning, management and financing responsibilities. Financial mechanisms and support appear as crucial issues to support an increased capacity of higher education to meet the potential demand.

Within the programme for combating social and professional marginalisation, second-chance schools for children dropping-out before completing compulsory education have been launched on a pilot basis in 8 counties, with the support of NGOs. The Ministry of Education should extend it to 10 further counties. The target group are the 14-25-year olds who can complete their basic education and acquire a vocational training in 3 and a half-year. Access to apprenticeship schools has been opened to pupils having not completed their compulsory education. As a way to extend school provision in rural areas, such schools may be established as auxiliaries to schools providing compulsory education.

In localities with inhabitants belonging to different minorities, teaching is provided in the languages of the national minorities, the main one being Hungarian. In higher education, certain courses for students belonging to the Hungarian and German minorities are organised, at their request, in their respective languages. During the school year 2001-2002, 5,28% of all students study in their mother tongue.

Various programmes addressing disadvantaged groups are being developed with PHARE support, such as the 2001 Phare Programme "Access to education for disadvantaged groups focused on Roma" which implementation started in 2002. Policies to stimulate Roma's participation in education include reserved places for Roma students in educational institutions. Projects to be developed in 2002 with EU financial support include the training of teachers and school mediators who will work in disadvantaged communities with educational units enrolling a high percentage of Roma pupils and a strategy for decreasing the number of Roma drop-outs.

Further positive steps in improving access to health services and education for disadvantaged groups, in particular Roma include the adoption of new profession such as sanitary and school mediators in the Code of Professions. The school mediators are operating at local level to improve the relations and communication between the communities, in particular the Roma, and the education system. The comprehensive strategy for improving the condition of the Roma adopted by the Romanian government in April 2001 includes a number of measures addressing Roma children's

participation in education, one of which are the second-chance schools. However, available information does not enable to assess the stage of implementation of this strategy. Improving the capacity to assess these measures is necessary to review whether they achieve the expected improvement.

Assessment

There is a need to ensure full access to education for everybody. This implies first that all children can access compulsory education and complete it, second that access to upper secondary education is broadened. In that respect possible inadequacies in the territorial provision of general education, in particular upper secondary education should be urgently reviewed.

The establishment of second-chance schools is welcome and should be continued as foreseen. In addition, there is a need to address and prevent dropouts in upper secondary education.

The reform of vocational training should be completed and implemented as quickly as possible, including the re-training of teachers. The new curricula ought to allow for a sufficient adaptability to long-term needs of the economy given that major restructuring is still to come.

Romania should strengthen its efforts to substantially improve the provision of education for the minority groups, in particular the Roma, rapidly implement the related measures within the overall integration strategy and carefully monitor outcomes.

The deconcentration of responsibilities should ensure consistency in the allocation of resources and appropriate empowerment mechanisms, in particular the training of territorial and school staff for their new tasks.

Romania should assess whether its higher education provision is adapted to its needs in a medium-term perspective, ensure a balance between the autonomy and the accountability of higher education institutions and make progress in the implementation of the reform objectives. Broadening the scope of open and distance learning could be envisaged in that context.

Overall, educational reforms as outlined above will clearly require a major shift of resources.

3.2.2 Continuing training

According to the CVTS³⁰, in 1999, on the whole only 11% of the enterprises provided continuing training. Participants in CVT courses represented about 8% of all employees and 20% of the total staff of those enterprises providing training. The participation rate was similar for men than for women. Participation rates were at their highest in small enterprises in size bracket 10-49 employees (30% of the total staff of enterprises providing training compared with 19% in enterprises having 50-249 employees and 20% in the biggest ones). In terms of sectors, apart from financial intermediation, the highest participation rates were observed in community, social and personal services activities and transport.

Training for the unemployed is implemented by the National Agency for Employment. The training is organised by the county agencies, which establish every year a vocational training plan on the basis of surveys of local labour markets needs.

³⁰ Eurostat, *Continuing Vocational Training Survey in Romania*,

The courses are delivered either by their own vocational training centres or by authorised training providers under conventions.

At present the Agency training centres network comprises 15 vocational training centres subordinated to the county agencies (in 14 counties), 5 Regional Adult Training Centres, 3 Romanian-German Foundations and 1 Centre for the young unemployed in Izvorul Mureşului area. Vocational training providers need to be certified by the specialised commissions subordinated to the National Training Board.

Vocational training programs for unemployed include training, retraining, upgrading and specialisation. They may comprise periods of practical training or specialisation. Access to the above-mentioned programs is possible only after participating in career information and counselling or job-matching activities. NAE's training centres are open to all unemployed as well as to persons threatened by unemployment or wanting to change their job; courses are also organised, at the employers' request, for persons who wish to be hired by these employers. In 1998, the latter represented 60% of participants to training courses organised by the PES³¹.

According to the 2002 budget, unemployed participating in training programmes would represent 5% of the total number of participants in active programmes which would correspond to 1% of the registered unemployed³².

Following the recent law on unemployment insurance and employment stimulation, unemployed taking part in vocational training courses continue to receive their unemployment benefit as well as free transport, learning materials, clothing and equipment to be used during the course. The expenditures are covered from the Unemployment Insurance Budget, which finances the vocational training of the registered unemployed. In 2001, around 16% of the Fund expenditures for active measures were spent on training.

Issues and policies

Although branch collective agreements generally contain a training clause, training their employees is not considered as a priority matter by the enterprises. This can be accounted for by several factors: the overall poor financial situation of enterprises and the lack of fund to allocate to training; the absence of incentive mechanisms for employers; the fact that employers fail to see training as an investment and a factor for competitiveness and lack the skills to identify their training needs. According to the CVTS2, 78% of those enterprises not providing training at the time of the survey considered that their staff had skills corresponding to their needs and 64% that they could find people with the skills needed on the job market.

In the early 1990s, training and retraining were the main measures offered to the unemployed. When it set-up as an independent body, the PES (then National Agency for Employment and Vocational Training) was put in charge of promoting adults' training. Up to 20% of the Unemployment Fund could be used for training the unemployed, including those dismissed with severance payments. Until the coming into force of the Law no. 76/2002 on the unemployment insurance system and employment stimulation, the expenditures for training were covered from the unemployment fund budget only for the unemployed receiving benefits. With the new

³¹ "Labour Market and Social Policies in Romania", OECD, 2000.

³² Based on 2001 data on registered unemployed.

law, vocational training measures are granted free of charge to all unemployed regardless of whether they receive unemployment benefits or not.

In order to support the development of a more appropriate continuing vocational training system, the MoLSS will be the Implementing Authority, from 2003 on, for a new Phare twinning project “Continuing Vocational Training”.

Assessment

At the moment, participation in training is extremely low for those unemployed and for those employed. Fundamental problems such as employers' attitude towards training, the lack of funding and incentives for employers and workers need to be addressed as an urgent priority in a context of major on-going and future restructuring. To be meaningful, such an effort should closely involve the social partners in designing the continuing training offer, financing, monitoring and evaluating training programmes.

In the present context of Romania's labour market people with the lowest educational skills still have a relatively lower unemployment rate than those with medium educational skills while, there is a 30 percentage points gap between the employment rates of those with high and low skills. The training of the unemployed is likely to be a major challenge in the next future in the light of further restructuring to come. It is of crucial importance if Romania wants to have a labour force able to meet the requirement of the new sectors and jobs.

3.3 Wages, taxes and benefits

Three features of the labour market can be seen as potential factor of influences on whether wage developments are “employment-friendly” – the overall process of wage-formation, the impact of taxation on labour income and the design of income maintenance systems for the unemployed.

3.3.1 The process of wage formation

The legal framework for wage determination is set by the Law no.14 /1991 on wages. Wages in companies are established by collective or individual agreements between employers and employees or their representatives. The legal framework for collective agreements is the Law 130/1996 amended in 1997. Collective framework agreements are negotiated each year at national level for each sector. They set the minimum gross wages for an unqualified worker and on this basis, minimum coefficients for other basic wages, bonuses and other facilities (including paid leaves). At local level, social partners determine an enterprise-specific minimum wage at least as high as the minimum wage agreed nationally and qualification coefficients based on those set in the national agreement. Multiplied by the enterprise minimum wage they determine the basic wage for each job. In the framework of the IMF agreement, the authorities committed to ensure that in 2002, collective agreements do not link the wage scale to the economy-wide minimum wage.

In 2001, 35% of the companies with more than 20 employees³³ (50% of state-owned companies, 35.7% of private companies and 13% of companies with mixed-capital) were covered by collective agreements. Although the law on wages foresees an autonomous wage determination also in the *Régies autonomes*, in this case, like in the

³³ Legal limit for having collective bargaining

public administration, the government in consultation with the trade unions determines wages.

The government has the possibility to adopt indexation and compensation regulations to limit the decline in real wages³⁴. Quarterly indexations of wages on the increase in consumer prices determined after consultations with the trade unions and introduced in the public administration in the mid-1990s served also as recommendations to other employers.

At different moment, the government made use of the legal possibility of imposing wage controls on a temporary basis (up to one year). Various types of wage controls have successively been applied (wage freeze, ceilings to individual wages, wage bills or average wage), usually as part of the conditions agreed in the context of IMF arrangements. Under the latest agreement, the Romanian authorities committed themselves to limit the average growth in state-owned companies to 22% in 2002 (implying some 3% reduction in real terms) through a combination of lay-offs, limits to wage increases and cuts in bonuses. Implementation has however, fallen short of this target so far.

The indexation on expected inflation was abandoned for the budgetary sector at the end of the 1990s but reintroduced since. In 2002, in this sector, the aim is to freeze the wage bill in real terms given forecasted inflation. Wage funds budgets approved end 2001 were in line with this objective but are currently overshooting.

According to the Law on wages and its amendments, the economy-wide gross minimum wage is set by Government Decisions after consultations with the social partners. After a doubling in 2000, the minimum wage was further increased by 40% in 2001 and by 25% by the last adjustment in March 2002 which set the minimum wage at 1,750,000 ROL, an amount corresponding to 34% of the average gross wage. While according to available information related to the end of the 1990s³⁵, an estimated 4% of the employees earned the minimum wage, many being seasonal workers, the agreed sectoral minimum wage can be formally or de facto linked to the economy-wide minimum wage.

As seen in previous sections, despite recent improvements of wage developments at macro level, the relative wage structure continues to be distorted in favour of the public and state-owned sector and does not correspond to a functioning market economy.

Assessment

Income policy in Romania should continue to support the reduction of inflation and budget constraints of public enterprises in the context of IMF agreements.

In the present context of Romanian economy and labour market, wage-setting mechanisms can only play their role in a comparatively small part of the economy.

The reform of the wage setting system is an important element in labour market reforms. It should ensure that wage developments are employment friendly while contributing to macroeconomic stability.

³⁴ "The labor market in Romania", G. Oprescu, paper presented at the Conference "Romania 2000 - 10 years of transition"

³⁵ "Labour Market and Social Policies in Romania", OECD, 2000

Social partners and the government should progressively develop - in line with overall economic and labour market reforms - wage setting mechanisms which adequately reflect productivity, skills and regional differentials.

3.3.2 Taxes and social contributions

High levels of taxation on labour (including the impact of social contributions) can depress the demand for labour in the formal economy while encouraging the growth of informal and subsistence activities. The overall impact of taxes and contributions can be summarised in terms of the tax-wedge³⁶.

A new law adopted in 2002³⁷ regulates personal income tax. Income tax is levied on an individual basis, directly, on each income. A basic personal deduction of 1,600,000 ROL is applied to determine the taxable income. A further reduction equivalent to 50% of the personal deduction (or 800,000 ROL) per member is applied for each member of the family supported by the taxpayer, independently from the income amount. Taxation rates vary between 18% (applying to taxable incomes up to 1,800,000 ROL) and 40% (applying to taxable incomes of 10,200,000 ROL and over).

Incomes from small agriculture holders are taxed at a flat rate of 15% applied to the net income after expenditures determined on the basis of income standards established by county directorates taking into account the surface of land and the type of crops as well a regional parameter. The standards are established at county level by the directorates of the Ministries of Finance and Agriculture.

Social contributions cover contributions to social insurance, unemployment insurance, and health insurance as well as a contribution to the State fund for handicapped persons³⁸. The rates of contributions are 35% for social insurance (one third paid by the employee and two third by the employer), 6% for unemployment insurance (1% for the employee, 5% for the employer), 14% for health insurance (with an equal share paid by the employer and the employee) and 2% for the contribution to the handicapped fund only paid by the employer. Together, they represent 57% of the gross wage (37.3% paid by the employer and 19.7% by the employee)³⁹.

The tax wedge can be estimated at 48.2% for a single person at the average wage, at 45.4% for a single earning 67% of the average wage and at 38.3% for a single earner with 2 children.

Issues and policies

Payroll contributions are high and are the result of a growing financial burden of social security insurance. The erosion of the tax revenue due to declining employment is aggravated by the numerous exemptions and the high non-compliance with tax payment.

Partly in response to the financial difficulties of the pension system, the statutory rate of social contributions increased substantially since the mid-1990s from 35% in 1997 to 43% in 1998 and nearly 60% in 2000. Social contributions include contributions to

³⁶ Calculated as the sum of income tax plus employer's and employee's social contributions, as a percentage of total labour cost (the gross wage plus the employer's social contribution).

³⁷ Law No 493/2002

³⁸ This Fund pays for example, allowances for handicapped children, indemnities to persons taking care of handicapped persons, transport costs and facilities for handicapped persons.

³⁹ The employers' rate of contribution for social insurance goes up to 40-45% in the case of specific working conditions bringing the total rate to 62-67%.

various special funds, which are decided on an ad-hoc basis and complement the budgets of the public administration and paid by the employers.

According to available information⁴⁰, this practice has expanded in the recent years as a result of the constraints on the state budget deficit put by the IMF agreements. In recent years the marginal reductions of the overall social contributions came from the abolition of such special contributions or of their reduction. The 2% contribution for the financing of the public education system was recently abolished. The rate of contribution to the Handicapped Fund was decreased from 3% to 2% in 2002 and should be fully abolished in 2003. It is the government's intention to also review the contributions to unemployment and health insurance and to reduce the overall rate of social contributions to 52% in 2003.

According to the Ministry of Finance, in the next future priority will be given to lowering the maximum rate of income tax from 40% to 30% that would bring it to the same level as the equity and corporate taxes. Another measure, to be applied from 2003 on is the full exemption of income tax for certain occupations (such as software designers, programmers and system engineers) in order to retain this skilled labour in Romania and limit the brain drain phenomenon.

The present system of taxation of small agricultural activities, introduced in 2000 is a first step to establish new habits and "culture". A substantial distortion exists across the territory as the determination of income standards are partly left at the appreciation of the relevant district administration. In the next future, the intention is to move towards effective tax collection by applying taxation on the registered income.

Under specific work contracts known as "civil conventions" the employer and the employee had no obligation to pay their social contributions. Such contracts were in particular used instead of labour contracts in the case of work of a limited duration and temporary work. A new draft bill aims at limiting the "civil conventions" to specific independent activities (service contracts limited in time) while introducing a fixed-term labour contract.

Assessment

Given the level of economic development, the tax wedge and the tax-burden on labour are high, in particular at the lower end of the wage scale. This represents a major barrier to the creation of jobs, in particular at relatively low wages and a disincentive for the unemployed or inactive to take up such jobs.

Moreover, high social contributions and tax-wedge encourage the development of employment in the informal sector. In addition to the effective implementation of the measures taken to reduce income taxes, Romania should give priority to a review of its payroll taxes.

Enforcing compliance with tax payment is clearly a pre-condition for reducing the tax burden in the medium-term.

3.3.3 Income support for the unemployed

The unemployment benefit system was reformed in March 2002 within the framework of the new law on the Unemployment Insurance System and Employment Stimulation (Law 76/2002).

⁴⁰ A. Dochia, op. cit.

Unemployed persons registered at local Employment Agency are entitled to unemployment benefits if they have contributed to the unemployment insurance for at least 12 months during the last 24 months prior to their registration. Eligibility for unemployment benefit is conditioned by a monthly visit to the PES and participation in training or other employment stimulation measures offered by the PES. The unemployment benefit is paid for 6, 9 or 12 months, depending on the person's previous insurance records (up to 5 years, between 5 and 10 years, 10 years and over). One year of contributions is the minimum requested. Recipients finding a job before the end of their entitlement period continue to receive 30% of their benefit amount for the time remaining until the end of the period. The monthly unemployment benefit is a flat amount fixed at 75% of the gross national minimum wage (or 1,312,500 ROL at present) and is tax-free.

Unemployment benefits can also be granted to jobless young graduates and young people returning from military service meeting specific conditions⁴¹. In this case, the unemployment benefit ("integration allowance") is also a flat amount of 50% of the gross national minimum wage and is paid during 6 months maximum.

At present, the unemployment benefit represents 23% of the net average wage earnings.

Severance benefits are paid by the PES through the Unemployment Fund to workers laid-off from state-owned enterprises under restructuring and/or privatisation. They are granted without conditions regarding work search or take-up. Since the adoption of restrictive conditions in 1999 and 2000, they are limited to the companies under the PHARE-RICOP programme; for the persons laid off from other enterprises the severance payments can be granted out of the companies' own funds. There were 30,000 beneficiaries in April 2001 compared to 600,000 between 1997 and 1999. In 2001, 73% of the registered unemployed received unemployment benefits⁴²; 41% received the full benefit, 47.5% the reduced benefit (after 9 months unemployment); young graduates from upper secondary and university represented 29% of the recipients.

Social assistance includes an income support paid by the municipalities and based on the minimum guaranteed income (MGI). At present, there are 5 levels of MGI according to the family size ranging from 630,000 ROL for a single person, to 2,331,000 ROL for a family of 5 persons⁴³. They are reviewed annually on the basis of the consumption prices. The income support is a monthly cash payment granted to the family and calculated as the difference between the family's actual income and the relevant MGI. Child allowances⁴⁴ are included in the determination of the family's income. In addition, monthly heating allowances (amounting to 250,000 and 500,000

⁴¹ Young graduates eligible for unemployment benefits include those aged 18 and over who are without a job within 60 days from graduation and graduates of special schools for disabled people or educational institutions. Young people having been jobless before their military service and remaining without a job within 30 days from its completion are also eligible.

⁴² This ratio relate to the previous benefit system. Recipients of severance payments are not included.

⁴³ An additional amount of 157,000 ROL per person is added for families bigger than 5 members.

⁴⁴ Family benefits are part of the social assistance system. The following family benefits are granted: state child allowance paid monthly for each child until the age of 16 (or until the end of high school if the child continues education) the present amount being 180,000 ROL; supplementary allowance for families with children that increases progressively with the number of children (50,000 ROL for 2 children, 100,000 ROL for 3 children and 125,000 ROL for 4 and more children).

ROL depending on the type of heating) are paid during the winter season. For a single adult with no other income, the income support equals the corresponding level of the MGI (630,000 ROL); it is 1,603,000 ROL for a family of four (2 adults, 2 children) with no other income.

The beneficiaries of the minimum guaranteed income without job must be registered at the agency for employment and are obliged to work 72 hours a month in community work programmes.

There are no data on the number of registered unemployed receiving income support from the social assistance. The number of families receiving income support sharply declined from around 600,000 in the mid-nineties to 28,000 at the end of 2001. During the first 4 months of 2002, 517,000 claims were registered and 375,857 accepted.

The income support from social assistance represents 16% of the net average wage earnings for a single person, 30% for a family with 2 children with one earner.

Issues and policies

The coverage of registered unemployed by unemployment benefits remains high even if it is now lower than at the end of the 1990s (77%). There is no clear information on the coverage of unemployed by income support from social assistance. It is likely that for a substantial share of the unemployed who are not or no longer entitled to unemployment benefit, in particular long-term unemployed, social assistance is the only income support available.

The important gap between the registered unemployment and the unemployment according to the LFS (*see 3.4.2*) points to possible difficulties in controlling for benefit eligibility.

The unemployment benefit system has been changed several times since the beginning of the transition period. The last reform from March 2002 reduces the maximum duration of unemployment benefits from 27 months to 12 months. It re-introduces the minimum wage as the reference for the calculation of unemployment benefits, which had been suppressed in 1997. The basic benefit amount then represented 40% to 60% of the average earnings, with a ceiling at 55% of the average wage in the economy. It was reduced to 60% of its initial level after 9 months. The new system maintains the flat rate unemployment allowance (Vocational integration allowance) for the school leavers. The changes in eligibility criteria, in particular the age criteria (minimum age of 18) might restrict the group eligible (under the previous system, all young people having completed their secondary or higher education could be eligible).

The last reform of the unemployment benefit is presented as one level of a broader activation strategy. The reform sets conditions for benefit recipients (monthly visit to the PES, proof of job search with 2 enterprises, cutting of benefits if the unemployed refuses a training or job offer). Both the amount and the shorter duration of the basic unemployment benefit are expected to provide higher incentives to take-up a work. At its present amount, the unemployment benefit represents approximately a 15% increase compared with the average benefit under the previous system. According to the Employment Agency, the problem was less the average level of benefits than the share of those who, under the previous system, received an unemployment benefit higher than the minimum wage (estimated at 27%). The reference to the minimum wage also puts an end to the widespread practice consisting in raising the wages of

those to be dismissed in the last months preceding the lay-off in order for them to get higher benefits. Finally, although inflation is now down from its high levels of the last few years and tends to stabilise, a further reason more related to income policy concerns is that this system ensures a regular adjustment of the benefits to the level of inflation.

Unemployment benefits are administered and paid by the National Agency for Employment (NAE) from the Unemployment Insurance Fund. The only resources of the Fund are the contributions to the unemployment insurance⁴⁵. The last deficits in 1999 and 2000 were covered by a loan from the Treasury, which has been fully refunded. Severance payments represented up to 54% of the Fund expenditures in 1997 but were down to 10,8% in 2001 following the limitations brought to severance payments. The Fund's budget yielded surpluses in 2001, and is expected to do so again in 2002. It is considered by the NAE as appropriate to face the likely increase of lay-off expected to result from the pursuit of the restructuring process in the coming years.

Employers' lack of compliance with the payment of their social contributions is a matter of concern. The Agency recently engaged a successful campaign to improve the collection of contributions to the unemployment insurance. County agencies made systematic controls of the companies at fault of payment, using legal prosecution if needed. The next measure envisaged to improve the contributions collection would consist in establishing a single institution for the collection of all social contributions under the responsibility of the MoLSS. The control of payments to the unemployment insurance was already merged with the equivalent department in charge of social insurance at the MoLSS in January 2002.

In 1992, the White Paper on social assistance laid the foundations for the reform of social assistance, which until then was essentially directed at people placed in institutions, the only general service being the provision of free meals in social canteens. The idea of a minimum guaranteed income was part of the reform envisaged, together with a revision of the family benefits and the developments of care services at home. The general programme for means-tested cash assistance calculated on the basis of the MGI was introduced in 1995 and responsibilities for its financing and implementation placed with the municipalities. After a rapid take-up, the implementation virtually came to a halt as municipalities were enabled to finance.

The revision of the system brought by the last reform⁴⁶ in January 2002 introduces new financing principles, which guarantee that the amount necessary for the income support is earmarked in the town budgets and provide for transfers from the State budget. The levels of the MGI have also been raised and child allowances are now taken into account in the families' actual income for determining the amount of the income support.

The law sets the levels of the MGI but there are no common rules to determine the actual income of the families and each municipality uses their own methods. The information is collected at municipal level by the some 3000 municipalities but is not centralised at national level. The Ministry is therefore not in a position to monitor or control the implementation. An evaluation of the implementation of the new law is

⁴⁵ Subsidises from the State budget are legally possible in case of budget deficit but were never used.

⁴⁶ Law N° 416/2001 on Minimum Guaranteed Income

foreseen in the framework of a project supported by the World Bank and should be carried-out until the end of 2002.

According to the Romanian authorities, there are deficiencies in the control of the obligation for the unemployed receiving income support from social assistance to perform 72 hours work in community programmes. The impact of this obligation on participants' chances to get back into a sustainable job or in maintaining their links to the labour market is also a matter of concern.

Assessment

A well-designed unemployment benefit system is important to facilitate economic restructuring, to provide income support to the unemployed and to maintain their link to the labour market.

Romania should monitor the implementation of the new unemployment benefit system, review possible inadequacies in the control of eligibility and the encouragement of active job search.

On the basis of the evaluation of the implementation of the reform of social assistance, Romania should ensure that appropriate systems are put in place for a full scale monitoring and control. The follow-up of implementation should also pay attention to how the two benefit systems interact. There is also a need to review the linkage to active measures offering employment opportunities or training so that the new system encourage an active search for work and help maintaining beneficiaries' links to the labour market.

3.4 Active labour market policy and the public employment service

Training and retraining measures for the unemployed were the first active measures put into place at the very beginning of the transition period. The need for other measures, enabling to support employment emerged progressively and became particularly urgent after 1996-1997 when the privatisation and the restructuring accelerated and resulted in massive lay-off. Romania then introduced recruitment incentives for hiring young graduates and loans to SMEs to recruit unemployed persons. The loan agreement with the World Bank in 1995 marked the real start of active programmes on a significant scale. However they remained limited to unemployment benefits recipients. The agreement not only provided financial resources but also support to diversify the types of active programmes on offer and to the PES capacity building (in terms of equipment and training of the staff involved in the implementation of active programmes). The new agreement concluded in 2001 as well as other donors' contributions continue to support active measures in addition to the recent reform.

The new legal framework (Law 76/2002 on Unemployment Insurance and Employment Stimulation) builds on the experience gathered through the World Bank supported projects and provides a broader framework for active labour market programmes, in particular by widening access to all unemployed and not only benefit recipients.

3.4.1 Active labour market programmes

The planned budget for active labour market programmes from the unemployment Fund was 1,755,768 million ROL in 2001, representing 16.3% of the total labour market expenditures and 0.15% of GDP. Actual expenditure was by approximately 36% below the amount planned. According to the budget for 2002, active labour

market expenditures will amount to 3,170,041 million ROL or 22.9% of the total labour market expenditures and 0,22% of GDP. Additional funding continues to be provided through loans from international organisations.

A total number of 201 000 participants in active programmes is planned for 2002.

The main active measures are recruitment incentives to employers, training and retraining programmes, support to job creation in SMEs and to business start-ups, community work programmes and mobility grants.

Recruitment incentives represent 32.3% from the total expenditures planned for active programmes in 2002, support to business start-up 31.5%, public works within the community 19%, vocational training 5.87% and mobility measures, 11.25%. In terms of participants, the foreseen distribution of participants is as follows: 65% will be addressed by recruitment incentives, 17% by community work schemes, 8.6% by support to SMEs and business start-ups (including counselling) and 5 and 3.6% respectively by training and support to mobility.

Employment subsidies can be granted to employers for a maximum period of 12 months, at the request of local public authorities, for each unemployed person hired with an individual labour contract for community public services and social services. The subsidy is 70% of the minimum national wage for each unemployed person. Other recruitment subsidies for the young graduates, the disabled and those above 45 years differ in duration and level depending on the nature of the contract and its duration.

Support to SMEs creating jobs, to business start-ups or independent activity includes the provision of counselling and assistance and the granting of low-interest loans (50% of the interest rate of the National Bank) for maximum 3 years. The counselling and assistance is free for unemployed receiving unemployment benefit. SMEs must recruit at least 50% of the new staff among registered unemployed.

Mobility grants correspond to a lump-sum payment amounting to two minimum wages if the unemployed takes up a job in a place distant from more than 50 km from the place of residence, to seven minimum wages if there is a change of residence.

Issues and policies

- Passive measures continue to represent the bulk of labour market expenditures financed via the Unemployment Fund. The level of resources and the funding mechanism may be a problem in the medium-term when Romania has to face major restructuring challenges and a likely substantial increase of unemployment.
- The impact of the measure on the various groups addressed should be evaluated in order to ensure an appropriate targeting.
- Training measures have only a marginal place. While at present, the unemployment rates of the lower qualified remain low, the situation might change dramatically with the pursuit of restructuring and call for a substantial strengthening of training provision in active programmes.
- Information on expenditures in and beneficiaries of active programmes relates to different frameworks for active policy and it is therefore difficult to quantify rigorously and to compare over time. It is necessary to improve the monitoring of the development of the active measures, as well as of their

effectiveness, in order to provide a sounder basis for the policy planning in the field of employment.

Until the mid-1990s, active expenditures represented less than 2% of the total expenditures of the Unemployment Fund. They reached a maximum of 15% in 1995, and declined sharply in the second half of the 1990s when they represented under 2.5% while some of the active programmes were funded through the World Bank and other donors. Although the Fund budget renewed with surpluses in 2001, after several years of deficit, actual expenditures on active programme this year fell short of the amount planned. According to the National Agency, in 2002, the resources should allow for financing the active programmes as foreseen. The resources from the Unemployment Fund can now fund community work programmes while until now they were through the World Bank loan.

3.4.2 The public employment service

An effective employment service is an important instrument of employment policy in a period of economic transition and restructuring. The PES has a critical role in people's adjustment to changed circumstances – supporting and encouraging mobility and flexibility, by helping people identify and acquire the skills, attitudes and other attributes that are required in new and developing areas of the economy. Particularly in the context of a dual labour market and in the perspective of the further restructuring of the economy in Romania, there is a need for a more active and preventive approach to unemployment. The capacity of the PES to develop such an approach depends in part on the level of resources devoted to it and on how these resources are deployed.

Apart from the central headquarters in Bucharest, the National Agency for Employment has 42 regional agencies (one in each county) and 177 local agencies. In addition, there are 73 local desks established in smaller localities and “working points” in mono-industrial areas or big companies undergoing restructuring. 2 to 5 persons seconded from the local agencies operate desks and working points.

The services provided by the local agencies include the registration, the control of eligibility for benefits, the first support to the unemployed under the form of counselling, job brokerage and the provision of an appropriate offer in terms of active measures. Apart from their administrative and financial functions, county agencies are in charge of organising the training programmes for the unemployed and of delivering the other active programmes.

There is an important gap between the registered unemployment and the unemployment according to the LFS. Since 1997, the number of registered unemployed has been higher than the number of unemployed according to the LFS, in a proportion varying between 30% and 18% (in 2000).

NAE has presently a total staff of 3695, distributed as follows: 200 at the headquarters, 2100 in the county agencies, 1247 in the local agencies and local desks, 148 are transferred to the General Directorate of Labour and Social Solidarity for control activities and 40 within the regional adult training centres. The current staffing at local and regional levels represents an average ratio of one staff per 182 registered unemployed (average for 2001). There are substantial differences between the territorial agencies depending on the economic and other relevant features of the respective county.

The Agency is financed from the unemployment insurance budget, with a ceiling of resources at 5% of the total of annual expenditures.

The National Agency expects to complete the implementation of an integrated information system by the end of 2002. The system has a three-level architecture. The information collected from their clients (jobseekers and employers) by the local agencies feeds in two databases (on job vacancies and on jobseekers) and is transferred daily to the county agencies and the national databases. In 2001, all regional and local agencies (including local desks) were equipped with new hard- and software platforms.

The Agency has started implementing an electronic job-matching system, which ensures an automatic matching between the offer and the demand according to a set of standard criteria and national or international classifications. This service is free for all PES clients and accessible via Internet.

The PES has started implementing a project aiming at developing "Career Information and Counselling". The main objectives are to elaborate occupational profiles, to train counsellors and persons in charge of career orientation and to inform jobseekers on career orientation via various supports, including interactive computer programs. At present, 136 Career Information and Counselling Centres operate at the level of the territorial structures of the National Agency for Employment, in 130 localities; by 2004 their number is expected to reach 227. In 2001, 135,642 persons were counselled through such Centres.

Issues and policies

- The staffing of the NAE should be a matter of permanent concern and, where appropriate, adjusted in order to allow it to deliver services consistent with the needs of the labour market in an efficient way and to implement effectively the new active strategy initiated by the last reform.

In 2001, the Agency introduced a management by objective supported by quantitative financial and employment indicators and targets. The objectives are set at national level in a contract between the Agency and the MLSS and at county level in a contract between the Agency and each of the county agencies. In the contracts with the county agencies, the overall employment targets set at national level are broken down in more detailed objectives - by measures or target groups - taking into account the specific situation of the local labour market.

One of the priorities of the NAE until 2004 is to improve the quality and the efficiency of its services. This will imply a series of new developments. The first consist in improving the coverage of the territory. This will be done without creating new local agencies but by strengthening the implementation and the role of those existing in their area. At present local agencies do not always provide the whole range of services to the unemployed and to the employers. Their attributions will be extended and in the future, local agencies should be able to organise the training and re-training activities for the unemployed and to provide and administrate the various incentives for the employers. The objective is that any client of the PES, employer or unemployed can reach the services they need within 45 minutes. If necessary, additional temporary units will be opened in areas in need (areas experiencing company restructuring or difficult to access in winter). A further objective is the reduction of the waiting time for the clients from 15 to 10 minutes.

The elaboration of standard working procedures for all local agencies is expected to be completed by end 2003. The first step will be the inventory of the activities of the NAE in which territorial units will be involved.

Due to budgetary constraints, the initial objective of a total staff of 6,000 envisaged when the PES was established, as an independent body was never met. Services like the career information and counselling centres and the training centres appear particularly understaffed. The 5 training centres of the NAE have a total staff of 40, the 136 counselling centres of 175.

A comprehensive training programme was designed to prepare the staff of county and local agencies to the implementation of the new active strategy launched by the last reform and of the new information system. The training started in 2001, before the reform entered into force and should be completed by the end of 2002.

Assessment

Until now unemployment has remained relatively low but the situation might change dramatically in the next future as major restructuring of the economy are still ahead. The last reform provides a wider framework for an active policy. However, Romania should review the funding arrangements, the level of resources as well as the provision of active programmes their targeting and impact in order to be adequately prepared to meet the future challenges and enable active policy to fully support and contribute to the transformation of its labour force.

The concentration of active programmes on subsidised employment and the evaluation of their impact deserves specific attention in that respect as well as the need to significantly expand the provision of training measures.

First steps have been taken to modernise the management of the PES. The priority given to improving the quality and efficiency of the services is welcome. The reorganisation of functions between the regional and local agencies is a necessary condition, which needs to be put in place rapidly. A review of the staff allocation between the regional and local agencies is necessary with a view to the successful implementation of the modernisation strategy and of the new activation policy. Registration practices need to be urgently reviewed so that PES resources and capacity are effectively allocated to activation and active support is effectively targeted at the jobseekers who need it.

Given the high level of long-term unemployment there is also a need to develop and implement an approach enabling to address the unemployed as early as possible with support and active measures adapted to their individual situation and needs.

3.5 Ethnic minorities

Romania has a wide variety of ethnic minorities, which represents 10.5% of Romania's population. According to the 2002 Census, the highest figures refer to the Hungarian minority that represents 6.6% (over 1.4 million) of the population, and the Roma minority, which accounts for 2.5% (over 0.5 million) of Romania's population⁴⁷.

In addition to the 2000 anti-discrimination legislation, the Law on Preventing and Sanctioning All Forms of Discrimination, adopted in January 2002, includes specific

⁴⁷ Estimates, between 1.8 and 2.5 million, are considerably higher than the official figures, which is at least partly due to the reluctance of some Roma to identify themselves as such.

provisions on setting up the National Council of Combating Discrimination, as an executive body of the central public authorities. By the end of September 2002, this body became fully operational, with specific responsibility for the implementation of anti-discrimination legislation.

With regard to Roma, the Romanian Government recognises the necessity to improve Roma situation through pertinent policies and legislative measures and has adopted a Strategy Document in 2001 as the result of co-operation between the Government and Roma non-governmental organisations. The Strategy's implementation requires active participation of the civil society, particularly of Roma communities, and of authorities at central and local level.

The social security measures of the package aim to improve access to services, integrate Roma into the new health insurance system, improve living conditions, develop vocational training and develop information and counselling programmes for women. The Ministry of Health and Family, in partnership with Romani CRISS, a Roma NGO, develops a training program for sanitary mediators – a new occupation in Romania – with the aim of improving the general health condition in Roma communities. The Ministry of Labour and Social Solidarity policy related to Roma is included in a legislative package and focuses on social assistance measures, including employment and professional training. The Ministry intends to develop partnerships with Roma NGOs and local authorities in order to include Roma traditional occupations in the Romanian Occupations Code. These measures should contribute to improving the social and labour market prospects of the Roma minority, their implementation and impact should be monitored.

3.6 Regional aspects of employment policy

As shown in section 2, there are substantial regional differences in employment performances. While in all regions except the Bucharest region, a significant part of reported employment is in agriculture; further differences in employment sectoral structure will be reflected in their vulnerability to future employment shocks resulting from ongoing and future restructuring.

Romania is divided in 42 counties and 8 planning regions that are the basis for designing, implementing and monitoring regional development policy.

The legal framework establishing responsibilities and structures for regional development is fairly recent in Romania.

Regional development matters are the competence of several ministries and agencies. The Ministry of Development and Prognosis is responsible for the elaboration of the National Development Plan, the implementation of cross-border co-operation programmes and the preparation and implementation of the economic and social cohesion part of Phare National Programme. There are three agencies responsible for the implementation of the pre-accession funds (ISPA, Phare, SAPARD) while the National Fund within the Ministry of Public Finance ensures the financial management.

The structures established include a national and regional development Boards as co-ordinating bodies and Regional Development Agencies in each of the 8 regions as implementing authorities. Such structures only include representatives from the local authorities. Conditions for a wider partnership involving socio-economic actors and other relevant local institutional partners still needs to be developed.

As seen in previous sections, the annual programmes for employment stimulation of the National Agency for Employment are based on proposals from the county agencies, reflecting the situation and needs of the labour market at this level. The new system of management by objectives used by the Agency provides a framework, which should allow to better adjusting the allocation and the use of resources for active programmes to the local labour markets.

One of the features of the on-going reform of vocational education is the establishment of local partnerships between training institutions and local players, in particular employers.

Addressing regional labour market problems requires two broad sorts of approach. One of these is that local actors (e.g. PES, municipalities, social partners etc.) should have the flexibility to respond to the specific characteristics of their own area, while respecting national policy priorities. It is also necessary that the allocation of resources between regions should adequately reflect the different needs of the regions. This is true not only in relation to the activities of the PES, but also across a range of other government policies that affect regional development.

Assessment

The establishment of regional and local structures for employment policy development and implementation may facilitate addressing regional labour market unbalances. In anticipation of major restructuring ahead, Romania should examine appropriate policy instruments including regional development strategies, promoting labour mobility and human resources development while ensuring an appropriate provision of active programmes across the territory. The PES management by objective system provides a framework in that respect. The implementation should be monitored.

Romania needs to develop approaches enabling all relevant local actors (PES, municipalities, social partners etc) to respond to the specific characteristics of their own area, while respecting national policy priorities.

It is also necessary that the allocation of resources between regions adequately reflect their different needs.

3.7 Equal opportunities policies

Women's participation rate is by 13.3 points lower than that of men. The employment rate of women is below that of men. A majority of discouraged workers are women in all age groups, in particular in prime working age groups (women represent 64.5% of the discouraged workers aged 25-34 and 57.4% of those aged 35-49 compared with 35.5% and 42.6% respectively for men)⁴⁸.

Agriculture is the main sector of employment for both men (38.6% of all employed men) and women (42.6% of all employed women) but more than 63.1% of women employed in this sector are unpaid family workers compared with 24.2% of men.

In terms of occupations, women are more likely to work as service and sales workers (12% of all employed women compared with 4% of men) and in professional and technical occupations (11% of all employed women compared to 6% for men). They are hardly represented in senior management jobs, which however represent a very

⁴⁸ Data from the LFS, fourth quarter 2001

low share of employment also for men (1.6% of all women employed compared with 3% for men).

Issues and policies

The legislation encourages the equal distribution of family responsibilities between women and men for child caring by granting paid and unpaid leaves to both parents; women remain however the main users. Related legal provisions mainly concern paid parental leave for children up to 2 years and paid or unpaid leaves to take care of sick children.

The Inter-ministerial Consultative Commission in the field of equal opportunities for women and men (CODES) established in 1999 aims at promoting the inclusion of gender dimension into the elaboration and implementation of the employment strategies. A National Action Plan on Equal Opportunities, adopted in 2000, envisages several actions aiming at ensuring equal access of women and men to active labour market programmes as well as at supporting women's employment in sectors where they are under-represented, including the creation of special vocational re-training programmes. The measures foreseen within this Plan are part of the first National Action Plan for Employment.

The new Law on gender equality initiated by the Ministry of Labour and Social Solidarity contains provisions on equal payment for equal work and measures for employees' protection against dismissals resulting from gender discrimination. This Law also aims at ensuring the effective application of the equal treatment principle for access to vocational training, promotion and working conditions. The establishment of a national body for implementation and enforcement will be prepared within the Phare 2002 framework

Women's integration into the labour market is addressed by the National Agency for Employment through its different target groups. According to its National Programme for Employment 2002, the National Agency for Employment foresees that women will represent 30% of those addressed by the various measures.

Assessment

It is important to ensure that legal steps already taken are followed by the effective setting-up of structures and mechanisms envisaged to support the implementation and enforcement of equal opportunities policies.

Romania should monitor the implementation of its efforts towards women to ensure that they are adequately targeted and able to meet immediate and future challenges.

3.8 Involvement of social partners in employment policy

The legal regulation of the representative employees and employers organisations is the Law No.130/1996 on collective labour agreement. At present, 5 trade-unions confederations and 8 employers' organisations are recognised as representative at national level.

Social partners are involved in the formulation and implementation of employment policies at several levels, through a range of tripartite advisory bodies.

The tripartite process at national level started in 1993 through the Tripartite Secretariat for social dialogue in which all trade unions and employers' organisations were represented. The Economic and Social Committee was created in 1997 and social dialogue Consultative Committees in each ministry was established in 2000.

The tripartite process led to the signing of a social and economic pact in 2000, which was renewed in March 2002 but not signed by two of the biggest trade unions, which recently signed a separate agreement with the government.

Social partners representative at national level are represented in the managing board of the National Agency for Employment (5 members from employers' organisation and 5 from trade-unions) and of the National Board for Adults' Training.

A tri-partite consultative structure with representatives from the local authorities and the social partners should be established for the managing boards of the county employment agencies. Members from the social partners' side would include representative from the central organisation in Bucharest in addition to local representatives.

The National Commission for Employment Promotion (see 2.6) provides a framework for further involvement of social partners in employment policy. Its activity started in September 2002.

Bi-partite dialogue exists in the field of wage bargaining as seen in section 2 although limited to social partners representative at national level.

Assessment

Various tripartite supervisory structures exist that formally ensure the involvement of social partners in employment policy. It is important that this framework is used to contribute to the quality and effectiveness of overall employment policies and to prepare them for future challenges.

Bi-partite dialogue should be enhanced in order to promote the adaptability of firms and their workforce in the face of major structural changes in the economy and to support the considerable reform agenda that Romania has to meet.

3.9 Preparations for the ESF

The European Social Fund (ESF) is the main EU instrument in developing human resources and improving the functioning of the labour market. In order to prepare for membership in the EU candidate states are required to set up certain institutional structures and to meet administrative and organisational requirements, ensuring effective, sustainable and professional management of ESF-type activities. This Joint Assessment Paper constitutes an important preparatory document for developing a national and regional strategy for potential assistance by the ESF after accession of Romania to the European Union and, until then, through the pre-accession PHARE programme. In the case of regional programmes implying a possible funding from the ESF the managing authority would be the Ministry of Development and Prognosis.

Several legal and institutional activities are already completed – in January 2002, the Government designated the Ministry of Labour and Social Solidarity as the Managing authority of the European Social Fund (ESF) and the National Agency for Employment as Paying authority with responsibilities for the implementation of the programmes supported by the ESF.

A twinning project proposed under the programming exercise Phare 2002 will start in 2003. The objective is to develop the institutional capacity of the Ministry of Labour and Social Solidarity (as Managing Authority) and of National Agency for Employment (as Paying Authority and with attributions for implementation), including the training of the relevant staff.

The focus is on enhancing the capacity to assess labour market needs and on developing capacity building for projects with pre-accession financial assistance from the EU.

Assessment

First steps have been taken to establish the institutional framework necessary for future ESF support after accession. The framework for implementation of the ESF needs to be developed and that should be done in co-ordination with the other structural funds.

Romania should rapidly implement concrete measures to ensure an appropriate capacity building for an effective management of the pre-accession and ESF support. This should include the training of civil servants in relation to EU structural policy, and ESF procedures and management, in accordance with their competence and role in the ESF administration system in Romania.

There is a need to define the objectives of employment and human resource development policies as part of an overall strategy reflecting the next challenges that Romania will have to face. This joint assessment paper should form part of the analytical material underlying the preparation of this strategy.

4 Conclusions

Over the last years, Romania made significant progress in macroeconomic stabilisation. The government is aware of the need to implement the programme agreed with the IMF. Structural reforms have been re-launched, the new legal framework to accelerate privatisation and removing obstacles to the development of the private sector as well as completing the restructuring are high policy priorities. Full implementation of these reforms is necessary to support the establishment of a functioning market economy and to strengthen Romania's capacity to cope with competitive pressure and market forces within the Union. The restructuring of the agricultural sector has only begun and on the whole, Romania's reform agenda remains considerable.

The relatively high employment rate and low unemployment rates are mainly accounted for by the existence of an important rural labour market and the considerable agricultural sector. The necessary restructuring of the economy will create major employment challenges in the next future and it is crucial that Romania be prepared for them.

Restructuring its agriculture and its industry and enabling the economy to create jobs in the private sector, in the expanding branches of manufacturing and in particular in services are crucial challenges for Romania. Reforms of the business environment and support to enterprise creation in the formal sector will be essential. High taxes inhibit job creation in the formal private sector. Increasing and adapting education and training levels, developing the training of the employed and of the unemployed should ensure that human resources could respond to the transformation of the economy and the labour market. The PES and active labour market policies will also have a crucial role to play.

This JAP has identified a number of priority areas where progress is needed and where monitoring should be carried out in the context of the Employment Policy Review:

- Strengthen efforts to ensure that all children can access and complete compulsory education and broaden access to upper secondary education. Intensify efforts to improve the provision of education for minority groups and implement the existing strategy. Complete as quickly as possible the reform of vocational education and ensure that it improves the adaptability of the VET system to long-term needs of the labour market. Assess whether higher education provision is adapted to its needs in a medium-term perspective in terms of strategy, infrastructure, curricula and financing mechanisms and resources. Ensure appropriate allocation of responsibilities and resources.
- Develop a strategy for continuing training in close co-operation with the social partners as well as appropriate framework and incentives for the training of those employed. Develop capacity for the training of the unemployed, taking into account medium-term challenges linked to the restructuring.
- Develop together with the social partners a wage setting system that can be supportive of economic and labour market reforms and able to guide skill formation, mobility and reallocation of labour and ensure that wage developments are employment friendly.
- Implement the measures already foreseen to reduce the income tax and examine further ways to reduce the tax-wedge in order to create incentives for job creation and take-up. Urgently review the system of payroll taxes and improve compliance with the payment of taxes in order to support the development of private employment in new activities in the formal sector.
- Monitor the implementation of the new unemployment benefit system and of the reform of social assistance with particular attention to the interactions between the two benefits. Review if needed the control of unemployment benefits and set-up conditions for an effective monitoring of social assistance in order to ensure that it encourages an active attitude to work.
- Review the funding arrangements and the level of resources for active policies as well as the provision of active programmes in order to substantially increase the provision of training and achieve a better balance between subsidised employment and other measures. Monitor the implementation of the new framework for active policy, the targeting and impact of programmes so that active policy can effectively contribute to the transformation of the labour force requested by the future challenges. In relation with this, while pursuing the ongoing strategy to improve the PES quality and efficiency, the appropriate allocation of the staff at territorial level and the control of registration should be a matter of permanent concern of the PES management so that active support can be effectively targeted at the jobseekers who need it and PES resources efficiently used.
- Implement existing strategies to better ensure the integration of ethnic minority groups, in particular Roma, on the labour market and monitor carefully its outcome.
- Continue the implementation of the legislation and measures to ensure equal access to the labour market for all persons irrespective of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

- Progressively develop bipartite dialogue and ensure that tri-partite co-operation plays its role so that social partners can effectively contribute to employment policy and labour market reform.
- Pursue efforts to strengthen capacity building in the administration in general and develop an appropriate institutional framework for regional employment policy and for the implementation of pre-accession and ESF support in co-ordination with the other structural funds. This includes an appropriate training of the staff involved.

The Commission and the Romanian Government intend that the preparation of this Joint Assessment will form the first stage in the process of Employment Policy Review. Further co-operation will concentrate on joint monitoring of progress in addressing the priorities identified above, based on regular implementation reports.