

UNDP Project Early Warning System ROM/99/006

Formulated by the

Romanian Academic Society (SAR)

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Early Warning Report

ROMANIA **Issue #6 / 2002**

UNITED NATIONS DEVELOPMENT PROGRAMME - ROMANIA COUNTRY OFFICE

ROMANIAN ACADEMIC SOCIETY (SAR)

EARLY WARNING REPORT ROMANIA

UNDP - ROMANIAN ACADEMIC SOCIETY (SAR)

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SELECTED INDICATORS

	Q1-2001	Q2-2001	Q3-2001	Q4-2001	Jan-2002	Feb-2002	Mar-2002	Apr-2002	May - 2002	June - 2002	July - 2002	August - 2002	Trend
GDP growth (quarterly, annualized), %	4.8	5.1	5.1	5.4			3.1			5.7			↗
Devaluation of the Leu, monthly average, %	2.1	1.9	1.5	1.2	1.9	1.3	0.9	1.7	0.2	0.17	1.6	0.7	↘
Inflation, monthly average, %	2.7	2	1.8	2.4	2.3	1.2	0.4	2	1.9	1.2	0.6	0.8	↘
Interest rate (BUBOR, one week) %	3.4	3.2	2.6	2.6	2.7	2.5	2.5	2.4	2.4	2.14	2.0		↘
Industrial output, % change	6.8	-0.3	-0.6	-3.0	4.6	3.8	5.6	1.7	2.0	1.1			↗
Trade deficit, monthly average FOB/CIF (million USD)	274	408	205	504	257	239	263	340	344	347	430		↗
Unemployment rate, %	10.7	9.3	8.1	8.1	12.4	13.2	13	11.1	10.2	9.6	9		↘
Average net monthly salary, USD	99.2	96.3	92.9	96.4	114.1	106.3	111	118.5	114	121	122		↗
State pensioners / employees	0.97	0.97	0.98	1			1.01			1.011			↗
Trust in government, % (The current Government can improve things)	57	46	48**	42	45		38				32		↘
Pessimism, % (Country heading in the wrong direction)	54	52	44**	48	51		57				62		↗
Subjective welfare, % (Better off than last year)	18	19	19**	22	11		12				11		—

* projection; ** urban population only

ABSTRACT

Romania's macro-economic performance has been surprisingly good over the last two years. However, the '**Economy**' section warns against some of the threats to the current economic recovery. The accumulation of soft credits in the energy sector presents the risk of generating Bancorex-type collapses. Unless public utility companies undergo deep restructuring, the energy sector will continue to plague the economy (low productivity, high real wages) and is likely to stifle its growth. The Government should take determined actions in this respect, sooner rather than later.

Equally in the Economy section, it is argued that the planned privatization of Romania's largest bank (BCR) and of its national oil company (Petrom) should be handled with special care to avoid unintended consequences. These are not just regular privatization deals, but are linked with Romania's overall economic perspectives for years to come.

The shortcomings of the new Labor Code, and its damaging potential to the economy, are discussed in the '**Social**' section, which also focuses on the problems of the institutionalized child-care system.

The '**Politics**' section discusses the challenges and opportunities that the likely invitation to join NATO at the Prague summit bring to Romania. Getting the invitation is just a new beginning, not the end for Romania's efforts to prepare for full NATO membership. On a controversial matter, the EWR considers that Romania's decision to sign a bilateral treaty that exempts the US military from prosecution by the International War Crimes Tribunal was the wisest decision under the circumstances.

ECONOMY

WHAT THREATENS THE ECONOMIC RECOVERY?

In the past one and a half years we have witnessed a – somehow unexpected – strengthening of the Romanian economy, which confounded the typically gloomy foreign and domestic forecasters. The growth has remained high, in spite of the world economic downturn. The current account deficit remained within manageable limits and exports have kept pace with imports, even though the national currency, Leu, has appreciated against the US dollar in real terms. Arguably, the recent increase of the Euro against the dollar has helped to reduce the trade deficit in recent months, since the EU is the main destination of Romanian exports. Equally beneficial was the steady increase in the flow of remittances – most of them savings sent home by Romanian citizens working abroad. However, these factors alone cannot explain entirely Romania's macro-economic performance. Finally, the inflation rate has constantly declined over the last couple of years while, for the first time after 1989, the Central Bank has been able to create disinflationary expectations among the public at large.

How did this come to happen? Is this recovery solid? We argue here that, while some positive developments are undeniable, they are mostly due to the resilience of the fledgling Romanian private sector, which managed to provide economic growth in difficult circumstances. By contrast, while the macroeconomic policies have been more prudent and consistent than they used to be in the past decade, the pledges to speed up privatization, improve the business environment and restructure the hard core of the heavy industry created during the communist times were inconsequential. The two big privatizations concluded in 2001 – Banca Agricola and Sidex – had been initiated by the previous cabinet, and this government carried them through. The government should of course be given credit for this, but it is far from enough.

For instance, Petrom, the national oil company, represented a stumbling block in the negotiations with the IMF, since the government tried to placate the unions and put off the required downsizing of staff. Other important privatizations that seemed to be agreed upon years ago went back to the

WARNING

The current economic recovery may prove unsustainable without restructuring at the micro level. It has happened before.

phase of conceptual debates, and the government looks undecided about them. This is not necessarily bad when it comes to highly complex issues, such as those regarding the energy sector, which cannot be dealt with in a rush or in a simplistic way – by overlooking competition policy concerns and the need to protect consumers. However, there is a need to eventually formulate a coherent strategy, and to implement it irrespective of pressures that might come from various lobby groups with interests in the energy sector.

In fact, since the banking sector has been by and large restructured in the last years, there is a real danger that the energy sector will become the main provider of unintended soft credits in the Romanian economy, with all the risks rising from such a situation. Until some years ago, governments and lobby groups were using the state owned banks for pumping money into loss-making enterprises and keep them afloat. A classic combination of twin deficits (trade and budget deficits) showed up in a worsening current account and growing external debt. This was often accompanied by monetization of the quasi-fiscal deficit, which led to a burst of inflation in 1996, reversing the previous downward trend. The strategy of forcing economic growth (7% in 1995) against the backdrop of insufficient restructuring led to ballooning inventories and hidden deficits, accumulation of bad credits and, eventually, the collapse of the second largest bank (Bancorex) and near-collapse of others, at a cost for the public budget of about 2.5% of GDP. It was a typical case of a bubble generated by public policies aimed at accelerating growth by injecting resources into an unstructured system.

Utilities have become providers of soft credit, like the state banks 6-7 years ago. This creates a major threat

After 1997, no massive monetization of deficits has taken place. In addition, foreign lenders became more prudent in the aftermath of the financial crises in Asia and Russia. As a result, the strains in the Romanian economy show up in rising domestic arrears – i.e., quasi-fiscal deficits; the latter will severely affect the budget unless financial discipline improves dramatically in the coming period. Unlike in 1995-96, the current economic recovery is threatened by growing arrears and by the budget deficit getting out of control should large quasi-fiscal deficits turn into budget deficits. In the short run, this threat can be mitigated through external borrowing by utilities with state guarantees (Termoelectrica has just done that) and declining interests rates, which save on budget programmed expenditure. But on the medium term the capital account liberalization, scheduled for 2003-04, may lead to rising debt of unstructured utilities and eventually to an additional burden on the state budget.

The dynamics of arrears presented in Fig. 1 supports the view that utilities, which are still in public hands, have taken over the role of soft creditors for the Romanian ailing companies. It is no coincidence that the share of arrears in GDP, most of it due to energy bills, has increased dramatically after 1997 as formerly state owned banks were being privatized. We have warned about this vicious development in previous EWRs.¹

¹ The sustainability of growth initiated in 2001 is discussed at length in EWRs no. 4/2001, 5/2001, 2/2002, 4/2002, 5/2002. The issue of arrears is analyzed in the 2001 Annual EWR. All the reports are available from www.undp.ro or www.sar.org.ro

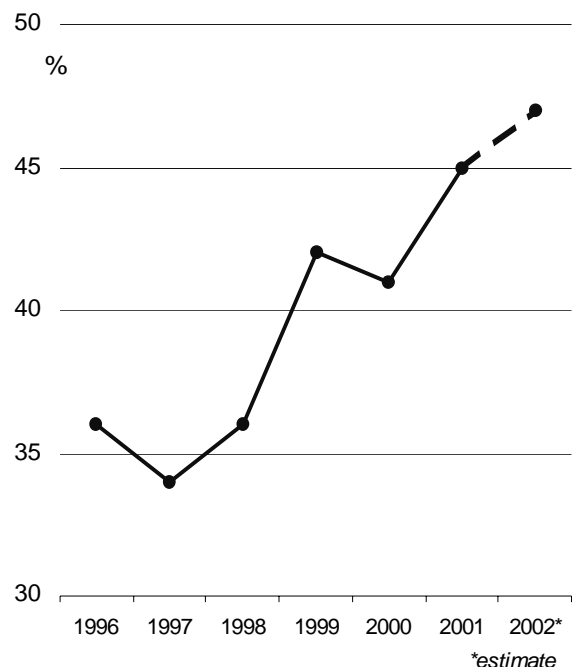
Being deprived of access to funds from financial sources, many companies have begun to regard non-payment of energy as a handy exit. They fall largely into two categories:

- Big and unstructured state owned firms; they are unresponsive to market signals anyway, and the authorities fear that bankruptcy accompanied by massive lay-offs would trigger social problems.
- Private (or privatized) companies with strong political connections, able to extract preferential treatment from their state-owned energy suppliers.

Unfortunately, the government has sent conflicting signals by admitting in public statements that arrears are a serious problem, but rushing in many cases to block decisive action whenever energy companies tried to disconnect bad debtors. As a result, industrial companies that have piled up enormous bill arrears have only to be patient and never lose confidence that the government will, eventually, come to their rescue. In 2002 the government has issued numerous decrees and norms to reschedule their debts over various periods and/or prevent utilities from cutting supply. For instance, an April ordinance can now be implemented after its application norms were published at the end of July. This ordinance 59 allows utilities to write off debtors' penalties and reschedule their debts if they pay their current bills on time. On request from the debtors, including state and private companies, their unpaid bills of 2000 and 2001 will be rescheduled in the form of monthly installments. Their debt-related fines and penalties will either be remitted or postponed until after the last installment of the rescheduled debt. While there may be some truth to that, the problem here is the incentive that the ordinance creates for other consumers. Many companies that have paid their bills on time think that these favors to debtors are unfair, since they can be seen as hidden subsidies for underperformance.

Moreover, these measures only reinforce the view that all the trouble generated by the April gas and power cutoffs and the ensuing reschedule agreements that utility companies reached with their debtors were just an attempt to please the IMF, since new agreements have now to be concluded between utilities and debtors. And even those might be again negotiated when the application norms are published for another ordinance issued in June, which provides for an up to ten-year reschedule of the penalties. On top of everything, the law 137 for stepping up privatization prohibits utilities from halting supply to companies preparing for privatization. These companies are under special administration, but this

Fig. 1. Aggregate arrears evolution, % GDP



doesn't really mean that they will be privatized any time soon. Since most state companies are supposed to be privatized sooner or later, they may feel entitled to a similar treatment – and thus have one more reason to halt payments. Under these circumstances, there is hardly any chance for utilities to improve their bill collection.

Utilities are even less prepared than the banks were in 1994-96 to deal with credit issues and market risks

Being slated for privatization may thus become another means for buying time indefinitely by loss-making firms. In order to be effective, the process should not be open-ended, but follow strict milestones and deadlines. The discipline in wage policy has also been poor all across the public sector, but especially in unprivatized monopolies and the heavy industry, which threatened periodically the agreements with the IMF. Tellingly, in Romania average wages are substantially higher in the public sector than in the private one. And the energy sector loses money not only through high operating costs or questionable deals with its clients, but in similar deals with its suppliers as well. The Iași police and the media have just uncovered an extended network of firms, built around the import of liquid fuels for Termoelectrica, the national power generator, which seem to use inside connections in order to monopolize the supply at above-market prices. The experience with Sidex, the large steel plant sold last year to a multinational, shows that only a strong private owner can terminate such suspicious arrangements, which are hard to avoid as long as firms are administered by state-appointed managers.

All these are serious problems. The latest series of ordinances transform Romanian utilities into de-facto lenders to commercial firms – but they are even less prepared than banks were (during the '90s) to deal with credit issues and to manage market risks. State managers are hardly able to withstand the pressure to raise salaries without consistent government support, since labor in the heavy industry is highly unionized. If the top officials do not step in and promote good corporate behavior in this monopolistic sector, nobody else will. Payment discipline will deteriorate further, encouraged by the lack of consequences of non-payment and overstaffing, and utilities will continue to incur losses in various forms – until the whole arrangement will collapse.

In fact, the decision-makers should assume responsibility for reforms in large, monopolistic sectors even before strategic investors arrive. Using soft commercial credit from utilities, irrespective of circumstances, as a life-support system for industrial companies will not make them more competitive, nor will it determine the managers to improve efficiency. Every month that passes pushes the arrears upwards, aggravating the situation of these utilities and, ultimately, of the state budget, unless economic "bonanzas" happen. The price of dragging the feet now will be paid by the public later, in many ways: lower privatization receipts when the energy sector is eventually privatized, heavier investments burden on the new owners, higher shocks to the public from necessary price adjustments. The government is now in the best position to manage efficiently the relationship between consumers and utilities, while the latter are still in its hands. It would be quite unrealistic to expect that future private owners will be able to deal better with the fundamentally political problem of reforming – or disconnecting – large and inefficient industrial plants.

Determined action should be taken sooner rather than later. The challenge posed by the current situation should not be underestimated, and it makes no sense to postpone tough decisions. Almost halfway into its mandate, the current cabinet should not let reality disprove Romania's improving image abroad. Financial institutions, foreign partners and donors, and independent analysts have understood and praised the successes achieved so far: a better and more stable financial sector, lower inflation, economic recovery. But, at the same time, they have outlined lingering weaknesses of the Romanian economy, having to do primarily with unclear and inconsistent economic policies.

The bottom line is that while the macro aggregates look good for the moment, some of their micro fundamentals are questionable. With heroic efforts Romania avoided a major crisis and external default in 1999, but at a high cost for the taxpayer. At same time, the former ruling coalition had to pay a political price for taking painful measures to deal with the tensions that had accumulated for years in the Romanian economy.

At present, pressure is again building up. The current government should learn from past mistakes and be aware of the threat posed to the current economic recovery by rising arrears and the worsening balance sheet of public utilities. Unlike in 1997, the aggregate figures now look reasonably good and the unemployment rate is in single digits (actually, half of that in Poland, Bulgaria or Slovakia). This is a good time to impose financial discipline at the firm's level. The growth bubble must be pinched before it bursts.

**Pinch the bubble
before it bursts**

PRIVATISATION WATCHOUTS

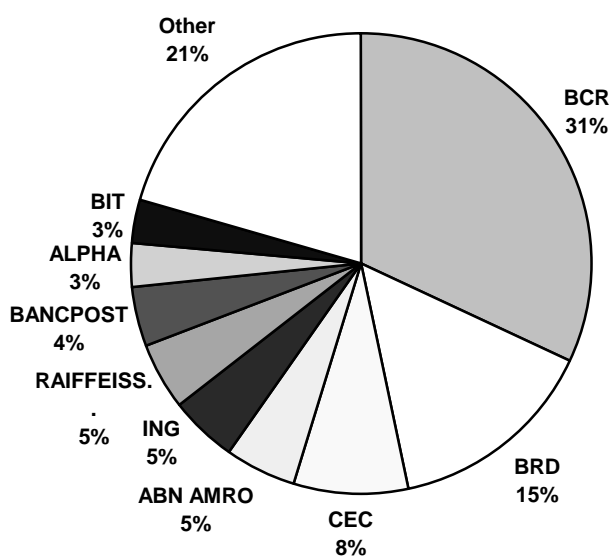
by Daniel Dăianu

FOCUS The Government intends to privatize Banca Comercială Română (BCR) and Petrom, which are among the most attractive state-owned companies in Romania and, probably, in South East Europe. There is a time schedule to this end and an advisor was chosen (Daiwa Sec.) in the case of BCR. But these two planned operations are remarkably complex endeavors, which will have wide repercussions and involve highly complicated policy issues.

1. THE COMMERCIAL BANK OF ROMANIA (BCR)

The privatization of BCR needs to be judged from several perspectives: the role played by BCR in the Romanian banking system; the expected outcome in terms of the sector-wide quality of corporate governance; the timing of

Fig. 2. BCR's share of Romanian banking assets



this operation in relation with the program of capital account liberalization; and last, but not least, the central bank's ability to contain adverse shocks by cooperating with domestic commercial banks. The price factor has not been mentioned above, although this is by no means a trivial aspect.

a. BCR is a "market maker".

The sheer size of its assets and attracted deposits – almost 1/3 of the whole banking system (Fig. 2) – speaks for itself. BCR has a significant market power, which is backed by the private information it has about its corporate clients. Market power can easily translate into monopoly behavior and harm competition in the banking industry. But this size-related status can also be a source for weakness when lending is done inappropriately and the

bank is captive to some of its big clients, or becomes subject to government pressure to lend to inefficient companies.

BCR's market power can be used more or less positively. Consequently, were it to happen, privatization needs to consider carefully the proper context for preventing BCR's market power from being turned into a threatening monopoly. In Hungary, the privatization of the largest commercial bank was preceded by its split; in Poland, there was no rush in privatizing the largest commercial bank. In both countries the issue of market power and competition policy was taken carefully into account.

b. Corporate governance

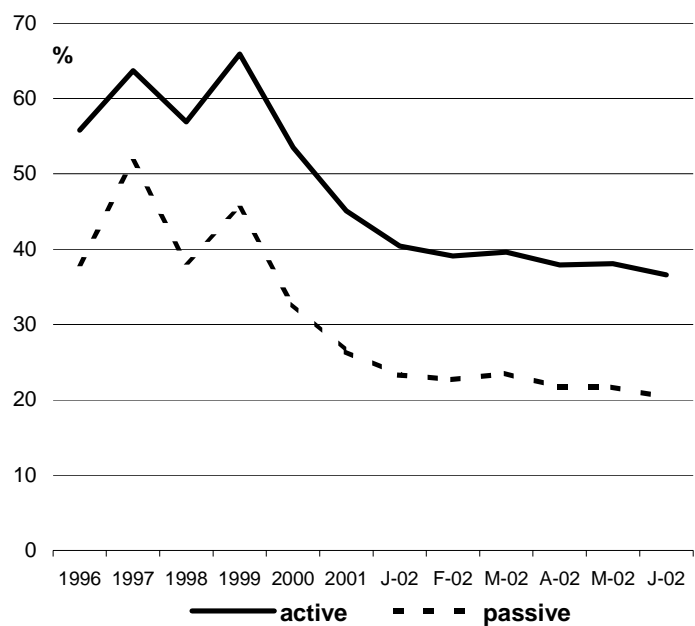
Privatization is, allegedly, seen as a means to improve corporate governance and raise the efficiency of BCR's operations as well as its profits. At the same time, it should bring about badly needed modernization and improvement of its banking services. The expected positive effects of privatization would help defend BCR's market share. Currently, BCR is feeling the heat of a growing competition in retail banking following the takeover of Banca Agricola by Raiffeisen and the decision made by Citibank to develop its retail services simultaneously with the strides forward made by Banca Romana pentru Dezvoltare (BRD-SG), ING and ABN-AMRO. Other banks are also stepping up their efforts to improve the services that they offer to corporate and individual clients. Undoubtedly, for BCR, modernization involves a lot of investment and a corresponding shift in the use of its profits (which have gone prevalingly to the state budget until now).

BCR privatization should foster competition and efficiency in the domestic financial sector

The improvement of corporate governance should be judged against the background of BCR's attempt to become a "financial supermarket", with an increasing array of financial services. But these transactions are risky at a time of rapid financial innovation in the world and opening of Romanian financial markets. Like other Romanian banks BCR is under immense pressure to improve its risk management expertise, in general, and privatization could help achieve it to the extent that the new investor(s) undertake the necessary steps to this end.

A question can be posed: can corporate governance be improved only via a strategic investor, namely a big outside player? Not necessarily, if the new shareholders do not have the required financial muscle and management skills. As data indicate efficiency remains low in the Romanian banking sector, and there are large spreads between active and passive rates (Fig. 3). The issue of BCR's privatization should not preclude the current management team from improving the Bank's corporate governance and further its modernization. To this end the management team needs to be totally dedicated to modernization and push aside deleterious political strings.

Fig. 3. Active and passive interest rates, non-banking clients



c. Industrial policy

Privatization would clearly cut the link between the BCR and the Government's attempts to come to the rescue of inefficient firms. And, in all

likelihood, this is a basic reason why the IMF is adamant about BCR's privatization, as a means to improve financial discipline in an economy which continues to be plagued by large arrears (financial indiscipline). Wherever state-owned banks do exist in highly performing economies (Germany and Austria in Europe; Singapore, or Taiwan in Asia) financial discipline is a fundamental rule of the game; and preferential credits are well targeted in order to enhance the development of certain sectors. The privatization of BCR would force the Romanian government to redeem its tools of industrial policy, were it to have such a policy.

d. The liberalization of the capital account (LCA)

The Romanian government committed itself to basically open the capital account by 2004, well ahead of the likely moment of accession to the European Union. Such an early move would supposedly inject more rigor into macroeconomic policy and foster better resource allocation in an economy which is starving for additional investment resources. But as worldwide experience shows, LCA is extremely risky unless the country has previously closed the institutional gap with the advanced economies and is able to sustain an effective monetary and fiscal policy. For Romania this challenge is highly relevant, since EU accession is not going to happen soon and early euro-isation is not contemplated by the Government as a realistic option – a view to which the author of this report subscribes.

**The timing of
privatization and
capital account
liberalization
should be
reassessed**

BCR's privatization would seemingly fit into the pattern of market-oriented reforms and would hopefully put the banking system on an even sounder basis following the cleaning up of the sector in recent years. This would be the rosy scenario. There is, nonetheless, a less bright scenario, which should not be dismissed lightly. This scenario would also consider the untested new regulatory and prudential framework of the financial (banking) system, the still high inflation (at double digit rates), the insufficient financial discipline in the Romanian economy, etc. If powerful adverse shocks occur, it is not clear how the banking industry would cope with the pressure. Foreign ownership of banks can bring about major benefits in terms of competition and better corporate governance. But this is not a miraculous device, in itself, for the overall functioning of the economy. And it may even increase the difficulties of dealing with major capital flow reversals. As Alexander Lamfalussy, an *eminence grise* of the financial world put it: "All in all, the greater integration of an emerging market country into global markets, through current transactions, long term capital flows, and foreign direct investment, the less efficient becomes the control mechanism on short term capital inflows or outflows"².

As a matter of fact, the key issue for the Romanian financial and banking system is testing the new regulatory and prudential supervision framework (after the sequence of bank collapses and financial scams of the 90s). Arguably, this challenge is more important than undertaking the privatization of BCR irrespective of circumstances – unless one sees this privatization as a *sine qua non* measure for reaching the stated prime objective of creating a sound, well functioning financial system.

² Alexander Lamfalussy, "Financial Crises in Emerging Markets", New Have, Yale University Press, 2000, p.132

e. The Central bank's policy dialogue with commercial banks

The remarks made above introduce a big caveat in believing that foreign ownership of banks improves, *ipso facto*, the policy dialogue between the central bank and commercial banks. When privatization and the operation of highly reputed external players improve the local environment dramatically, there is a strong assumption that policy communication and coordination improves as well. But one has to think about a possible downside as well. As the crises in Latin America show, foreign banks, when scared by local circumstances, would rather adopt a damage control stance and try to get out of the "mess". This would complicate an already precarious situation and accentuate self-fulfilling prophecies. Therefore, it does make sense to maintain a balance between local and foreign capital in the banking industry.

Balance must be kept in the banking sector between domestic and foreign capital

The bottom line is: good governance needs to be buttressed by sound macroeconomic policy, financial discipline, and a solid stake by all local players (whether owned by local, or foreign capital) in the well being of the local economy.

Recommendation

BCR's privatization should be examined thoroughly in the context of the need to foster competition and avoid creating a powerful private monopoly. Likewise, local capital needs to stay involved in the Romanian banking sector, which has implications for the venue chosen for BCR's privatization. More specifically, it would be wise to have a significant portion of the Romanian banking sector financed with Romanian residents' capital, with the role of "sand in the wheels of capital mobility". This also implies not rushing with the full opening of the capital account until proper macroeconomic and institutional conditions exist.

2. PETROM

Petrom, Romania's largest industrial company is also slated for privatization. It recently contracted an EBRD loan of US\$150 million, whose purpose is to help the company improve its operations and prepare the ground for privatization. Petrom is a profitable company, though it could be more profit-oriented by rationalizing some of its loss-making operations.

The new major shareholder of Petrom should be a strategic investor with a stake in the Constanța-Trieste oil pipeline project

This analysis does not aim at getting into the technicalities of such a complex process. There are nonetheless a series of aspects which merit to be underlined when considering the privatization of Petrom. First and foremost is the nature of oil – a very strategic commodity, which is at the epicenter of world geopolitics. The Caspian Sea is increasing its profile in the landscape of major world oil basins, at a time of increasing uncertainties in international relations and a rising tide of non-conventional threats. Moreover, Romania's location can be an advantage in the context of a reconfiguration of oil and gas routes in the region.

Since Petrom holds such a strategic importance for the Romanian economy its privatization should not be divorced from the way in which Romania

defines its strategic economic (and not only) interests. For quite a while Romania has been advocating the construction of an oil pipeline, which should transport Caspian oil on the route Constantza-Trieste. Following the political developments in Belgrade, this project has become much more appealing, and a very recent tri-partite deal between Romania, FRY and Croatia (signed on September 10) opens the way for its implementation. But much hinges on the interests of the big players in the oil market and the plans of the major oil companies. The Constantza-Trieste oil pipeline is a very costly project and its relevance depends on routes to be defined for the whole Caspian and the Black Sea regions. Under these circumstances it does make sense to consider a linkage between Petrom's privatization and the interest of one of the major oil companies in helping build the Constantza-Trieste pipeline. It may be that the likely invitation for Romania and Bulgaria to join NATO would increase the chances for this project to take off.

3. THE PRIVATISATION OF PUBLIC UTILITIES

The previous article in this Report stresses that the delay in imposing financial discipline in the economy worsens the conditions for an advantageous privatization of public utilities – when this is seen as a means to increase their efficiency. Thus, there is a real danger that would-be investors would be primarily interested in concluding agreements which guarantee remunerative prices (to cover costs and secure a certain profit rate), instead of undertaking the necessary investments. There is some relevant experience worldwide which substantiates such a fear. An earlier EW Report highlighted this possible unfortunate outcome in the field of energy production and distribution, unless privatization contracts are properly negotiated³ – so that both consumers and investors be protected.

**Low payment
discipline decreases
the interests of the
prospective investors**

The precarious state of Romanian energy producers should be a stark reminder of the need to pay utmost attention to how privatization is done. At the same time, the Government should spare no efforts in dealing forcefully with the worst debtors. Unless financial discipline improves dramatically, the economic stability of the country is jeopardized over the medium term (with quasi-fiscal deficits turning into fiscal deficits), while the propensity of foreign investors to engage themselves on the Romanian market will decline. At the end of the day Romanian consumers would see their lot much deteriorated. There is a vicious circle here, since investments may be needed in order to reduce costs and help, thereby, raise the capacity to pay back debts. This is why the time factor is of major significance, and there is a need for timely action.

³ With examples from Argentina and Hungary

EXAMINING SOME MACROECONOMIC DATA FOR THE FIRST HALF OF 2002

INDUSTRIAL PRODUCTION

GDP grew in the first half of the 2002 with 4.4% as against the same period of 2001. Agriculture contributed significantly to this growth (+11.4%), but the focus of our material is on the evolution of industrial production, productivity, and external sector. In the first semester 2002, the Romanian economy has continued the upward trend it embarked on two years ago. Industrial production (adjusted for the number of working days) increased by 4.3% compared to the first semester 2001, due to the 5.7% increase of manufacturing. However, not all sectors recorded such growth – in 12 out of 21 manufacturing sectors production has actually decreased; textiles, wood industry and furniture, chemical industry, construction materials, electric machinery and equipment were among the underperformers. Best performers in terms of output growth were metallurgy (+28%), food and beverages (+15.9%) and road transportation means (+8.6%). The level of stocks in these three sectors is below the manufacturing industry average, and it is decreasing either in nominal terms (metallurgy), or in real terms (the latter two sectors).

Productivity increased in almost all manufacturing sectors (in Fig. 4, comparison is made against June 2001; if we make this comparison against December 2001, then significant productivity gains appear also in mechanical machines and equipment and

in footwear). Productivity grew on average by 12.7%, most impressive gains being recorded in metallurgy (34.5% vs. June 2001 and 81.7% against December 2001) and road transportation means (23.6% vs. June 2001 and 46.3% vs. December 2001). Part of these gains are nevertheless due to lay-offs (the number of employees decreased with 10% in metallurgy, 9% in machines and equipment and 1% in road transportation means), but on the manufacturing average, the decrease in the number of employees was irrelevant (0.3%).

FOCUS

Fig. 4. Evolution of productivity and wages, June 2002 compared to June 2001

	Labor productivity W*	Real wages Sr**	Index W / Sr
Total industry	12.1%	4.5%	1.073
Manufacturing	12.7%	3.2%	1.092
- food industry	7.7%	6.2%	1.008
- ready-made clothes	11.1%	-7.6%	1.202
- footwear	- 4.4%	0.2%	0.953
- metallurgy	34.5%	6.6%	1.261
- mechanical machines and equipment	-1.4%	4.5%	0.943
- electrical machines and equipment	3.8%	-8.7%	1.136
- road transportation means	23.6%	0.2%	1.233
- furniture industry	21.3%	6.3%	1.140
Energy	-2.7%	3.2%	0.943

* $W = P/N$, where P is the value of production (in US\$) and N is the number of employees

** Deducted from nominal wages, using the June/June inflation rate of 24%.

It should be noted that these best performing sectors – metallurgy, road transportation means, and food and beverages – are dominated by foreign capital. Metallurgy is the last comer in this category, following the privatization of SIDEX. One can submit the hypothesis that FDI spillovers in these sectors represent a major determinant of the above average productivity growth – although such an assertion needs to be supported at a deeper level of sector data disaggregation.

THE INCREASE IN REAL WAGES WAS KEPT BELOW THE INCREASE IN PRODUCTIVITY, WHICH HAS CONTRIBUTED TO DISINFLATION.

The main outlier from the trends mentioned is the energy sector (including electric and thermal energy, gas and water). Indeed, by the end of the first semester 2002, compared to the same period of 2001, labor productivity decreased by 2.7%, nominal wages increased by 27.2%, and producer prices surged by 56.8%. This shows that simply increasing energy consumer prices does not represent an effective restructuring/reform strategy.

Productivity gains, outmatching real wages' increase in a number of foreign capital dominated sectors, have been one of the growth engines this year.

a. Foreign trade

Another engine of growth seems to be the expansion of foreign trade, although it was less impressive than in the last couple of years. In the first semester of 2002, as against the first semester 2001, total exports increased by 9.1% (6.7% with EU) whereas total imports rose by 3.1% (3.6% with EU). Arguably, this outcome was influenced by the Euro's appreciation (against the US\$) at a time when exports to the EU area make up more than 65% of the total. The coverage ratio has slightly improved on average (77.9%, as against 73.2% in 2001 and 79.4% in 2000) and with EU (90.7%, as against 86.5% in 2001 and 89.5% in 2000), but has decreased with CEFTA-5 (42.9%, as against 44.2% in 2001 and 52.0% in 2000) and with SEE-7 (136.1%, as against 149.6% in 2001 and 252.9% in 2000).

However, no major trend changes have occurred in either the structure or the performance of foreign trade, except maybe for the rise in exports of mineral products towards EU (this group accounts now for 5.6% of exports, compared to 2.4% last year). The machines and equipment group has made further progress in reducing the comparative disadvantage, which may indicate that increasingly more production stages are undertaken by local firms. As predicted in the 2001 Annual EWR and in EWR 3/2002, trade with agricultural products worsened (on all groups from I to IV), as a consequence of further liberalization with EU on these products.

b. External sector

The trade deficit has decreased, in accordance with the overall improved exports' performance over imports, contributing to reducing the current account deficit. Foreign remittances remain decisive in financing the trade

deficit; moreover, they increased by 45% in the first six months, and continue to represent, for the third year in a row, the main private foreign capital inflow in the Romanian economy.

Arguably, the most striking change in the balance of payments is the big rise in capital outflows: outflows from the incomes balance have increased by 51%, portfolio outflows have more than doubled (US\$411 million in the first semester 2002), and the same is valid for residents' deposits abroad. Only from these three balance of payments' items, capital outflows in the first semester 2002 exceeded those in the first semester 2001 by more than half a billion dollars. The explanation may lie with the process of capital account liberalization, which encouraged capital outflows. In the same line of reasoning, net errors and omissions hit a record low level (five months data showed even negative errors and omissions), unregistered capital outflows almost matching unregistered capital inflows for the first time. For the time being, the access to international capital markets compensates for these outflows, as foreign debt increased by US\$1.3 billion in the first six months of 2002.

Fig. 5. Selected items of the balance of payments, net positions, US\$ million

	1st sem. 2001	1st sem. 2002
Current account, of which:	-1306	-909
- goods and services	- 1588	- 1288
of which tourism	- 63	- 28
- incomes (from direct, portfolio, and capital investments)	- 227	- 343
- foreign remittances	419	609
Capital account, of which:	834	847
- foreign direct investments	436	480
- portfolio investments	735	289
- residents' deposits abroad	135	326
Errors and omissions	472	62

CONCLUSION

In the first semester of 2002 growth has been driven by productivity gains in manufacturing, mainly in some foreign dominated sectors, and by the expansion of foreign trade. The positive developments in the Romanian economy (e.g. the successful taming of inflation, the further build up of foreign reserves, the cheaper access to international capital markets, and the good relationship with the international financial institutions) should not obscure the less bright side of the story. For instance, unless utilities undergo deep restructuring, the energy sector will continue to plague the economy (low productivity, high real wages) and is likely to stifle its growth.

SOCIAL

THE NEW LABOR CODE: THE BURDEN RESTS WITH THE EMPLOYER

WARNING After much prevarication the government has finalized the new labor code and intends to make its passing a matter of Parliamentary confidence. Under the mantle of European harmonization, the draft creates a nightmarish administrative maze for the employers. The only shine of light for them: the draft ducks the most controversial issues and postpones them for unspecified legislation in the future.

A CODE FOR A EUROPEAN MARKET ECONOMY ?

The code was heralded as legislation that faces the new challenges of the Romanian economy: the market system, where state-owned and private companies co-exist, and the approximation of European legislation.

- Indeed, the draft allows for the introduction of exclusivity (i.e. commitment to a single employer) and non-competition (i.e. the employee is barred from working simultaneously in a direct competitor) clauses in labor contracts - two problems that affected Romanian employers.
- The draft also introduces the concept of consultation between the employer and employee representatives, thus potentially improving the erratic labor relationships of Romanian companies.
- The draft puts much emphasis on training and apprenticeship. The right of the employee to take part in training programs is protected, and employers are required to train their employees. Unfortunately, there are no incentives stipulated in the legislation for the employer to comply with this requirement. The only incentive there might be is the possibility to commit the employee to stay with the employer for a certain period (up to three years). Conversely, this is not very rewarding for the employee. Moreover, this tying up with the

employer will create rigidities in the labor market, thus reducing the efficiency of the economy. A better solution would have been to grant fiscal incentives to the employer (e.g. tax deductions) for training programs: since training creates gains for the economy that are not fully recouped by the employer, it would make sense for the society to pay part of the price of training.

Fig. 1. Approximation of EU social *acquis* through the new labor code

EC MEASURE (to be transposed)	NATIONAL MEASURE (to be adopted)	Planned date of adoption	Planned date of coming into force
Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services	The new draft of the Labour Code	2002	2002
Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies	The new draft of the Labour Code	2002	2002
Council Directive 80/987/EEC of 20 October 1980 on the approximation of the laws of the Member States relating to the protection of employees in the event of the insolvency of their employer	The new draft of the Labour Code Legislative act on the establishment of the Guarantee Fund for the protection of employees in the event of the insolvency or bankruptcy of their employer	2002 2004	2002 2004
Council Directive 1999/70/EEC of 28 June 1999 concerning the framework agreement on fixed-term work concluded by ETUC, UNICE and CEEP	The new draft of the Labour Code	2002	2002
Council Directive 91/383/EEC of 25 June 1991 supplementing the measures to encourage improvements in the safety and health at work of workers with a fixed-duration employment relationship or a temporary employment relationship	The new draft of the Labour Code Draft law on Insurance against Accidents at Work and Occupational Diseases Establishment of the National Fund for Insurance against Accidents at Work and Occupational Diseases	2002 2001 2002	2002 2001 2002
Council Directive 97/81/EC of 15 December 1997 concerning the Framework Agreement on part-time work concluded by UNICE, CEEP and ETUC	The new draft of the Labour Code	2002	2002
Council Directive 91/533/EEC of 14 October 1991 on an employer's obligation to inform employees of the conditions applicable to the contract or employment relationship	The new draft of the Labour Code	2002	2002
Council Directive 93/104/EC of 23 November 1993 concerning certain aspects of the organization of working time	The new draft of the Labour Code	2002	2002
Recommendation of the Council 74/457/EEC of 22 June 1975 on the principle of 40-hour week and the principle of four weeks' annual paid holiday	The new draft of the Labour Code	2002	2002
Council Directive 92/85/EEC of 19 October 1992 on the introduction of measures to encourage improvements in the safety and health at work of pregnant workers and workers who have recently given birth or are breastfeeding	The new draft Labour Code	2002	2002

Source: Position Paper of the Romanian Government for Chapter 13 of negotiations 'Social Policy and Employment'

- Another initiative which has intellectual merits is the decision to eliminate the difference between the less taxed freelance contracts (*conventii civile*) and labor contracts, thus eliminating another source of disincentives. The economic consequences of this measure are however doubtful. It is a very controversial decision, and it will be discussed more in depth later in this article.
- Finally, the draft puts much emphasis on the non-discrimination principle, thus incorporating a key tenant of European legislation.

PIG-HEADED APPROXIMATION OF THE ACQUIS

Most of the changes introduced by the new code are justified by the need to introduce in domestic legislation the European provisions. Fig. 1 presents the pieces of *acquis* which are, at least partly, to be approximated in the labor code. The exact transposition of community provisions raises questions. For instance, EU legislation prohibits employers from requiring employees to work overtime above certain limits (i.e. 48 hours per week). The Romanian version is stricter: it prohibits employees from working more than 48 hours per week even if they want to. There are also annual ceilings for aggregated overtime. In addition, the daily working time is limited, and under no circumstances can it exceed 12 hours, which may create disturbances in certain fields of activity – e.g. when on duty, medical doctors cumulate more than 12 hours in one working day.

The second poorest EU candidate cannot afford to implement labor legislation more generous than that of the EU

The observance of European legislation on working time also errs on the lenient side when dealing with employees' rights: while the European directive requires a minimum of a 4 week annual paid leave, the Romanian legislation is more generous: it provides for 5 weeks. Whether the second poorest economy among accession countries can afford to exceed the European requirement is highly questionable.

TRADE UNIONS REIGN SUPREME

The trade unions are the big winners of the new labor code. Their position is much strengthened. Trade unions exist practically only in the (current or former) state companies. The code supports their creation in smaller, private companies. Representatives of the employees (quasi-trade union leaders) are supposed to be elected in any company with more than 20 employees. The power of the trade unions represents a real problem for the Romanian employers: it might impede on the performance of the economy and deter new investment.

- The trade unions are to be consulted by the management and have a key role in the human resources policy:
- Negotiate the collective work contract
- Have to be consulted on any collective redundancies (defined as 10% of the workforce or above 30 employees)

- May intervene in individual redundancies (justified by either disciplinary or economic reasons).
- In addition, the duration of the work contract is presumed as unlimited, while fixed term contracts are the exception. This provision, coupled with a cumbersome procedure for redundancies, puts serious pressure on the employer, and further increases the rigidity of the labor market.
- Apart from the rigidities introduced in the human resources management, the cost itself of trade unions is not negligible, especially in small and medium size companies: the employer cannot sack a trade union representative, and has to pay his / her wage.
- Trade unions are also involved in the committee for safety standards; in addition, some employers are required to provide occupational disease medical services. These are additional costs for the employer – either directly, or through increased administrative load.
- Finally, the provisions on strikes also reveal a marked anti-employer bias: employers are prohibited from responding to a strike by a lockout, and in any litigation the burden of proof is on them.

All these provisions do not bode well for the performance of Romanian companies, especially for the small and medium size ones, for which the costs of compliance could be high. Attracting foreign investment could also become more difficult. Romanian trade unions have already been responsible for the collapse of certain privatization deals, and they enjoy a fearsome international reputation – as illustrated by a string of recent cases reported by major international newspapers.

Trade unions are too influential in a country that has the lowest unionization rate in Europe

It is questionable whether all this was really necessary. The influence of the trade unions in the drafting of the new labor code looks rather inflated, as there are only 4 million legally registered full time employees out of the estimated 8 million Romanians who actually work, and only half of these 4 million are trade union members. Romania has thus one of the lowest unionization rates in Europe.

SCHWEITZER LEGISLATION

The labor code, huge as it is (300 articles), is mostly framework legislation. It leaves out a lot of details to be addressed in further legislation. The text explicitly mentions new forthcoming legislation on:

- The guarantee fund for wage liabilities
- The organization of the safety at work committees
- The apprenticeship and training contracts
- Trade unions
- Employers associations
- Labor conflicts

- Classification in labor groups is also part of other pieces of legislation

The new labor code is thus vacated of much of its content. While controversies are avoided or minimized in this way, the code fails to provide the necessary clarification and predictability of labor relations.

MAJOR CONTROVERSIES

a. The wage guarantee fund

Alarm bells have initially rung over the newly created reserve fund aimed to guarantee the payment of wage liabilities. The creation of the fund is part of the EU *acquis* requirements in the social field. However, even the priority given to wage liabilities over other types of liabilities (e.g. taxes, bills) was criticized. More importantly, its size as compared to the GDP was questioned. The government has backed down in front of media criticism and the pressure of employers, and withdrew the initial draft. The new

reading of the code preserves the controversial fund, but avoids the question of its size, by postponing this decision for later legislation. What is also unresolved is the question of the management of the fund, with critics arguing that there is no need to create a new institution for this task.

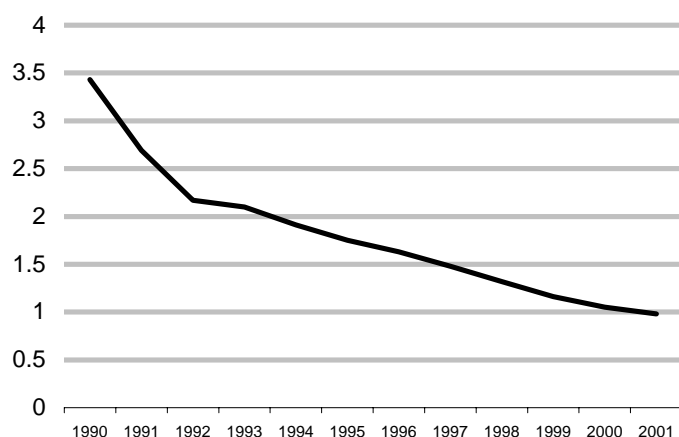
b. Freelance contracts

The decision to unify the tax treatment of freelance (*conventii civile*) and full-time labor contracts by levying full social contributions on both has aroused fears that it will result either in increased unemployment or in pushing jobs

into the black market. Freelance contracts are to become part-time labor contracts. Initially, even if the part-time employees were to pay the full pension contribution, this time was not counted at all towards the minimum working period that gives the entitlement to the old age pension. This provision has been corrected in the new draft.

The part-time contracts play an important role in the plans of the government. Over the past twelve years, Romania has witnessed a marked decline in the number of full-time employees (i.e. contributors to social insurance). Fig. 2 presents the evolution of the dependency rate (i.e. contribution payers per pensioner). The situation is even worse if we add up the retired farmers – in 2001 there were 6,365,000 pensioners in total, as opposed to 4,505,000 full-time employees. While this trend is correlated with a marked increase in the number of pensioners, it is also true that some of the missing employees have resorted to the less taxed freelance

Fig. 2. Dependency rate (contributors / pensioners)



contracts. The Ministry of Labor relies on the taxes now to be levied on the part-time employees to help balance the pension fund budget, a major source for concern. The problem is that the Pension Fund estimates at 1,200,000 the number of freelance contracts (of which only 100,000 currently pay the voluntary pension contribution). However, the more reliable statistic is the one coming from the Health Fund: the health contribution is mandatory for all types of labor contracts, still the Health Fund receives contributions from only 650,000 freelance employees. The gap between expectations and reality will become even larger, as the high social contribution will force a number of freelance contracts to be cancelled.

c. Insurance for labor accidents

A new special insurance fund is to be created for labor accidents, in accordance with the *acquis* requirements. The exact shape of this fund is also an unresolved matter. Similarly with the wage guarantee fund, it is questionable if it is worth creating a new bureaucracy to handle it. Where would the money come from is a big question. The government has confirmed it intends to reduce the social contribution by 5%. With the pension fund in chronic deficit, there will be pressure to deduct the money for work related accidents from the health contribution. The Ministry of Labor has already eyed the health insurance budget for a number of social benefits (most of them non-contributory). After the ill-judged proposal of merging the social insurance and the health insurance budgets, any new attempt to dig in the health trunk will spark a new political row.

Substance is sacrificed for the sake of consensus – but this only postpones the tough decisions

CONCLUSIONS

The new labor code was portrayed as ushering in the Romanian economy the rules of the market, in accordance with the European legislation. Unfortunately, it fails in its task:

- The draft shows no concern for the efficient functioning of the economy – it increases the rigidity of the labor market and burdens the economic agents with direct and indirect costs;
- It favors heavy handed administrative provisions over market based incentives;
- It leaves open a high number of crucial issues, therefore promoting legislative instability and uncertainty
- The ways it picked and chose among *acquis* provisions, favoring those most beneficial to the trade unions, suggests a disproportionate influence of the unions in its drafting.

It is, therefore, important that at least part of the shortcomings of the new labor code be remedied through subsequent legislation.

CHILD WELFARE . ACCOMPLISHMENTS AND CHALLENGES

FOCUS

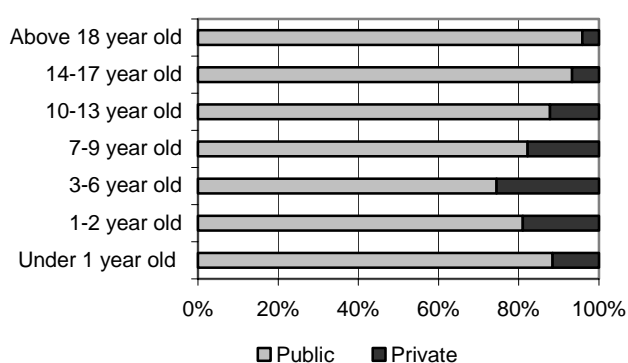
In discussing the possible development of child protection in Romania, one should start from the National Child Welfare Strategy, which is to be implemented by the National Authority for Child Protection and Adoption (NACPA). There are a number of provisions in this Strategy which, although according to international standards and derived from the concept of “best interest of the child”, are likely to be hindered in implementation.

The argument below focuses on two operational objectives, no. 3 and 6, and on the responsibilities of some ministries and local government as far as child welfare is concerned.

OPERATIONAL OBJECTIVE NO. 3:

“To continue the decentralization process from the county to the local level and strengthen institutional capacities at the local level, in order to take the responsibility for solving the issues of children at risk.”

Fig. 3. Number of children in age groups in placement centers – June 2002



Source: National Authority for Child Protection and Adoption

County departments for child protection have been trying to reintegrate most institutionalized children back into their families. By the figures they give, most of the children up to the age of 13 have gone, and few others are received into the system, in an attempt to close as many of the placement centers as possible. The same is true for special schools and *camine-spital* as well, though to a lesser extent.

These figures tend to suggest that reintegration is over for most of the children who had the potential for this solution. And it also means

that a lot more effort is necessary to do something for the remaining children, who are now old enough to think on their own, and have been institutionalized for a long (and essentially damaging) time. It is very difficult to explain to a 13-year old why he or she has to leave the only place they call home, to go to the same parents who left them in the street, on a bench in the railway station, or tied up to the cot at home. It is also very difficult to persuade these children to go to a place which is, most of the time, poverty-

stricken and remote, with almost no chance for them to evolve there. Some parents don't want to take them back, for the same reasons, they argue that it is better for their children to stay in an institution, where they have all they need, than to go back home. It is also interesting to see that this mentality can be found around the country, it is not even restricted to the underprivileged areas.

Almost every news bulletin shows abused and neglected children, some of them at risk from the day they were born. There have been cases (Botosani, for example) where the representatives of the Specialized Child Protection Services (SCPS) have been called to assist a child in distress, in a remote village, and found another ten at least, on their way to that place, that were in a similar, if not worse situation. One cannot help wondering, if one is a social worker trained to discover elements of risk and damage to children, what to do with such cases? If one were to judge only by standards, one would need to take them all and institutionalize them, because the state, clearly, can provide better conditions than most underprivileged families. But this is not to the best interest of the child at all, because no matter how much the society would like to provide them with better life conditions, children are better off in a community than in an institution, if for no other reason, because this is where they have to go to anyway, once they turn 18. More effort is needed for supporting families, parents and other relatives to keep their children at home and provide them with what they need, in order to cut down the supply for the state institution system once and for all.

This is where local authorities have a say. It is for them to decide how much the community can support families at risk, and what protection measures they can find, locally, for children in such families. Local governments know best what employment opportunities there are in the community, and they are also the owners of buildings where new alternative services can be developed.

In Romanian legislation, **the mayor** has three main responsibilities in child welfare. According to art. 68 of the Law of local public administration, 215/2001, the mayor must "ensure the observance of fundamental civil rights and liberties." In art. 69 of the same law, the mayor is seen as a "representative of the state", especially in case of social investigations that he/she has the right to call for, when child rights are violated. The Family Code also emphasizes that the mayor should ensure the integrity of a child's rights in the community that he/she manages.

Given that the mayor is ultimately in charge of the well being of citizens in a particular community, the issue to be raised here is *what happens if the local government is overburdened, and there are no more resources to support children at risk*. By resources here we mean both human, as well as financial resources.

There is in most communities, by law, a social worker, who is not necessarily a graduate, but who has been trained to recognize risk and signal it to those in charge. This person, who is an employee of the municipality, should go from house to house and assess the situation, and receive referrals about abuse cases and risk situations. Although the law

clearly stipulates the existence of such a person, at the local level things are not that easy. There are many restrictions as to how many people a local government can employ, what salaries to pay to these people, and what other facilities, like transportation means, telephones and so on. There have been a number of communities where no social worker was actually employed, but the representative of the Agriculture Department, who did more or less the same rounds in the community, was also given the task of monitoring families at risk, without extra payment.

The issue is two-fold: how can this person recognize risk situations, and alarm those in charge of such cases, and how can he or she even go to the place where such cases occur, almost without transportation means. Another side of the matter is why this person should even bother, as long as there is enough work with the tasks he/she already has, and no additional payment for further work. This is for the government to solve, as the issue is not restricted to child welfare situations, but it is of concern to the whole local government.

The County Council President also has responsibilities in child protection. According to art. 116, par. 1, let. q) of Law 215/2001, the County Council (CC) president coordinates, controls and is responsible for child protection activities. These activities are implemented by the SCPS.

The CC president is, usually, the most powerful person in the county, as he/she is an elected official and is basically the main budget manager. It is up to the CC president to allocate funds for child protection, along with other funds, and to endorse any document committing the county to child welfare activities. But the same CC president has a political background, and is elected based on a party program. Which, according to the situation of political intervention in Romania, means that if politics lays a lot of emphasis on child protection, so will the CC president. He will even push child welfare as a reason for not distributing equalization grants, as was the case of Vrancea in 2000. What if political views change, however, and these issues are not topical anymore?

There is a big risk here that although the county councils committed to support child welfare services for a number of years after foreign funding stops, they will not be able to do it, or they will not consider it an issue of importance anymore. A lot of impetus has been given to these activities because of EU accession and because of coverage in the international media, but nobody really knows how much of this is political speech and how much is real awareness of the issue. In some counties, like Teleorman, where child welfare reform is almost finished, by the end of September there will be no more children in old-style institutions. In other counties, however, the situation is a lot more difficult, as described above.

County Secretaries General are in charge of child welfare services at the county level. They have specific tasks in coordinating and implementing measures to protect children at risk, according to Government Emergency Ordinance 12/2001.

If the other two local representatives are elected, and their constraints in child protection are sometimes political, for a secretary general the situation is more complex. It is a matter of deeply understanding the issues and best practices, a matter of knowing what to ask from the subordinated Specialized Child Protection Service, and of recognizing and supporting their efforts. Some counties are truly blessed, with secretaries general who have been in position for years, who have an overall picture of the county's social welfare needs and know how to prioritize child welfare among these, who have a good knowledge of the law, and who have been exposed to foreign expertise. Other counties, however, have secretaries general who do not understand the system and what it requires, who have not been trained or exposed to foreign expertise and best practices, and are sometimes blocking child welfare initiatives due to their diverging priorities or lack of knowledge.

De-concentrated Ministry Departments. When the County Child Welfare Commission assesses the situation of every child and recommends a de-institutionalization alternative, older children are also consulted, given that it is their future that they have to weigh. Most of them don't want to have anything to do with their families, arguing that if they left them once they would not truly welcome them a second time. However, there is another angle as well: the general conditions in institutions were so horrible in the beginning that no one thought of anything else but how to improve them. At present, there are institutions with the conditions of three-star hotels, from which some children need to go to shacks with back garden toilets and water in the well. In most institutions, at least over the past 10 years or so, children have had access to education and have been exposed to new things, to a different civilization. They would know how to operate a computer, they would have a TV at least, and a clean place to do their homework. It does not mean that everywhere in the country, all children in institutions have all these, but a majority of them do. And this is why, once they pass the age when they still feel the need to be supported by their parents, they become hardened and refuse to have anything to do with them.

Part of this effort, however, cannot be sustained only by the Child Protection departments. In order to de-institutionalize children and close down institutions, there is a need to cooperate with other de-concentrated services, the health and education departments, other institutions, and even the central level. There are situations where Child Protection departments are clearly overwhelmed.

One example is Bucharest sector 1: the richest sector in Bucharest, with three of the biggest maternity hospitals on a 1-km radius from the central railway station, with one "protocol" placement center for 0 to 3 year-olds nearby. If a pregnant woman comes from somewhere else, by train, she would end up in one of these maternity hospitals, give birth, and then run away. The child would stay in the maternity hospital for the legal while, then, according to best practice, should go to a foster family, in order to avoid institutionalization. This being the context, let us see what the problems are.

Problem no. 1: there are still maternities without a social worker to counsel mothers not to leave their children, or show them alternatives. Many times, hospital staff encourages them to abandon the child – not in so many words, but mostly by their attitude.

Problem no. 2: by law, children registered or originated from one sector or county can only be placed with foster families within that sector or county. This is fine for most counties, where there are enough unemployed people for whom being a foster parent seems a gift from God, but the situation is different in a places where, say $\frac{3}{4}$ of the population is richer than average, with no incentive to become a foster parent, while the remaining quarter lives in crammed flats? And all this when across the “sector border”, there might be families wanting to foster, but without children.

Problem no. 3: during the communist time, a number of children were “misplaced”, moved from one home to another, from one county to another, until all traces of them were lost. A lot has been said, and the Romanian Television even made a feature report about a girl, who was accounted dead at birth, some 16 years ago, and who was finally found in one of the placement centers around the country. A swap has to take place, by law, in order for these children to go back to their counties of origin, as close to their communities as possible, if not right back to their families. But this does not always happen as it should, and some children have been moved again, several times, from one institution to another, inflicting an even greater damage to them. A related issue is that of funds: there are conflicts among counties, as to who is going to pay for relocation, and who includes these children in the budget estimates for the future.

Conflicting interests also hinder cooperation between the SCPS and some county departments, like education, health and people with disabilities. As far as special schools are concerned, for instance, the three departments should make sure that child welfare, special education and welfare of people with disabilities standards are all observed at the same time. But if a special school is closed down – and a number of them are on the way – it also means that the reform should take place with all departments involved. Which is another reason for concern, as child welfare is clearly ahead of other social fields in the reform process, and it is difficult to find the necessary arguments to persuade all these other players of the need to close down an institution of this kind. In some counties, for instance, there were conflicts with the education and health trade unions, which found it unfair to lay off the staff in special schools, or restructure the institutions according to child welfare principles.

Thus, child welfare reform has a number of “enemies”, and more joint measures must be taken to solve the problems, without hurting the final beneficiaries that is children.

2. OBJECTIVE NO. 6:

"To promote child rights and sensitize public opinion, in order to improve attitudes and the general behavior regarding specific issues of children and families at risk or in difficulty."

If political will and international pressure can solve part of the issues listed above, this objective actually lays a very difficult task ahead for county departments: to change people's mentality and attitudes. There are three possible obstacles against the achievement of this objective.

a. Former institutions – jobs for many

Old-style institutions have two main characteristics that make them important for the communities they are placed in: 1) they hold inside children who cannot find a place in the community, either because they are not originally from that part, or because their parents cannot or would not support them, and 2) they employ many of the local people. If we talk about an institution with 200 residents, this means at least 50 staff: nurses, doctors, teachers, caretakers etc.

Many such institutions lie in underprivileged or remote parts of the country, particularly special schools and placement centers for children with disabilities, some of whom are literally inside forests or on hilltops, as if to hide their residents from the world. The only people these children have come in contact with are the staff, and they are likely to lose their jobs with the closing down of institutions.

Solutions must be found for these former employees, either by transferring them to the newly founded alternative services, or by involving them in the foster parenting networks. A whole process of evaluation must take place in this respect, in order to assess whether these people are fit to take care of children, and to prevent unfit employees to perpetuate in the system. At the end of the assessment, some will still be laid off, but the others can be employed somewhere else.

One opportunity is the foster parenting network, which has been growing a lot lately, in most of the counties. The average number of foster families per county is 100, and each family might have one or two children in care. Unfortunately, there are some issues to be figured out by the government, in terms of finding more incentives for people to agree to foster. Right now, the

Fig. 4. Children protected in foster families

	May-01	Jan-02	Mar-02	Jun-02
Children protected in foster families	32,816	37,942	39,26	40,754
- foster parents hired by the County Child Protection Departments	4,739	7,943	8,523	9,356
- foster parents hired by authorized private organizations	1,040	578	551	458
- extended families	20,677	22,922	23,509	24,171
- other families/individuals	5,179	5,277	5,428	5,473
- national adoption preparation	1,181	1,222	1,249	1,296
Total no. of professional foster parents	3,494	6,473	7,435	7,825

child allowance is of 500,000 ROL per child, which is not enough to buy food and clothes; equally, the salaries of foster parents are lower than the national average.

Because of these factors, there are huge discrepancies between the urban and rural areas, and among counties, depending on the general welfare of the various communities. And, as mentioned above, this is the reason why it is very difficult to find foster families in some Bucharest sectors, for instance.

Foster families only receive salaries if they have children in care. This means that they do not have paid vacations, and cannot leave the children with the rest of their family, as it would happen in a regular household. The law should provide what is called "respite" centers, especially for the foster parents of children with disabilities, where children can be left for one or two weeks, while their foster parents go on holidays, or spend some time with their natural children.

One of the dangers in placing children in foster families, which, unfortunately, springs from the range of issues described above, is that the best possible choice of foster parents might not be good enough. The bottom line here is that, with the conditions that are offered, it is likely to receive requests only from a certain category of people, who, sometimes, are not necessarily very reliable. However, it is hard to assimilate neglect or abuse with particular social categories.

b. NIMBY (not in my back yard)

Another difficult challenge in decentralizing child welfare services to the communities is their attitude regarding institutionalized children. There are, mainly, two sets of negative attitudes: 1) institutions are good because they protect children, and we do not need to bother with them, and 2) it is good to de-institutionalize, but do not place them among our neighbors.

For both types of attitude, it is easier to find motivations than solutions. For many years, a number of children were institutionalized for the wrong reasons (poverty, neglect, lack of relations with the extended family), which could have been combated in the family, if communities had been organized and structured properly. But one of the scars of communism is the lack of community spirit, and people do not care so much about their neighbors to help them when in need.

In underprivileged communities, the idea that the state can provide better for children than their own parents is still present at large. SCPS often complain about parents who are willing to leave their children because they feel insecure about living conditions, and, in their opinion, wish the best for their offspring. As we argued above, however, this move is against the best interest of the child, because while children have not been institutionalized, they do not know other living conditions than those in their parents' house, and do not necessarily wish to leave, but when they get into an institution, it is very difficult to send them back into families, especially if they are older or have spent a longer time as institutionalized children.

This is why emergency reception centers have been set up, where children come in for a short period of time (up to 15 days) and then they are either returned home, if possible, or placed with a foster family.

Some community members accept the idea that children are better off outside institutions, or in different types of homes, like family-type houses or apartments. But, as it happens with local projects, it is very hard to find a place for these houses or apartments, once people realize that children will move in. This is the NIMBY reaction (Not In My Back Yard), which does not argue about the benefit of a, say, alternative service, but about its location.

There are real life examples in the experience of county departments, some even dramatic. In Teleorman, for example, the county department started to move children to apartments in 1994. At some point, they bought two apartments in the same building, and started to refurbish them. The other dwellers asked who was going to move there, and they did not agree to have apartments inhabited by former institutionalized children in their building. That was a very good neighborhood downtown Alexandria, and people were reluctant to receive "strange" newcomers. Help came from one of the people who was to be employed in one of the apartments who, as it turned out, happened to live in the very building, and this person was able to persuade the other dwellers that there was no problem with the children.

The reverse situation happened in Caras Severin: the county department bought a house, and moved there a number of HIV infected children. The neighborhood did not react to the move, until they found out who were the inhabitants. Subsequently, things turned very bad, with children being bullied in the street, and the county directors receiving phone calls in the middle of the night to remove the children from there. Which, unfortunately, happened after a while, when things had definitely got out of hand and the county director feared for her personal security.

CONCLUSIONS AND RECOMMENDATIONS

Judging from the overall situation of child protection in Romania, it is obvious that this sector of social welfare has made a lot of progress lately, and reform is on the right track, even finished in some counties, as said above. What is to be done now relates to sustainability. It is very important for the newly created alternative services to be sustained after international funding is over, and county councils should earmark funds for these services in their budgets. If services are then decentralized to the communities, they should be included in the local budgets and sustained as such.

More facilities should be given to foster parents. These may include higher salaries (or bonuses, or other types of incentives, according to available resources), the setting up of respite centers, more training and support groups, especially for foster parents of children with disabilities. Child allowances should also be increased, to a level that provides them with the bare necessities at least.

Local governments should have the opportunity to hire the necessary staff, or train existing staff, to cover for social welfare needs. The National Child Welfare Strategy speaks about increasing the number of social workers in municipalities by 1,400 until the end of 2004, which cannot be done unless constraints on local government staff are relaxed.

Volunteer work should also be encouraged, especially in relation to day care and respite centers.

A large-scale education and awareness campaign should be initiated, focusing on smaller and underdeveloped communities, where people are more reluctant to change, and more likely to send their children to institutions. The public should also be informed about the achievements of the reform, about the damages of institutionalization and alternative solutions. Education should emphasize the idea that children have a better life with their parents than in institutions, until proven otherwise.

POLITICS

BEFORE AND BEYOND THE PRAGUE NATO SUMMIT: A PRACTICAL AGENDA

FOCUS

At present, more than ever, there is a perceived political need for a balanced NATO enlargement on both its Northern and Southern flanks. The intention is to invite as many as seven countries from Central and Eastern Europe – Estonia, Latvia and Lithuania from the Baltic, Slovakia and Slovenia from Central Europe, and Romania and Bulgaria from the Black Sea region. However, it is possible that NATO will choose a “stream process”, that is to put forward specific Membership Action Plan (MAP)-based criteria, which would facilitate early accession for some of the invited countries and place others on hold until specific issues are sorted out. Such an approach would make NATO enlargement more similar to the EU model of enlargement – i.e. invitation for all, but individualized accession according to performance.

The issuing of a single Alliance decision to basically admit most – seven out of ten – members of the Vilnius Group without having actually to take them in at once has the advantage of avoiding subsequent bargaining and unwanted enlargement debates as more countries become ready for NATO membership. However, if implemented, this approach would weaken the political premium ascribed to NATO membership and take away incentives from those countries that have worked hardest to present strong cases for their NATO accession in Prague.

This section represents an assessment of Romania’s progress on the accession process and the post-Prague tasks that Romania should accomplish after receiving the invitation to join NATO.

GEOPOLITICAL AND STRATEGIC ADVANTAGES – ARE THEY ENOUGH?

Despite making overall great strides on their way towards democratisation and market economy in the past two years (Fig. 1), all other six most likely invitees have their own problems, which have to be sorted out somehow by the time of the end of the ratification period at latest. Estonia still has social

cohesion and cultural identity problems. Latvia has to increase its defence budget to 2% from its current 1.7%, to revise its policy on ethnic minorities and improve its relations with Russia, including the signing of a new bilateral border agreement. Lithuania still has to come to grips with its Holocaust past. Slovenia has to raise its defence expenditure from the current 1.5% to 2%, to turn the Slovenian army into a professional one and to increase its public support for NATO membership, including by organizing a referendum on NATO accession. Bulgaria has to enhance its anti-corruption efforts, to reform its judiciary system and complete its military reform.

Fig. 1. The Vilnius Group Ratings

	Assessment	ALB	BUL	CRO	EST	LAT	LIT	MK	ROM	SK	SLO
Political process	1999-2000	4.25	2.25	4.25	1.75	1.75	1.75	3.50	2.75	2.50	2.00
	2001	4.00	2.00	3.50	1.75	1.75	1.75	3.75	3.00	2.25	1.75
Civil society	1999-2000	4.00	3.75	3.50	2.50	2.25	2.00	3.50	3.00	2.25	1.75
	2001	4.25	3.50	2.75	2.25	2.00	1.75	3.75	3.00	2.00	1.75
Media	1999-2000	4.50	3.50	5.00	1.75	1.75	1.75	3.75	3.50	2.25	1.75
	2001	4.25	3.25	3.50	1.75	1.75	1.75	3.75	3.50	2.00	1.75
Governance	1999-2000	4.75	3.75	4.00	2.25	2.50	2.50	3.00	3.50	3.00	2.25
	2001	4.25	3.50	3.50	2.25	2.25	2.50	3.75	3.75	2.75	2.50
Legal framework	1999-2000	5.00	3.50	4.75	2.00	2.00	2.00	4.25	4.25	2.50	1.50
	2001	4.50	3.50	3.75	2.00	2.00	1.75	4.25	4.25	2.25	1.50
Corruption	1999-2000	6.00	4.75	5.25	3.25	3.50	3.75	5.00	4.25	3.75	2.00
	2001	5.50	4.75	4.50	2.75	3.50	3.75	5.00	4.25	3.75	2.00
Privatization	1999-2000	4.00	3.75	3.75	1.75	2.50	2.50	4.00	4.00	3.25	2.00
	2001	3.75	3.50	3.50	1.75	2.50	2.50	4.00	3.75	3.00	2.25
Macro-ec. policies	1999-2000	5.00	3.50	3.50	2.00	2.50	3.25	4.75	4.00	3.25	2.00
	2001	4.50	3.25	3.50	2.00	2.50	3.00	4.75	3.75	3.25	2.00
Micro-ec. policies	1999-2000	4.50	4.00	3.75	2.00	2.50	2.75	5.00	4.50	3.50	2.00
	2001	4.25	3.75	3.75	2.00	2.50	2.75	5.00	4.50	3.50	2.00
Democratization	1999-2000	4.38	3.31	4.19	2.06	2.06	2.00	3.44	3.19	2.00	1.94
	2001	4.13	3.06	3.25	2.00	1.94	1.94	3.75	3.31	2.25	1.94
Rule of law	1999-2000	5.50	4.13	5.00	2.63	2.75	2.88	4.63	4.25	3.13	1.75
	2001	5.00	4.13	4.13	2.38	2.75	2.75	4.63	4.38	3.00	1.75
Ec. liberalization	1999-2000	4.50	3.75	3.67	1.92	2.50	2.83	4.58	4.17	3.25	2.08
	2001	4.17	3.50	3.58	1.92	2.50	2.75	4.58	4.00	3.25	2.08

Source: Freedom House Ratings and scores are based on a scale of 1 to 7, with 1 representing the highest level and 7 representing the lowest level of performance.

Romania, however, has more than one priority on its hands: to address more convincingly its corruption problems, improve its economic performance in order to be able to sustain its military reform and rather high defence budget, deal with the issue of the confidentiality of sensitive NATO information, as well as complete its recognition of Jewish deportations and persecutions during the Ion Antonescu regime (1940-1944). According to Freedom House ratings, Romania scores worst amongst the seven candidates that are likely to receive an invitation to join the Alliance at the Prague summit (Fig. 2). Moreover, unlike the other candidates, it has not made any progress.

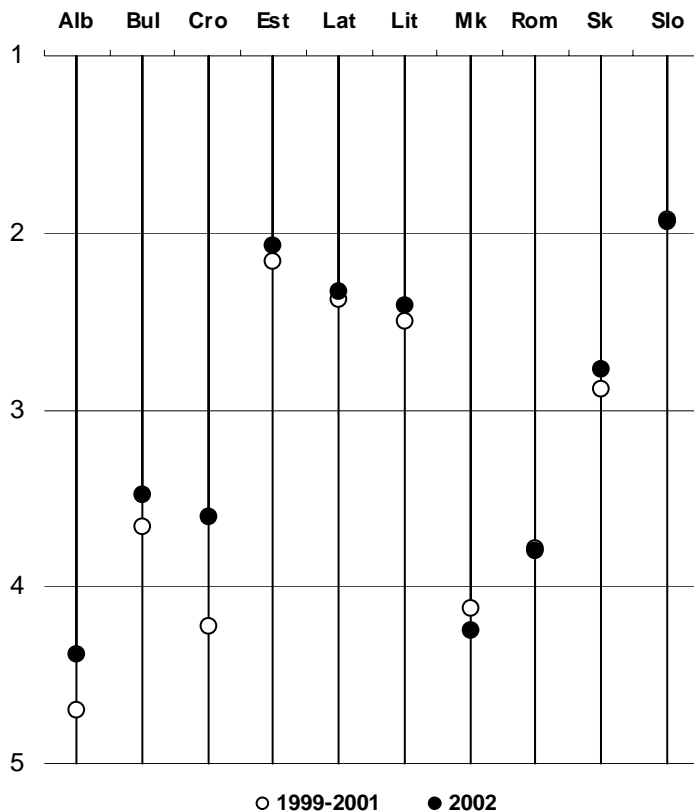
Following a Western suggestion, Romania and Bulgaria have managed to put their NATO candidature in a 2+2 format, convincing Greece and Turkey, traditionally at odds with each other, that lobbying for the two NATO candidates is in their, as well as NATO's, best interest, namely that of consolidating NATO's Southern dimension and simultaneously diffusing bilateral tensions.

By and large, Romania and Bulgaria have been successful in making the strategic argument for their accession into NATO. The two South East European countries were among the first in the region to sign up to President Bush's coalition against terrorism. Both Romania and Bulgaria have opened their airspace unconditionally and offered the use of all land and port facilities, providing bases for U.S. forces flying into Afghanistan and sending peacekeepers in that country. Both countries have tripled their presence in international peacekeeping missions in the Balkans to free up allied troops for Afghanistan. A Romanian facility in the Black Sea city of Constanza has become a staging ground for the rotation of U.S. troops in and out of the Balkans and other theatres, including Afghanistan. And the two countries' military units have co-operated rather well within the International Security and Assistance Force in Afghanistan (ISAF).

Romania and Bulgaria have been propelled into serious consideration for NATO membership in its next round of enlargement because of a range of reasons.

- The two countries managed to remain stable in a very adverse environment, overcoming the threat of importing destabilization.
- Both have proved to be reliable regional security stabilizers. Not only they have proved to be loyal partners in the conflicts in Bosnia and Kosovo and in the war against terrorism, but they have also adopted pro-active regional security co-operation policies.
- Their combined population is of approximately 30 million, making them a critical mass for bringing stability and security in a very sensitive area.

Fig. 2. Comparative evaluation scores of would-be members



Source: Freedom House; 1 highest score, 7 lowest score

- Last but not least, post-September 11th reasons related to the geopolitical and strategic importance of the Black Sea, which could provide a military launch pad for any widening of the war against terrorism, reinforced the cases for Romanian and Bulgarian NATO membership.

However, in order not to remain a simple NATO accession strategy, the Romanian-Bulgarian military duo should move their cooperation to a new level. For the Romanian and Bulgarian military this means working together in various domains, including in the sensitive area of joint capabilities, and taking the lead in promoting regional cooperation. It shall also comprise a deeper involvement in crisis management operations, including possible joint initiatives under the Multinational Peace Force South Eastern Europe (MPSEE), as well as considering the interconnection of the air surveillance systems of the two countries. Thus, once invited to join NATO, Romania and Bulgaria will be able to demonstrate that together they really make a difference for the security environment of South East Europe.

**Romania and Bulgaria
should not wait, but start
working on common
military capabilities such
as joint units or
connected surveillance
systems**

Romania's and Bulgaria's getting into NATO will present the two countries with important investment opportunities. It is well-known that foreign investments in the three Central European countries of the first post-Cold War NATO enlargement increased significantly since those countries joined the Alliance in the late 1990s. Together with Slovenia, the two South East European countries, once admitted into NATO, are bound to reinforce the Southern flank of the Alliance, link it with an exposed member (i.e. Turkey), improve NATO's access for its Balkans peace-keeping operations and enhance regional co-operation and stability, thus generating a more conducive environment for achieving the aims of the international community in the troubled Balkan area. The acceptance of the candidates from both the Balkan and the Baltic regions will boost the process of transforming Russia into an equal and democratic partner in the Euro-Atlantic area.

IMPLEMENTING THE SEPTEMBER 11 LESSONS

The Alliance that will invite new democracies to join it in November 2002 in Prague is not the same military-political organization that it was before 11 September 2001. In spite of NATO's invocation for the first time of its article 5 in the immediate aftermath of the September 11 events, the U.S. decided to bypass its allies and thereby somehow downgrade NATO's military role. Thus, whereas concerning all democracies, by and large the war against terrorism has been America's war, with Europe reduced to playing a supporting role. With the capabilities gap between the U.S. and Europe growing even wider after September 11 and Russia's getting closer to the Alliance after the Reykjavik summit in May 2002, NATO faces the challenge of re-assessing its identity and its strategic significance.

Against this background, the Prague summit is intended to be a NATO transformation summit. The change will emerge in the following directions:

A new, more focused capabilities initiative, with firm, country-by-country commitments to deliver the most urgent requirements, is most likely to emerge. NATO Secretary General George Robertson urged defence ministers to spend more, and more wisely, on their military forces to ensure that the Alliance remains relevant in the post-September world. NATO's Defence Capabilities Initiative launched at the Washington summit in April 1999 has failed to improve the situation. The US\$48 billion increase planned for the U.S. defence budget in 2003 is larger than the total annual defence budgets of both Britain and France, the next biggest military forces. The Europeans not only spend overall just 1.8% of their GDP on defence, as compared with the US 3.4%, but they lack strategic airlift, precision-guided weapons, air-to-air refuelling and tactical missile defence.

Among other things at stake is the way in which NATO is going to handle the increasingly global terrorist threat. Terrorists are to be uprooted in roughly 60 countries and the US cannot wage this rather long and complex battle alone. Despite being a centrepiece of every security scenario and intelligence forecast after the Cold War, the terrorist threat has not triggered structural changes in the defence strategy nor a reconstruction of security institutions. Military organizations, weapons systems, training directories, information and communication systems, and the dimensions of military budgets were not transformed in accordance with the changed hierarchy of security threats. Moreover, the division of labour between law enforcement and intelligence agencies and between the domestic and foreign branches of the latter have largely remained in place in spite of the fact that the post-Cold War threats and particularly the terrorist one have blurred the boundaries between internal and external security. More than one year after the trial of the multicultural global Western world order represented by the 11 September events, at the Prague summit, NATO is committed to correct this lagging behind in combating the terrorist threat.

Several general guidelines in this respect have been already sketched and partially implemented. These include the reinterpretation of the regulations and frameworks of building up coalitions, the review of the frameworks of peacekeeping missions in accordance with the growing importance of their civilian-military and civilian components, the review of the legal instruments regulating the detection, registration, diagnosis and publicity of terrorist organizations and activities, changes in the sanctioning of terrorism, including sanctions for harbouring and financially supporting terrorists, closing down terrorist training camps and other facilities, re-regulation of their extradition, arrest warrant and legal accountability, the coordination of the measures taken against tax havens and money laundering, the inter-agency security co-operation, the integrative co-operation between secret services, with the human factor being ascribed a more prominent role, and changes in the field of research and development in defence industry, with priority given to control and analysis systems, sensors, electronic systems in general, and high-tech intelligence.

Romania should prove itself capable of providing military – and, increasingly, political – support in the fight against terrorism. Military units sent to contribute to the war effort in Afghanistan are important in this context. Clarity and decisiveness is what NATO, and the US in particular,

NATO needs allies able to fight the battles of tomorrow, not those of yesterday. Romania must prove its usefulness in the fight against terrorism.

value now. While Washington's recent decision to boycott the International War Crimes Tribunal may be considered too prudent by halves, we argue here that our government's compliance to the US policy (by signing the bilateral treaty that effectively exempts US military from the Court's jurisdiction) was the wisest under the circumstances and consistent with the firm pro-Atlantic stance inaugurated in 1997.

FOR A PUBLIC-PRIVATE PARTNERSHIP (PPP)

The September 11, 2001 events have significantly changed our perception of the world, leading amongst other things to a heightened awareness of the complexity of the new security environment. Both new and "new-old" security threats and vulnerabilities such as terrorism, weapons of mass destruction (WMD) proliferation, small arms and light weapons (SALW) uncontrolled diffusion, drugs and nuclear material trafficking, illegal immigration, corruption, money laundering, natural hazards, water, oil and gas depletion require a joint civil-military partnership.

Only such a partnership could successfully address issues such as border management, transportation safety, public order safeguarding and civil strife prevention, civil defence and disaster relief preparedness. The need for such a partnership is even more evident in the area of combating terrorism. It became clear that governmental authorities solely could not digest the huge mass of information currently available on terrorist organizations. Moreover, the vulnerabilities of the big infrastructure systems to terrorist activity ask for the setting up of a private sector "army" comprised of financial experts, computer analysts, scientists, physicians and other highly trained specialists ready to work together with the increasingly numerous private security firms to prevent other potential September 11 events to happen.

In the US, this Public-Private Partnership (PPP) is likely to become soon a reality with the already announced intention of the American private sector to spend in the incoming period approximately US\$150 billion for increased security measures across the US, and the encouragement that this rather new trend has received from Mr. Tom Ridge, the director of the newly created Office of Homeland Security. There is a need for a PPP strategy advocacy and implementation in Romania as well. Devising such a strategy and promoting it at both governmental and NGO levels should be a post-Prague primary task in the field of security for Romania.

CONCLUSIONS AND RECOMMENDATIONS

Romania's likely accession to NATO presents new opportunities, but also new challenges, both to the Government, as well as to the Romanian society at large. It is important, in this context, that Romania learn from the experience of earlier NATO joiners from Central Europe in order to maximize the benefits (e.g. stronger investor confidence and renewed interest from foreign investors) and manage the costs of NATO accession.

Equally, one should not forget that in the likely event of Romania's getting an invitation to join NATO, the next two years, needed for the ratification process, are going to be crucial. It is likely that the period between the moment of receiving an invitation and that of signing the North Atlantic Treaty will be more rigorous with respect to the scrutiny of the invitees. Accordingly, the mechanism of the conditionality of NATO accession, which has worked well until now as an incentive for military reform, is likely to be preserved and perhaps even reinforced in the post-Prague circumstances.

NATO accession issues to be addressed within the domestic public debate, and which will inform the public debate within NATO regarding the ratification of the invitations granted in Prague, are plenty. They include:

- the restructuring of defense in terms of downsizing, modernization and professionalization of armed forces, getting rid of unneeded capabilities and setting up new ones
- the reform of the defense industry
- the public support for peacekeeping operations, the status of the accomplishment of the current NATO integration programmes as well as the new opportunities brought about by NATO membership.

In keeping momentum for Romania's Euro-Atlantic integration, the civil society has a major role to play. The gradual forging of a new security culture based on a genuine partnership between governmental authorities and civil society is likely to trigger a new awareness on the part of the population of the need of its active involvement in the process of countering the new security threats. For promoting and implementing a PPP strategy, the authorities should:

- support security-oriented NGOs, keep them informed on governmental initiatives
- assign to independent NGO experts papers on issues which are important for decision-makers, consult them wherever there is a need for that
- actively involve them in promoting Euro-Atlantic integration.

As for their part as independent players, the grass roots NGOs have to:

- put pressure on authorities for accelerating the pace of defense reform before and after the November NATO summit in Prague

- signal any dysfunctional processes that might occur on the road, monitor the way in which different NATO integration programmes (MAP, PARP, etc) were implemented
- secure an informed public support for NATO membership.

To sum up, there is confidence among the ten NATO hopefuls in Central and Eastern Europe that up to seven of them would be invited to join the Alliance. Yet, the ratification of their membership should not be taken for granted. In the two years to come, more scrutiny will be given to how the invitees are dealing with their still pending-to-be-solved domestic problems and actively integrate themselves into NATO's transformation process to deal with the new security threats.

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