

Regulatory Reform. What Role for the Romanian Business Environment

Mihaela Ionelia Popescu

The „business environment” in its complexity and components includes all the external (exogenous) factors: the natural, economic, technological, social and institutional factors, likely to constrain, to validate or to modify the business decisions. The main element of the business environment, the economic agent, reacts according to these factors and, primarily, to the effects of the public policy regulations, caused, consequently, by the national and international economic situation. The volume and complexity of regulations, the number of changes and new regulations and the poor quality of regulatory reform, the uncertainty, risk and lack of trust are part of the main problems that business environment has to overcome in many countries in the European Union. Once reducing the administrative burdens, the economic operators may allocate more resources to their core activities, having thus, the ability to develop the innovation and other additional investments, with positive effect on the improvement of the productivity and the competitive position, creating new jobs. The problems that the Romanian authorities and businesses must cope with, are similar to those identified by the Organization for Economic Co-operation and Development (OECD) with the analysis of the regulations management capacity of the business in the New Member States of the European Union. Among them, Romania needs to encourage the entrepreneurship to boost potential GDP growth through physical capital accumulation and productivity gains.

Key words: *business environment, regulatory, regulations, public institutions, red tape, administrative costs, burdens, Standard Cost Model*

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The institutional role for the business environment

The role of the business environment is perceived as being of a major importance in ensuring a competitive position of a nation. According to the assessment of the World Economic Forum (Porter, 2003), approximately 80% of the differences in the GDP per capita in different countries is due to the microeconomic gap. This fact explains the presence of an increasing analysis of the business environment in a broader spectrum of the economic literature, from the books of reference on globalisation and, therefore, on the impact of this phenomenon on the business environment (Porter 1990, Stiglitz 2003), to books that directly examine the business environment (Morrison 2002, World Bank).

The principles of a competitive strategy, whether national or global, define the attributes relevant at national level. There are four attributes in a broader sense of a nation forming the environment where local firms evolve and compete, that can promote or impede the creation of the competitive advantage. These four attributes are the determining factors the Porter's competitive advantage, known as the "national diamond", containing the internal and external factors that determine the competitiveness: the factors of production, the demand, the related and support industries, the business strategy, structure and competition. The positive or the negative role of a government within the competitive business environment is highlighted by the interpretation of government regulations that influence the "national Diamond".

The role of the business environment for the economic development is influenced by the role of the public policies and regulations, among other external pressures such as the legal barriers to entry, the level of taxes, fiscal policy, infrastructure, as exogenous factors.

Bob Litan, the Vice President of the Kauffman Foundation considers that the transition to entrepreneurial capitalism as a deep change in the **American economy** that has led to the raise of the "innovation-driven" productivity, as a transfer from the managerial capitalism to

the entrepreneurial one. The new entrepreneurial economy comprises the “innovative” entrepreneurs and the “replicating” ones, the first being those generating a higher productivity and standard of living, the others being those providing the necessary goods and services. Even if the process of identifying the conditions that led to this transformation in the American economy is difficult, various economists have agreed that **new public policies that have restructured the incentives for entrepreneurship have played a large role**. Like all the other economic actors, the entrepreneurs shift their activities in response to changes in the “rewards” structure. The switch to entrepreneurial economy has been accelerated by the implementation of some **measures in the U.S. with an effect of reducing the barriers to innovation and of increasing the potential reward of entrepreneurship**. These measures include the successive Executive Orders which required federal agencies to study the costs and benefits of the proposed regulations.

There are a number of analyses on the importance of the business environment and its influence. During the last decade there was a consensus among researchers about the critical importance of the quality of the institutions on the successful development, but **there is no consensus on how to identify those dimensions of the institutional quality that matter most**. This consensus on the importance of institutions is not undisputed. For example, Gregory Clark (2007) addresses the institutionalism explanations of the industrial revolution on the grounds that a number of medieval economies (XIII century, England) had institutions (such as security systems of property rights of land) which would have brought high scores to any policy analysis of the World Bank. Naturally, however, not all researchers who claim that good institutions are important for development would claim that there were only necessary or sufficient.

The contradictory literature on the importance of the business environment for the economic development may mislead the public officials who advise a Prime-minister, a minister of finance or industry.

This fact partly reflects the lack of a common definition of the “institutions” with a role in developing the business environment. Without this definition there could be easily reached to the assimilation of the term only to serve as a cover of the “ignorance” to what actually causes the differences in the economic performance of the societies.

The linkages between the institutions and the performance are increasingly analyzed in the empirical literature. A big part of the research is based on indicators of the business environment at the country level, such as the governance (Daniel Kaufmann, Aart Kraay 2002), the regulatory constraints (e.g. Djankov 2006), the competitiveness (World Economic Forum / Global Competitiveness Index Report), the transparency (country ratings by Transparency International), the quality of bureaucracy, the legal system (Durnev and Kim, 2005) and the level of economic freedom in the economy (Annual Report of the Heritage Foundation).

However, various tests (Commander 2008) suggest that the measurement of the business environment does not get to have a significant explanatory power at the firm or country level in the binding constraints to performance.

According to a study conducted by the consultancy company AT Kearney, the quality of the regulation framework is a determinant of foreign direct investment in South-East Europe, more important than other criteria generally recognized by economists, such as macroeconomic stability, GDP or labour cost.

The administrative regulations

What represents actually “the regulatory reform”? There is no generally accepted definition of the regulatory reform that could be applied to different regulatory systems of the OECD countries. The concept is defined by OECD as referring to the changes that are **improving the quality of regulation, in other words, an increased performance, the cost effectiveness or the quality of the legal regulations and government formalities.** The “reform” may be a single regulation

review, or the reconstruction of an entire regulatory regime and its institutions or the improvement of the processes for making regulations and managing reform. The “deregulation” is a derivative of the regulatory reform and refers to the partial or the complete elimination of the regulation in a sector to improve economic performance.

The OECD research defines the regulation as a set of instruments by which the governments apply their requests on the businesses and citizens. The regulations include laws, informal ordinances and subordinated rules issued by all levels of government and rules issued by non-governmental or self-regulation bodies to which the government has delegated regulatory powers.

The regulations are divided into **three categories**:

The economic regulations intervene directly within the market decisions such as pricing, competition, market entry or exit from the market. The reform aims to increase the economic efficiency by reducing barriers to competition and innovation, often through deregulation and use regulations that promote efficiency and improving regulatory frameworks for market functioning and prudential supervision.

The social regulations protect the public interests such as health, safety, environment and social cohesion. The economic effects of the social regulations may be secondary or even unexpected, but substantial. The reform of these regulations aims to verify that the respective regulation is necessary, in order to design the tools and other regulators, such as market incentives and objective-based approach, which are more flexible, simpler, more efficient and at lower cost.

The administrative regulations are paperwork and administrative formalities – bureaucracy or “red tape” - through which governments collect information and intervene in the individual economic decisions. They can have a substantial impact on private sector performance. The reforms have to eliminate that paperwork no longer needed, streamlining and simplifying those that are necessary to improve the transparency of their application.

The government bureaucracy and excessive regulations have different effects on the business environment (Durnev and Kim, 2005, World Economic Forum, Porter 2003, 2008). **Reducing the administrative burdens arising from government regulations is perceived in general as essential for improving economic performance and competitiveness of countries** (Radaelli, 2004).

The administrative requirements represent an important factor of the business environment in the European Union (EU), consuming a considerable amount of time in this sector for completing various forms and reporting on a wide range of issues. These **costs** are currently estimated by the European Commission at **3.5% of the EU GDP**. Reducing, for example, the volume of the unnecessary reports, an employee of a company can allocate more time to the current activities, thus determining a reduction in the production costs, more investments and innovative activities that would enhance the productivity and competitiveness as a whole.

Completing the forms, obtaining and reporting the information required by government regulations oblige the companies to consume time and money. The volume of paperwork and regulations (subordinate to “red tape”) involved in establishing a business or the delivery of goods may lead to the waiving or the dislocation of the businesses and investing them elsewhere. As such, **the procedure of “cutting red tape” through administrative simplification is very important in reducing administrative burdens and improves the quality of administrative rules**. The efforts in this area are targeted to remove the unnecessary “paper” to reduce delays and streamline the application and licensing processes. **The administrative simplification programs lead to a decrease of the costs of compliance with the governmental requests, thus reducing the barriers on innovation and productivity, facilitating the entrepreneurship and business activity**. The administrative simplification supports the business environment and simplifies the interactions between the government and citizens as well.

The OECD is the initiator of the international activity regarding the administrative simplification since 1990. The 2005 OECD Guidelines on the Quality and Performance of Regulations put the basis of the administrative simplification. The OECD work in this field is supporting, particularly, the analysis of the economic performance of the European Union in light of the regulatory framework. According to the OECD analysis, **the EU needs a new impetus for the simplification of the rules and administrative constraints that stifle competition and restrict trade and investment across borders.** There is a new trend in the EU in order to increase the quality of regulations in developing the business environment and economic growth: reducing the administrative burden or the bureaucracy - less paper work through better, new and improved regulation; better, new and improved, clearer laws. The Action Program of the European Council adopted on 24 January 2007 established **the objective of reducing the administrative burdens of the companies in EU by 25% by 2012. This measure would have a significant economic impact on the economy - the GDP growth rate of nearly 1.5% or approximately 150 billion Euros.**

It is very important to apply a uniform methodology for measuring the impact of regulations since they generate costs in the EU currently estimated at 3.5% of the EU GDP. A reduction in the amount of 25% is a common objective, which can be achieved only through the involvement and ownership of responsibilities by the Member States and European institutions. However, **it is unknown the capacity of the Member States for implementing this policy.** There were no studies for the new EU Member States, except those of the OECD - reports on regulatory reform in the Czech Republic, Hungary and Poland (as OECD Member States).

Following the circuit of the tasks imposed by the regulations on the business environment, we may see that there are different ways through which regulations may affect individual firms and markets, under the form of different costs: the costs of administrative compli-

ance (time and money spent with the formalities and paperwork necessary to meet regulations), dynamic or indirect costs (the costs generated under the form of regulations that reduce the business productivity and innovation) which are difficult to be measured. **The high level of information and reporting to the central and local administration had a negative influence on the business innovation, on the efficiency of the companies and on the macroeconomic environment, as well as on the GDP growth and the competitiveness in the state assembly.**

The Standard Cost Model

Before putting the efforts in reducing the administrative barriers, they must first be measured. **Measuring administrative burdens is the key to reducing them. “What get's measured, gets done”.** The interdependence between the bureaucracy and the GDP growth is validated by a mathematical calculation subordinated to the Standard Cost Model.

The OECD uniqueness lies in measuring and comparing administrative burdens in different countries, a process called “Red Tape Assessment” (RTA). Thus, cutting red tape and simplifying the administrative regulations are based on a methodology of the approximation of the cost of administrative burden (mainly information obligations/IO) resulted from the regulations, depending on the time that calls “a normal effective business”. This approximation is then applied to the entire population of the firms in the business sector for which the regulation takes effect. It is a methodology for measuring administrative costs adjusted by the Standard Cost Model (SCM). Originally started within the OECD by Netherlands, SCM is a method of accounting adopted widely in Europe and beyond. So, the SCM consists of **a methodology for identification and quantification of net administrative costs incurred by economic sector and a tool for targeting and monitoring of effective measures to reduce admin-**

administrative burdens. MCS is not a market research, but a specific method of analysis. SCM is not based on a classical statistical approach, but must be seen as a method of generating the approximation of the appropriate administrative burdens, subsequently applied to the entire population of firms in the business for which the regulation takes effect.

This model is based on a formula with four parameters (variables). By multiplying the four parameters (i. charge or tariff per hour for the fulfilment of the legal information obligations; ii. time as the number of hours; iii. the population of firms affected by the specific regulation and iv. the frequency of operations per year) we obtain a cost estimate of the administrative activities throughout the economy.

The formula quantification of the administrative burdens is, as follows:

$COST = Price \times Time \times Population \times Frequency.$

SCM application in Romania

Romania has announced the same percentage for reducing the administrative burdens as the EU. Since November 2007, the Romanian Government is the beneficiary of a technical assistance project that aims at the SCM implementation in Romania. The first measures had been initiated in 2008 in order to reduce the administrative burdens generated by the legislation.

From the pilot project conducted in Romania in 2008 by the Business Development Group, we will estimate in Romania the administrative costs of carrying the information obligations associated with the implementation by the firms of the Government Decision Nr. 1425/2006 (HG 1425/2006) to approve the methodological norms for the application of the Law on Safety and Health Nr. 319/2006. The population included in the measurement is of **412.900 economic operators** from different sectors and size categories. The number of

the information obligations (IO) was limited at 8 IOs, as major sources of costs related to the HG 1425/2006.

Applying the SCM, we obtain a total administrative cost (at national level for the sectors of activity included) estimated for HG 1425/2006, amounting to 2.604.130.231 RON in the year 2008.

The administrative costs of 2.604.130.231 RON generated by the information obligations arising from the application of a single act with EU relevance to a group of 412.900 firms (meaning approx. 82% of the total of 501.463 enterprises active in industry, construction, trade and other services), represents 0.64% of GDP. Moreover, our estimation was not on the whole economy.

Thus, a simple change in the frequency of meeting each year only one obligation information (from the total 260 information obligations related to Romania from the European directives) generated only by an act (HG 1425/2006), by just 80% of companies active in Romania, would have the effect of reducing administrative costs by nearly 1 billion RON (about 250.000.000 Euros), equivalent to 0.24% of GDP. As a consequence, if this law enforcement would be optimized by reducing the administrative burdens, we would obtain a **reorientation by the economic agents of a 0.24% of GDP to other productive activities or research/innovation.** We validate thus, through a mathematical calculation, **the interdependence between the bureaucracy and GDP growth.**

However, the recommendations for reducing the administrative burdens could be derived from other parameters as well, such as the number of hours applied to achieve an administrative activity (AA). These could be reduced if that AA should be clarified and simplified in terms of legal requirements so that its interpretation to be correct and efficient in terms of time and documents involved.

Reducing the administrative burdens on the business environment would save the government significant sums by eliminat-

ing costly bureaucratic processes. As such, the procedure would have a mutually beneficial effect between government and business, both by saving the government some amount, and the resulting opportunity costs for the business (to invest the amounts resulting from the reduction of administrative burden in other projects investment, such as research and development). This would result in boosting labour productivity as a result of streamlining the regulations that affect the business environment. **During the economic crisis, the administration must be effective in targeting the financial assistance, especially under the priority objective to increase the degree of absorption of European funds. Therefore, simplifying the legislative framework and the administrative procedures and reducing bureaucracy in public institutions are the key dimensions.**

The regulatory reform of the business environment in Romania

The obvious consequence of the international financial crisis - the economic recession in different countries - is expanding on the Romanian economy as well on multiple channels (commercial, financial and exchange rate). The priorities of the government are considering, firstly, the absorption of the European funds by simplifying the legislative framework and administrative procedures, reducing bureaucracy in public institutions. Improving the investors' perceptions of the business environment in Romania through measures such as improving the absorption capacity of European funds, depends on the existence of a coherent regulatory framework on investment and public support for major investments.

The socio-economic evolution of Romania and the international context have stressed the need to start a comprehensive, coherent and better coordinated process of improving the quality of regulations through: the substantiation of the regulations, reducing the administrative burdens, simplifying the administrative procedures, improving the organizational framework and activities of the agencies and regulators

and control authorities, simplification of national legislation and the effective application of the European legislation. Thus, there has been drafted the “Strategy for better regulation at the central public administration 2008 – 2013” which will support the actions launched by the European Commission, focusing in priority on the quality improvement and the simplification of the national regulations, in order to increase the competitiveness and the creation of new jobs.

This strategy is based both on the EU and the OECD requirements through the OECD Program for South-east Europe and the survey conducted by the Government on the impact that the central government regulations have on business activity in Romania. There are more and more signs from the economic operators who have raised the problem of the administrative burdens they face and how they hinder their work, resulting in significant financial loss. A large proportion of working time management continues to be occupied with solving the administrative requirements.

The regulatory framework of the EU has space for improvement through specific solutions for the individual Member countries. It establishes a common minimum standard that can always be improved. It raises, also, specific challenges and difficulties to be addressed by each of the member state.

Looking to Romania in the Global Competitiveness Report 2008-2009 of the Global Economic Forum, the top three most important factors perceived as problems for the Romanian business environment include:

- Public policy instability (13.2% of the responses of managers, a year before being barely mentioned on the 7th place);
- The complexity of tax regulations;
- The ineffective governmental bureaucracy (of public administration).

On the global competitiveness index, Romania was ranked 68 of 131 countries, slightly up from the 74th place occupied in 2007. After the score obtained on a scale from 1 (at least) to 7 (best), Romania registers 4.1 points vs. 4.0 points in 2007. But **Romania remains the penultimate country in EU in terms of competitiveness, surpassing only Bulgaria (which was ranked 76).**

Subordinated to the third above-mentioned factor, the quality of regulation can have a coercive role for business, its modification leading to different costs for firms. The changes occur as a result of the inclusion in the national legislation of various regulations, which in turn should be simplified to reduce the weight of regulation on the business environment. It is estimated that nearly half of the national legislation is now directly or indirectly drafted from the European decisions.

In the OECD Economic Survey of EU in 2007, the Organisation recommended the European Commission to go beyond the initiative of “Better regulation” and to consider the carrying out the impact assessments on all proposals from all the EU institutions. The authorities should opt for more flexible and non-prescriptive regulations.

Romania ranks, nevertheless, the last place on the administrative procedures and regulations within in the last countries that joined the EU, with an index of 3.54 versus 5.98 index of the best performer in the field. But, although a progress has been made as regards the registration of companies, in Romania there is still a high cost of information and reporting to the public administration that the companies have to bear during their operation, with the effect on reducing the innovation and therefore, affecting the productivity of labour. **The indirect costs of regulations on the business environment have resulted in a reduced growth of labour productivity from 2003 to 2008, the annual growth in 2008 being of 4.9% versus 5.3% in 2003.**

As we have already shown above, the first pilot project in Romania within the Strategy of a Better Regulation, aimed the measurement of

the administrative costs resulted from the implementation of the Government Decision HG Nr. 1425/2006 for approving the methodological norms for the application of the Law of Safety and Health no. 319/2006 by the transposition of the Council Directive Nr. 89/391/CE. This was the first application test of methodology for measuring the administrative costs in the Romanian business environment. After identifying and quantifying these costs, the results of the MCS testing have facilitated the calculation of the percentage of 20% reduction of these administrative burdens, assumed by the Romanian Government.

The comparative situation within European Union in cutting red tape

The growth of economic competitiveness together with increased productivity is one of the main challenges recognized by the European Union in the initial Lisbon strategy of and the renewed Lisbon Strategy for Growth and Jobs (adopted in 2000, and 2005). This strategy recognizes that the improvement of the regulatory framework and regulatory processes at the level of the EU institutions and Member States is a key factor in developing a business environment conducive to productivity growth. This policy is known as the “Better Regulation”.

In its analysis of the EU economy, the OECD identifies that compliance with administrative rules is a significant constraint for many SMEs in Europe - the second issue after the problem of purchasing power of customers. Also, the OECD has identified a negative trend in this respect: most of the companies pretend to be very “overburdened” by the administrative regulations reporting that the situation has worsened over the past two years. **At EU-27 level, 44% of SMEs are considered to operate in a overregulated environment (27% say that the regulations go clearly too far, while 17% say they go easily too far).** Also, the European Observatory of SMEs shows that

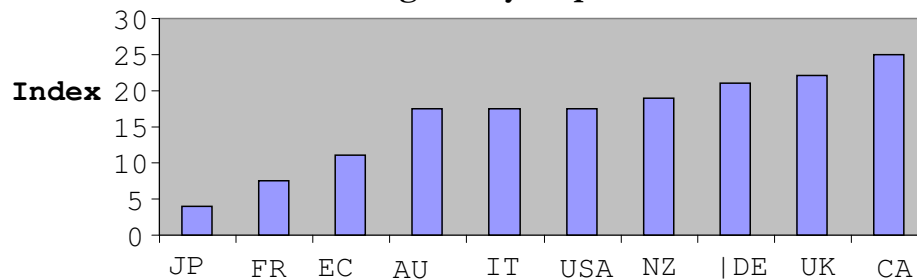
during the recent years, beyond the demand limits, **the most important constraint on the business reported by SMEs was the compliance with the administrative regulations: 36% of European SMEs have reported that this aspect of administrative rules constrains their business activity.** Moreover, the 2008 Observatory concluded that the SMEs perceive a general deterioration of the administrative regulations.

Regarding the European Commission, the program launched by the EC in 2006 for reducing the administrative burdens with 25% until 2012 has benefitted by the efforts of the member countries (supported in turn by OECD).

The majority of the EU Member States have already in place programs for reducing the red tape. Kox (2005) was estimating that **in Great Britain the administrative costs were of 1.5% of the GDP in comparison with 6.8% of GDP in Greece and with the European average of 3.5% based on his estimations.**

The adoption in the UK of the Standard Cost Model would be driven through measures that would lead to a rate of return on investment per Model with a potential for an even greater increase of 1% of GDP. Also, highlighting the Netherlands practice, there could be shown that reducing the administrative burden on the business environment would save significant sums to the government by eliminating costly bureaucratic processes (spending 35 million Euros to reduce administrative burdens - on the assumption that these costs will achieve the EU 25% reduction in administrative burdens -, the GDP growth will be boosted by 6.7 billion Euros). **The European Commission estimated that a reduction in the administrative formalities of 25% would lead to an increase in GDP by 1.3%.** However, the efforts in this regard are slowed down by the fact that the regulation (being drafted by the directive) should follow one long and complex process of intergovernmental negotiation and decision.

Chart 1. Comparison among OECD countries – European Commission under the Regulatory Impact Assessment



Source: OCDE (2006), „Regulatory Quality Indicators report”, Paris

The OECD analysis on the quality of the European Commission impact assessment shows a weak index in comparison with other OECD member states, as noted in the chart above.

For the analysis of administrative costs as part of the reform of the regulatory framework, the Standard Cost Model of Dutch inspiration within the OECD is applied in more than 10 countries. The Netherlands, Belgium, France, Italy, Great Britain, Norway, Denmark, Sweden, Hungary, Poland, Estonia and Czech Republic use this model in one form or another. The number of countries using SCM is increasing. Even if all these countries apply the same technique of calculation, there are still differences in implementation.

A significant progress in the Central European countries has been achieved also in the reduction of administrative costs in the Czech Republic, which continued the process of cutting the red tape and introduced a new legislation related to insolvency, fact that strengthened the position of the creditors, thus encouraging the entrepreneurship. The regulatory reform as a systematic process began to gain importance in the Czech Republic together with the OECD review of regulatory reform in 2000/2001. The report that resulted from this analysis included nearly 70 recommendations and policy options establishing the basis for other activities in this area. An analysis of the administra-

tive burden on enterprises, conducted in 2006 showed **that the total load was approximately 3.5% of GDP in the Czech Republic.**

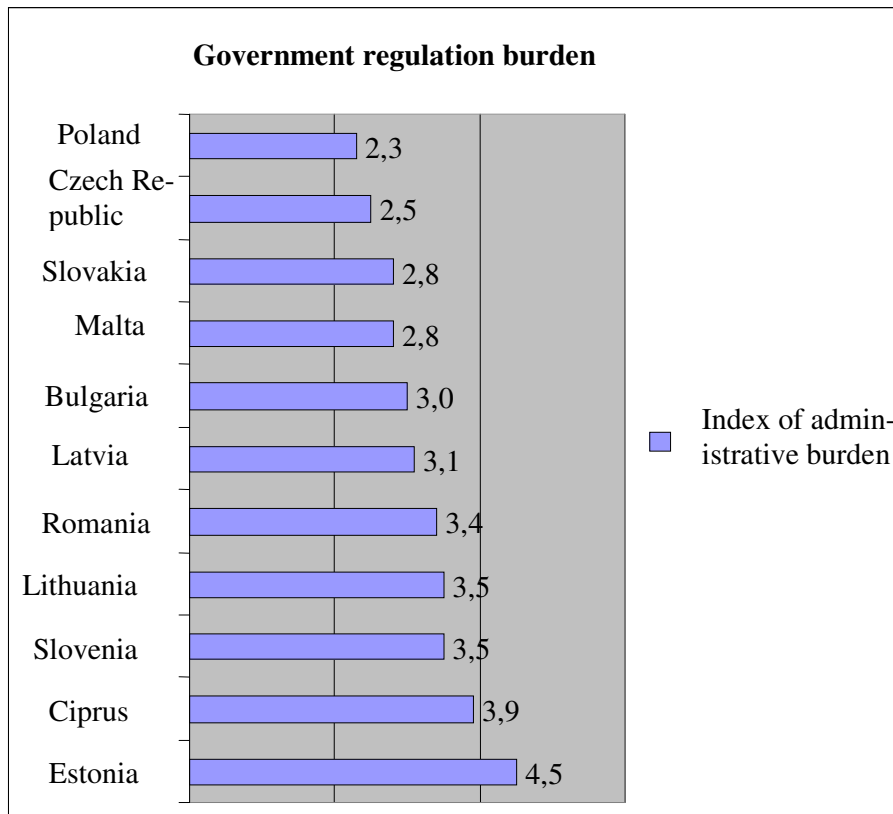
With the help of OECD through SIGMA program (Support for Improvement in Governance and Management), the countries that joined EU in 2004 (Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Slovakia, Slovenia) have benefited between 2005 and 2006 of an analysis of their ability to manage the regulatory business environment. In this analysis, the OECD shows that **the political support is a critical factor for the reform of the regulatory framework**, such as adopting the policy for better regulation.

In most New Member States, there are laws that require an assessment of their impact on business. However, most of these laws have been adopted without implementing the necessary skills or support structures, and by 2007, there was no real commitment to their operation. Therefore, even if there are formal functional mechanisms, they are often ignored. Some of the new Member States (Czech Republic, Lithuania, Poland, Slovak Republic and Slovenia) are aware of this problem and have started since 2006 to deal with it with priority.

Compared to these countries, **Romania didn't benefited from such an analysis by the OECD and, therefore, the implementation of the necessary mechanisms delayed until late 2008 when there was started the project of reducing the administrative burdens and improving the government capacity to reform the regulatory environment.**

Within the Global Competitiveness Index 2008 of the World Economic Forum, the compliance with administrative requirements (permits, regulations, reporting) issued by government of a country, the index 1 shows a burdensome, and an index of level 7, a smooth regulation, not burdening one.

Chart 2. Index of the government regulation within the New Member States



Source: Global Competitiveness Report 2008-2009/World Economic Forum, p. 371

The chart shows for Romania an index of the government or administrative regulation of 3.4 more than the average of 3.3 within the Central and Eastern Europe, showing a burdensome situation.

Nevertheless, the Romanian business environment has progressed in the last year, but remains far from the EU level. The situation is increasingly difficult for the Small and Medium Enterprises as we have demonstrated with the SCM. Among the

challenges faced by the small entrepreneurs in Romania there is the excessive bureaucracy and the lack of skilled staff.

Conclusions

Given all these elements, one should be focusing on two major areas. The first area relates to **enhancing the quality of future regulations** by improving the process of evaluating their impact on the private sector and citizens. This concerns the flow of the regulations. The second area relates to **reducing the administrative burden** arising from the regulations already in force. The regulation plays a central role in the functioning of the economies and is essential to address the market disruption, to stimulate the competition, to promote security, health and welfare. A high-quality framework leads to the achievement of these objectives with the lowest cost possible. However, a low quality regulation can have the opposite effect.

The quality of the regulatory framework is a determinant of foreign direct investment in Romania more important than other criteria generally acknowledged by economists, such as macroeconomic stability, GDP or labour cost. Highlighting the Standard Cost Model practice, there could be shown that **reducing the administrative burden on the business environment would save significant sums** to the government and businesses by eliminating costly bureaucratic processes and reoriented these amounts to other innovation activities increasing productivity (**indirect costs** of regulations has influenced the **growth of labour productivity from 2003 to 2008 – a reduction to 4.9% annual growth in 2008 versus 5.3% in 2003**). As a consequence, we could increase the absorption of the European funds by simplifying the legislative framework and administrative procedures, reducing bureaucracy in public institutions.

The policy for Better Regulation adopted in EU and the Strategy for a Better Regulation adopted in Romania needs a bigger **political support in order to achieve a successful development and imple-**

mentation of the good governance practices and the reform of the regulatory framework. Reducing the administrative burdens, we would obtain a **reorientation by the economic agents of a 0.24% of GDP to other productive activities or research/innovation.**

Therefore, the regulatory framework of the EU and, indirectly Romania has space for improvement through specific solutions for the individual Member countries. It establishes a common minimum standard that can always be improved, but it raises specific challenges and difficulties to be addressed by each of the Member State. And here comes **the role of OECD, as the initiator of the international activity regarding the administrative simplification since 1990.**

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Mihaela Ionelia POPESCU, PhD., Observer to OECD of the Romanian Embassy in Paris, Romanian Ministry of Foreign Affairs. Areas of expertise: economic policy, diplomacy. Publications (selection):

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