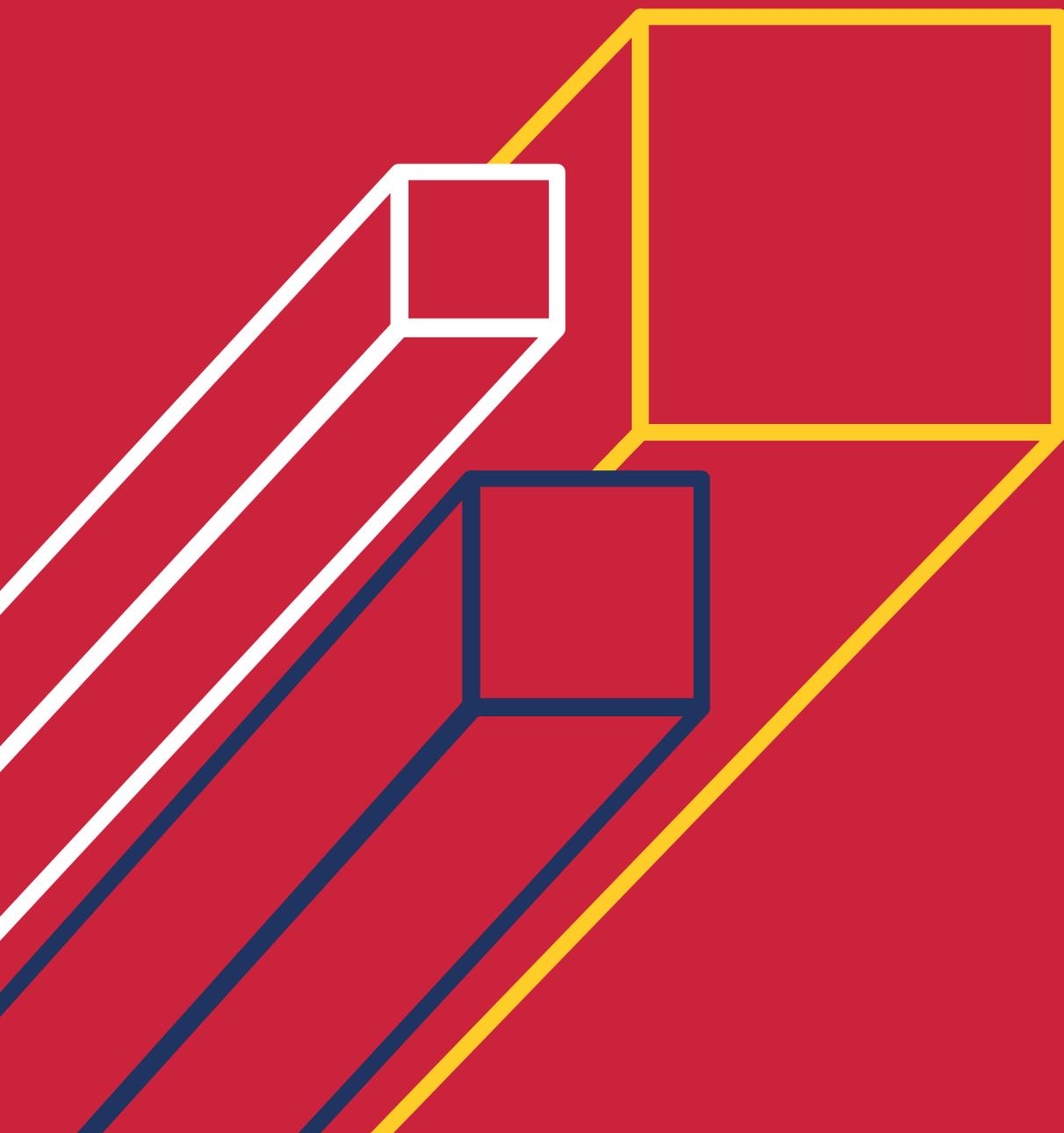


# THE CHALLENGE TO RESTART ECONOMIC GROWTH

FIC RECOMMENDATIONS  
FOR PUBLIC POLICIES

November 2020





## INTRODUCTION

As all governments across Europe face serious challenges on the health and economic front, Romania also had to cope with various and diverse obstacles in weathering this crisis that touched upon the economy and the livelihoods of its citizens.

Acknowledging the uncertainty and the negative economic fallout, Romania put in place an unprecedented level of support measures for both employees and companies in order to mitigate potential systemic risks that could have spiralled downward rapidly. But as the unfolding of the crisis continues and Member states prepare themselves to receive the economic support agreed at the EU level in July 2020, Romania needs to wake up to a new reality – the recovery is not anymore about mitigating risks and damage control, but about a new development paradigm that sustains an inclusive recovery. In this regard, Romania must engage and prioritize appropriate reforms and investments that could enhance the proper functioning of the country. One of the main pillars for any institutional reform should be the professionalization and increased quality of the public servants and consequently of the public services.

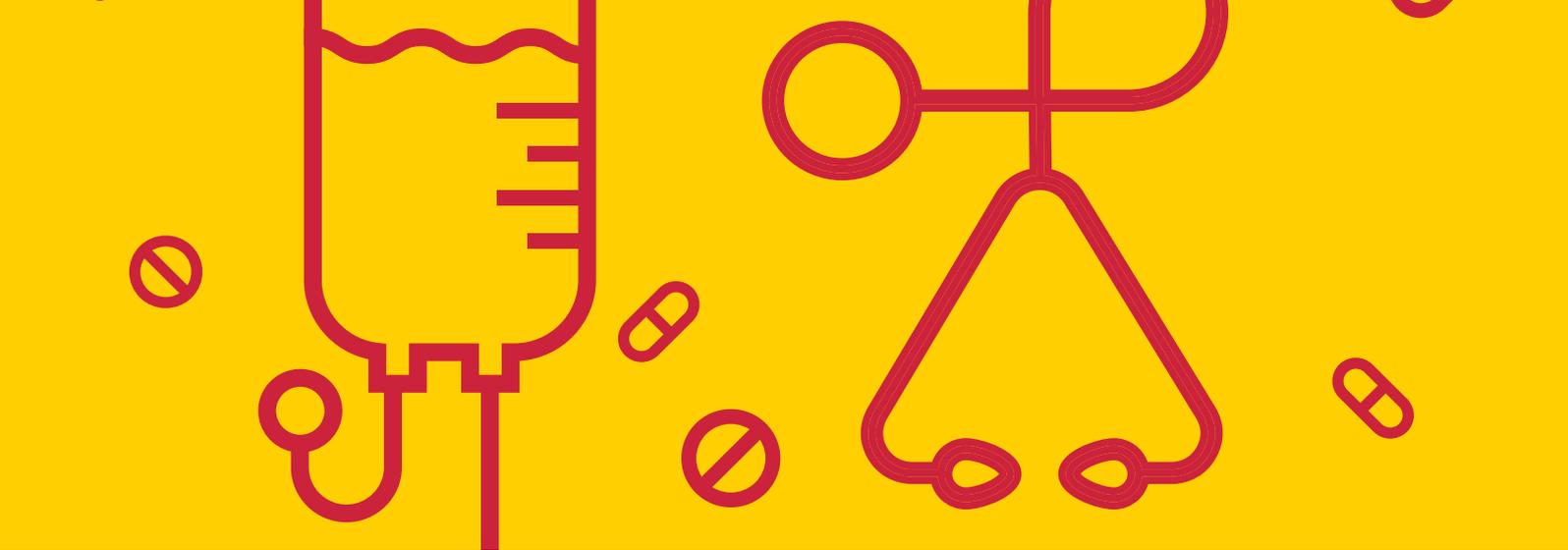
The COVID 19 pandemic forced the entire economy to find new ways of working, to adapt to the restrictions imposed by the authorities and to protect the employees. In these conditions more and more companies choose teleworking in areas where the activity allows the use of this model. Although measures have been taken to improve the legislative framework in Romania, there is still a need for solutions and measures to make labour relations more flexible and digitized in order to allow the continuation and adaptation of economic activities to the current context. Education remains a key factor affecting the labour market, so there is a need to improve the quality and prepare young people to better integrate themselves into the economy and society. At the same time, best solutions must be found to stop the “brain drain” phenomenon and attract Romanians who have emigrated in recent years.

In this current context and given the upcoming parliamentary elections, FIC is calling for seizing this momentum and using this inflexion point to channel resources towards some vital and strategic fields of the economy for which we have elaborated public policies proposals. The underlying logic is that, by doing this, Romania has significant chances not to carry the negative consequences of this crisis for too long in the future and managing to overcome it successfully.

The FIC Board of Directors expects that these policies recommendations will put Romania on track for a major transformation of its society and economy that will benefit everyone.

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## HEALTHCARE

- Implement a plan for continuous training of hospitals' managers and health professionals. The economic environment is a partner of the State in the Reform of the Health system that must be launched urgently and must be based on the reversal of the pyramid of medical services and performance indicators, so that the payment in the system is made on the basis of performance.
- Develop and implement large-scale eHealth tools and solutions – the digital stamp, electronic registries, telemedicine, electronic health record, m-health) to facilitate remote consultations and monitoring of health status of patients, home treatment and delivery, personalized care.
- Effective implementation of current legislative provisions in the clinical trials area and increase the administrative capacity of the clinical trials department within ANMDMR and thus reduce the gap between Romania and other EU countries in terms of access of new innovative treatments to market in order to ensure fast access of Romanian patients.
- Especially in the current context, the authorities should involve the business environment in finding alternative solutions in funding the healthcare system, such as massive prevention campaigns, use of EU funds for private capacity building projects related to healthcare, private alternative components for all employees, such as private insurance and medical subscriptions.

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## ENERGY

- Consultations with the business community regarding legislation impacting the energy sector should be transparent and a reasonable period to allow for substantial feedback. Conducting impact assessments for important legislation would increase transparency and would improve the dialogue with the energy sector and facilitate investment decisions.

### **Main proposals with high and immediate impact on the energy sector:**

- Support for private big investments projects for the energy sector, with a focus on: offshore oil&gas projects to diversify energy sources and security of supply, new power generation capacities including renewable sources in order to meet climate goals, support digitalization of the oil&gas sector in order to enable technological developments meant to compensate the accelerating decline of production in the sector, energy infrastructure for transportation - EV-LNG-CNG, district heating, flexibility to the distribution network and encouraging storage capacities. Romania's window of opportunity of capitalizing on its gas resources in the Black Sea is closing, as it would facilitate a just energy transition and becoming a regional player, this could be possible through competitive fiscal terms, revision of royalties regime and reduce over-regulation of the natural gas market. In the medium and long term, Romania needs to focus also on green gas, such as biomethane and hydrogen. Power generation needs also to be encouraged through the implementation of financing mechanisms such as Contracts for Difference (CfDs). The fiscal aspects of the legislative framework in this regard should be incentivizing the business actors.
- Supporting the full liberalization of the energy market; implementing EU legislation in due time and prioritization of solving the pending infringements relating to the Romanian energy market.
- Increasing the energy efficiency ambition level for 2030.
- An adequate framework for protecting vulnerable categories of consumers. Certain consumers in socially or financially disadvantaged circumstances should be ensured decent access to utilities and payment of utility bills in the context of liberalizing energy markets.

# TAXATION

## Short-term measures

- Consultation between the state authorities and the business community is essential to review both draft legislation and the implementation of existing legislation. This will enhance the quality of legislation and support its uniform application. Clarity, stability and predictability in fiscal legislation as well as in its implementation and interpretation are critical conditions in investment decisions. Any change in legislation, including its interpretation, should be adopted after consultation and duly applied by the tax authorities only for the future and not retrospectively.
- Reform of ANAF should continue, to eliminate the practical deficiencies in fiscal administration, as well as to create an integrated public IT system connecting different authorities. It is important to develop the digitization of ANAF's architecture/entire system following the model of the project initiated with the World Bank.
- Tax treatment of uncollected receivables: the elimination of the 30% deductibility ceiling on the sale of receivables together with maintaining a predictable legislative framework would unblock the debt assignment market and ensure the necessary capital mobilization to maintain the non-performing loans rate in the next 2-3 years, the banking financial system at a sustainable level that supports the capital adequacy ratio, but also a rapid return on credit. Also, the alignment of the provisions of national VAT legislation with the case law of the CJEU regarding the possibility of adjusting VAT for uncollected claims, is an appropriate solution in the current context to ensure the necessary funding resources for business continuity.
- R&D: the fiscal facilities for research and development activities are not applicable, the Ministry of Education and MFP together with the business environment should work together on finding optimal solutions to existing blockages.
- Combating tax evasion: Penalties for tax evasion should be increased and a list of taxpayers with arrears should be made public. Revision of the definition of smuggling, based on quantity criteria, should be considered. Enhancing cooperation between manufacturers and law enforcement agencies would provide additional resources and expertise to government agencies to fight smuggling and tax evasion.
- Voluntary disclosure: a proactive and consistent approach to increasing voluntary disclosure. This approach should include higher penalties for taxpayers which do



not comply with their tax obligations, and incentives for taxpayers which regularly fulfil their obligations on a timely basis. Experience shows that this type of positive stimulation leads to good results – for example, in the case of local taxes, the reduction granted if payment is made in advance brings benefits every year.

- Creation of a database with non-binding and binding rulings: the setting up of a (paid access) database tool (with full respect for the confidentiality principle), bringing together all binding and non-binding tax rulings issued/to be issued by the MFP, in its capacity as legislative issuing authority, in connection with the interpretation of each article of the Fiscal Code, the Fiscal Procedural Code, the Accounting Law and any related secondary legislation, in order to normalise and create a unitary approach to the interpretation of the relevant legal provisions by both tax inspectors and taxpayers throughout Romania.
- Tax refunds: The tax authorities should take steps to ensure swift refunds for companies and individuals which are eligible and should not create unnecessary bureaucratic obstacles or delays.
- Corporate tax consolidation and VAT groups: Legislation on corporate tax consolidation should be passed to allow the off-set of profits and losses within a group of companies. This would bring Romanian legislation into line with other EU countries, encourage the setting up of holding companies in Romania and discourage migration to other jurisdictions. Romania should also adopt the VAT Grouping principle, which allows a number of taxable persons (i.e. a VAT group) to be treated as a single taxable person.
- VAT global representative: introduction of the simplification measures which function under the concept of Global Representative.
- Reinvested profit: extending the list of assets falling under this incentive.

### **Long-term measures**

- Reform and digitalization of ANAF, especially in order to increase the degree of tax collection. The tax reporting system needs to be redesigned by introducing tools that comply with international standards: information collection, monitoring and verification of data reported by taxpayers. Thus, the tax authorities will have an

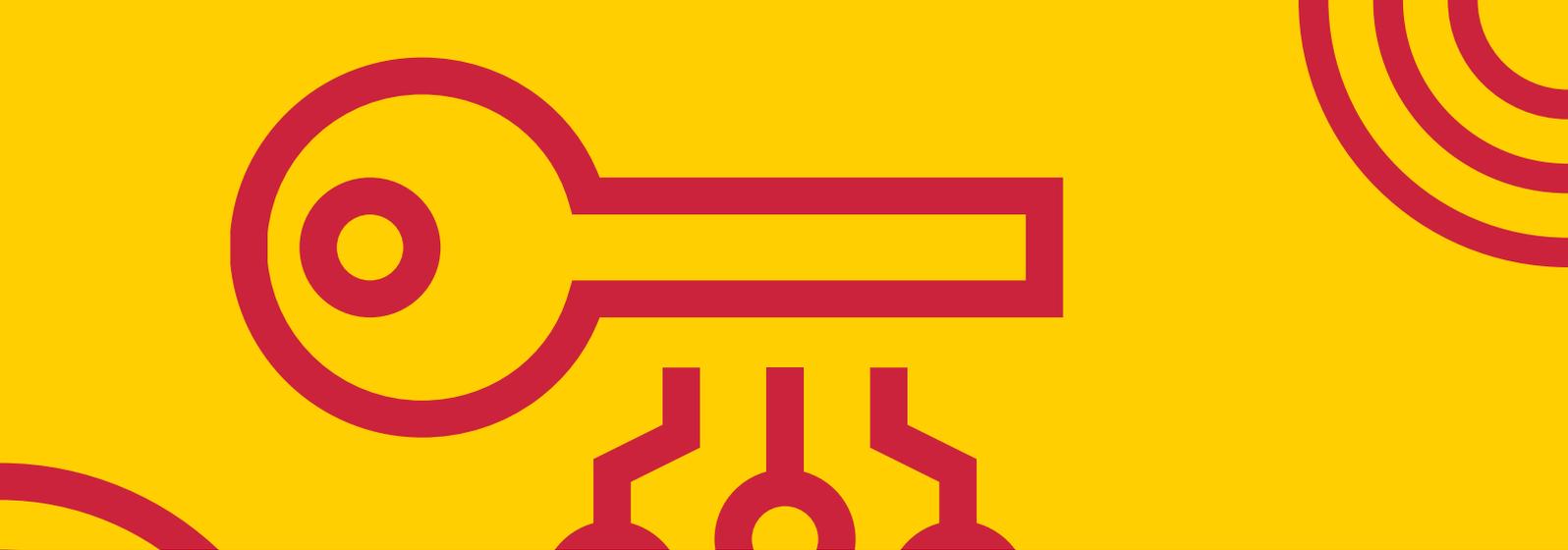


overview of tax operations and will be able to conduct tax inspections or be able to analyze several taxes simultaneously.

- Encouraging voluntary compliance through special programs (following the model of developed countries) as well as through the digitization of ANAF which have the role of contributing to the much more efficient collection of taxes by the Romanian state. At the same time, it will generate a faster identification of non-conformities in the taxpayer's declarations, reducing the repayment time of the amounts owed to the taxpayers, avoiding the deregulation of cash flows.
- Continuous dialogue between the business environment and MFP / ANAF. Fiscal predictability and consultation of the business environment in making major fiscal policy decisions must be basic rules when proposing fiscal policies with an impact on business.
- Implementation of a Code of good conduct of the tax authority - representing an agreement or a set of rules that can ensure a fair and efficient relationship between taxpayers and tax authorities.

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## TECHNOLOGY AND INNOVATION- DIGITALIZATION

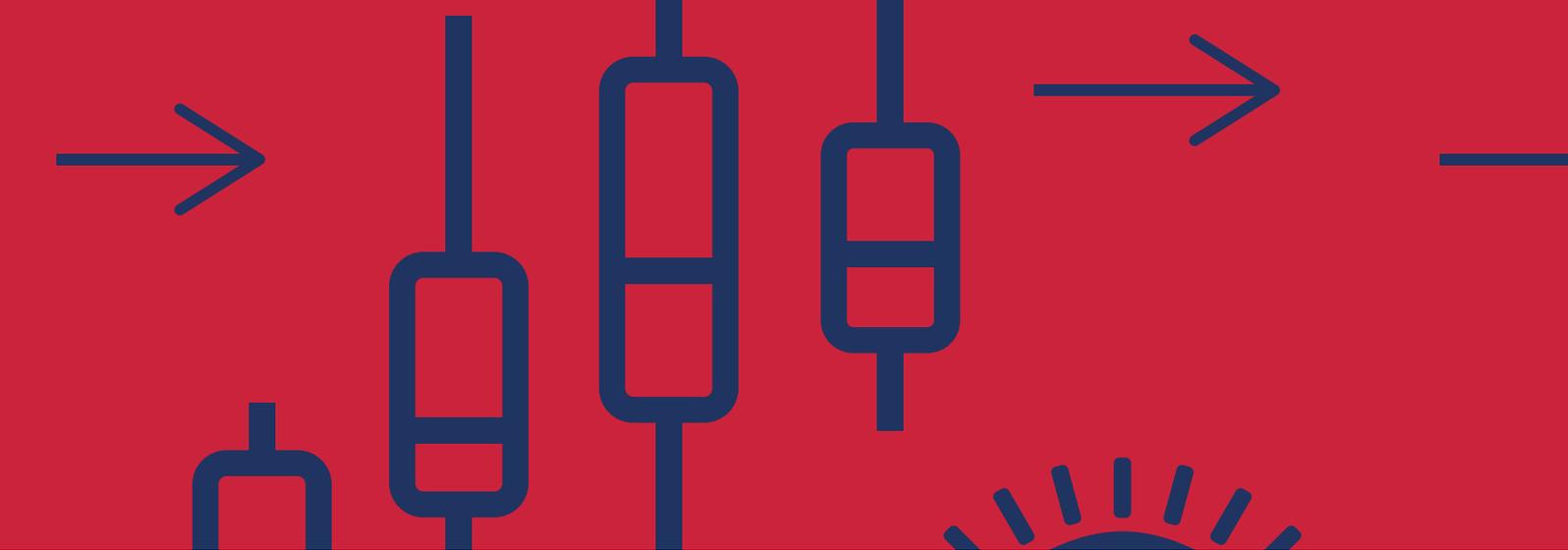
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- Romania needs an urgent digital transformation in order to ensure the sustainability of key areas such as education (by developing an infrastructure that to make online education accessible anywhere in the country), health (telemedicine), interaction with public authorities (e-governance), etc.
- The transition to a digital society will require sustained investment over a considerable period of time, both in terms of electronic communications infrastructure, digital service delivery platforms, and the development of digital skills in various sectors (education, healthcare, industry, etc.).
- The support measures designed at European level aim to ensure that Europe has the infrastructure, connectivity and regulations in place to respond to the challenges of the COVID-19 pandemic, to keep its citizens active and safe online. Romania must follow this trend and take advantage of these EU funding opportunities to make major investments in digitalization.
- Digitization must be one of the priority objectives of the National Recovery and Resilience Plan ensuring the digitization of public services, interconnection of databases and development of infrastructure for very high broadband internet in all areas of Romania.
- Taking into account the objectives undertaken through the EU Digital Agenda updated by the European Commission, broadband penetration and coverage should be treated as a key priority within government strategies. The digitization of public services by financing high-speed broadband connections will help the private sector to operate in a favorable climate, through rapid exchanges with state authorities, which will lead to a rapid increase in the digitization of public and private services for Romanian society. The development of fixed broadband networks in rural areas, should be supported by the Romanian authorities as it is an important component in promoting social inclusion given that rural areas remain less connected than cities, and the penetration rate of ultra-fast broadband connections is far behind the targets set. In this context, attracting European funds for investments in electronic communications infrastructure is essential.

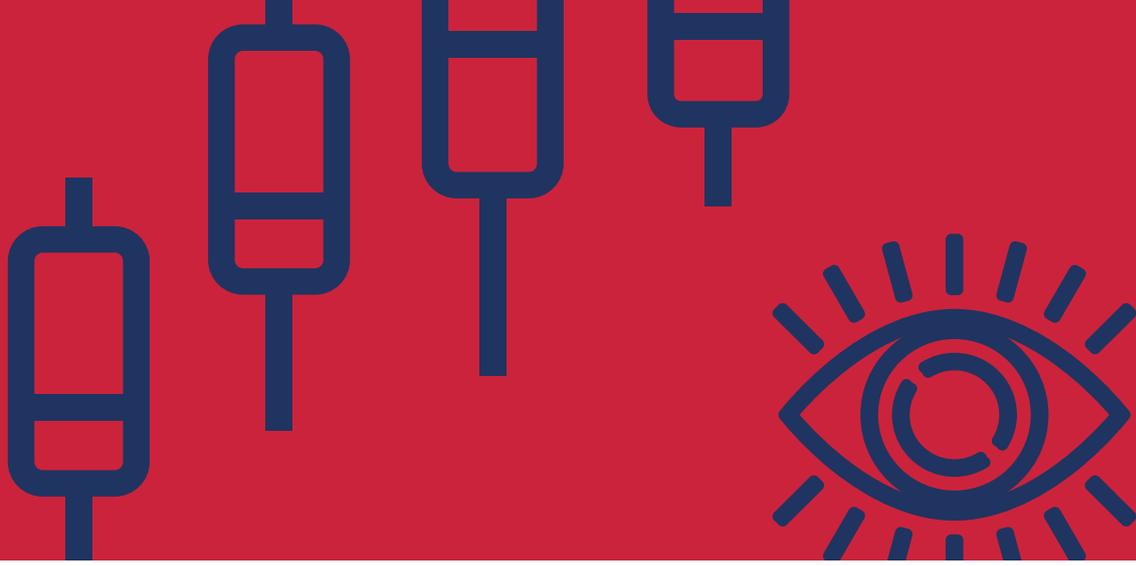


- The authorities should also support the development of the latest generation mobile access technologies (5G) which according to the EC will form the future backbone of our societies and economies, connecting billions of objects and systems, including in critical sectors such as energy, transport, banking, and health, as well as industrial control systems carrying sensitive information and supporting safety systems.
- Creating a national legal framework to ensure the application of all types of electronic signatures, according to the e-IDAS Regulation. The national legislation should be flexible and allow the use of the 3 versions of the electronic signature (simple, advance, and qualified) in order to increase the digitalization process in Romania.
- Awareness and education campaigns to highlight the important benefits of e-IDs and to encourage an increase in the speed of e-ID implementation.
- At national level, a smart city guide should be developed that can be adjusted and replicated among local authorities. The smart city guide should include an open data system which allows data collection and processing from various vendors to be shared with stakeholders (citizens, as well as private and public institutions).



## FINANCIAL SERVICES

- Predictability and transparency. Legislation adoption with adequate consultation. The Parliament and the Government should observe the requirements for public consultation, make public their legislative programme in due time and observe it. Sound impact studies and economic analysis shall precede and accompany any initiative impacting financial services area. They should also refrain from „competing“ when it comes to regulating matters relevant for the functioning of the financial sector. When passing relevant legislation for the financial sector, Romania should keep its commitments under the EU Accession Treaty, such as consultation with the ECB and strict observance of European Directives, that should be respected.
- Common approach and commitment on digitalisation. A unitary approach among various regulators should be reached before the start of digitalisation projects. A common ground should also be reached in order to unblock important projects that could speed up digitalisation of financial services (electronic identification, trust services for electronic transactions). Better communication and automation of the information exchange between credit institutions and authorities' databases (as DEPABD) shall also be achieved.
- Increased focus on the improvement of the level of financial education and financial intermediation. The efforts in this regard should be intensified, so that Romania does not have to wait another generation to benefit from the effects of financial literacy. Financial literacy projects run by the private sector have achieved good outcomes, but in order to be able to extend these nationally, to a larger number of individuals and a wider geographical area, the support and commitment of the public authorities is essential.
- Green Deal/Sustainable Financing – developing innovative responsible financing and investment solutions. Credit institutions to have a positive impact on the development of the economy and society aligning financing activities as quickly as possible with the objectives defined by Paris Agreement.
- Development of the capital market. The local capital market should be supported, mainly by the flotation of major state-owned companies prone to increase the attractiveness of the local stock exchange. Private investors should also be



encouraged to enter the market through simplified procedures and tailored educational programmes.

- The continued development of Pillar 2, by phasing in contributions as provided by law. Private pension funds make up a solid bedrock of national capital, which can be used to consolidate financial markets and develop infrastructure.

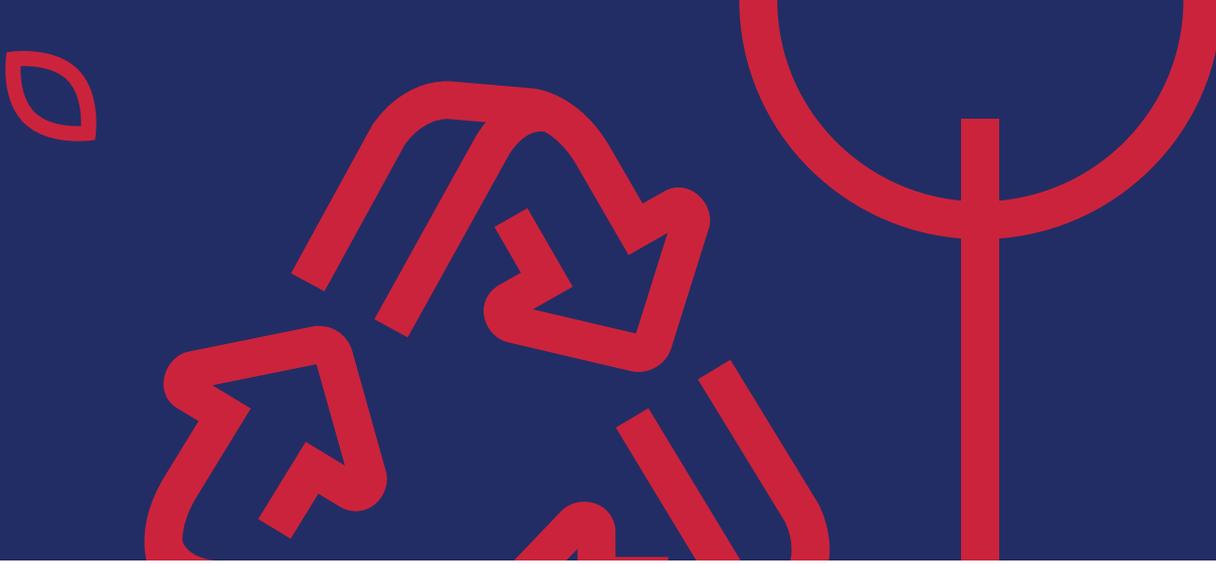
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## ENVIRONMENT

- Legislative predictability should be ensured and a uniform and consistent legislative framework should be created, based on EU principles. Effective consultation with industry representatives should take place with sufficient time prior to the adoption of new environmental regulations or the amending of existing ones. Draft legislation should be based on prior impact assessment studies clearly explaining the need for the proposed changes and documenting why the mechanisms/ rules which are planned to be introduced are the most suitable and fair means to attain the desired results. New legislation should allow transition periods for companies to adapt their businesses to the new requires, clear provisions and correlation with existing legislation in order to avoid future difficulties in interpretation and facilitate their implementation.
- Uniform and consistent environmental practice at the level of all local relevant authorities should be developed in order to avoid different approaches to the same issue. A potential solution to achieve this would be the issuance of written guidelines by the central authorities which would regulate the approach to be taken by local subordinated authorities. Cooperation between the relevant environmental protection and water management authorities should be increased to avoid bottlenecks or contradictions in the regulation of various projects, as well as to ensure smooth implementation of projects which have a double dimension (e.g., remediation of soil and groundwater on contaminated sites).
- Waste management: Setting a methodology for waste flow registration (traceability) from the generation/collection place to the storage, transport, treatment and final recycling/recovery/disposal, and reporting. Achieving a balance between local authorities' and industries' responsibilities, as well as transparency and clarity with respect to obligations vested with operators which carry out similar activities. The local authorities should also be made accountable for the selective collection of post consumption waste (e.g., packages, electric and electronic equipment waste), as this legal obligation should lie primarily with them. Clarifying the concept of waste (and accordingly, issuing case by case interpretations on what is not considered waste), as well as the concept of by-products and the cessation of waste status versus recovery in waste reporting. Clarifying the waste treatment reporting obligation for treatment operations that represent both recycling and



energy recovery (e.g., waste co-processing in cement plants); Clarifying a waste prevention concept, based on reuse, repair or refurbishment as options to extend a product's lifetime and prevent waste flows. Regulating the landfill tax so as to act as an incentive for separate collection, sorting, recycling and recovery operations. Ensuring that the income received by the Environmental Fund from contributions penalising failure to meet waste recycling, recovery and landfill targets is directed to projects to improve the current waste management framework.

- Climate change: Active participation by the Romanian authorities in discussions held at European level is of the utmost importance. It is equally important for the business sector to be properly consulted and its input taken into consideration in the positions taken by the Romanian authorities within the relevant technical groups and public consultations at EU level. Particular focus should be given to pending discussions on post-2020 EU-ETS and Green Deal implementation, especially to those dealing with harmonised allocation and benchmark setting. An intergovernmental group should be formed with representatives from the Environment, Finance and Economy and Energy Ministries to update and monitor the implementation of the national integrated energy and climate plan (NECP) for the period 2021 to 2030. The plan is critical to the achievement of broader sustainable development targets. The authorities should support full implementation of energy efficiency norms, which would have a positive effect from environmental and climate change perspectives. Effective and transparent planning for this, including on how to achieve various EU mandatory targets, would allow for the identification of the most cost-effective solutions, including in the public sector. Consistency with existing policy provisions will also be required to achieve this.
- Environmental authorization: the abrogation of the sanction of suspending the activity as it is disproportionate to the gravity of the act. The order on the annual visa for environmental permits introduced the sanction of suspension of the authorization and, implicitly, of the interdiction to carry out the activity that requires authorization, although the framework law grants a term for entry into legality, not the immediate and automatic application of the suspension sanction.
- Rehabilitation of contaminated sites: finalizing the implementation of the legislation regarding the contaminated sites - the methodology is applicable from September, but list of potentially contaminated sites is still not published.

## ATTRACTING FOREIGN DIRECT INVESTMENTS - FDI

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- Attracting new FDI could be an important way in the short and medium term to stabilize and steadily increase economic growth. It requires limited financial resources from the public sector, and so is not a major burden on the currently constrained state budget. However, it needs a clear policy commitment and long-term engagement by the authorities.
- In the COVID global environment, FDI volumes are diminishing. Companies are aiming primarily to secure their working capital and are often postponing new investments. As a consequence, investors have more options and they are more prudent with their decisions. As value chains are rethought, Romania has a real opportunity of positioning itself as an auspicious country in terms of doing business. It would be useful to outline Romania's direction and to identify new ways of taking action. Public policy measures could focus on encouraging FDI with the highest added value possible and on facilitating the reorientation of FDI to high-tech and knowledge-intensive industries in the service-related fields. Lack of solid measures to increase competitiveness, focused on attracting a certain type of FDI, puts Romania at risk of becoming specialized in industries with low added value and low technological intensity. In this context, Romania should improve its attractiveness for foreign investments, and its commitment to increasing them. In this regard it would be beneficial for Romania to have a more significant presence on international markets, through government agencies dedicated to attracting investments and promoting exports, such as Invest Romania. With a proactive attitude, they could coordinate contacts with potential investors, facilitating the relationship with local governments in the implementation of investment projects.
- In order to build the structure for FDI several measures are needed to be taken:
  1. Adjust the legislative framework: Rule of law as main pillar of the entire system; upgrading and improving legal and regulatory frameworks to reduce investment risks. Dedicated legislation, especially to support large/new industrial/productive foreign investment. Transparency and predictability as prerequisites of any decision by investors.



2. Set-up administrative capacity: An investment promotion body (one-stop-shop) should be established, whose main objective is to encourage investment into Romania by foreign-owned companies. An Agency dedicated to the mission of promoting and attracting foreign investment can offer several aspects, from attracting foreign companies, strengthening upstream links between transnational companies and local companies, encouraging companies to develop subsidiaries and bring segments of the chain higher value-added production in the host country, strengthening the link between industry and universities, developing domestic human capital, using FDI to promote decentralized economic growth or generating sectoral industrial clusters. It should act as a partner with potential and existing investors to help them establish or expand their operations. It could be a governmental body under the PM or a semi-state body. Irrespective of the selected option, the private sector could support the endeavor, bearing in mind the limited state resources in terms of professional expertise and financially.
- Measures and tools needed to achieve the objectives of attracting foreign investment:
    1. Updating the InvestRomania platform. This must become the main source of information for foreign investors interested in the Romanian economy. The platform will become the basic tool for providing relevant information to investors, starting with macroeconomic indicators, the tax system, industrial parks and incentives offered to investors, existing state aid schemes and eligibility conditions, investment guide, quality of life information and the business ecosystem in Romania compared to other countries, etc.
    2. Creating local partnerships to increase the Agency's capacity for action through frequent working visits to different areas of Romania and developing local networks to facilitate the attraction of foreign investments.
    3. Projects to promote specific sectors of activity, relevant for the economic development of the country: holding monthly events dedicated to the industries considered priority. Their role is to facilitate meetings between foreign investors, domestic investors, local authorities and universities.
    4. Strategic use of state aid schemes for different sectors, focusing on a selection

of areas that (i) are locally competitive or (ii) have high potential to bring high added value to the economy.

5. Stimulating inter-institutional collaboration and creating through law inter-institutional collaborations with partners who can provide relevant data to foreign investors: BNR, Ministry of Finance, ONRC, INS etc.
6. Collaboration/relation with private investors: Association with the main groups of investors (foreign & domestic) in Romania to facilitate the links between foreign and Romanian private companies and, further, with universities, local and central public authorities. This can also contribute to reducing the trade deficit that Romania has - most of the deficit is generated by the import of intermediate goods and capital, with a pronounced structural character. Making and updating presentations of different sectors (automotive, IT, agriculture, bioeconomy, aeronautics, creative industries) with relevant information for investors based on recurring data they request in questionnaires sent to the Agency. Develop industrial parks and encourage the authorities to provide the land and facilities necessary to attract companies to industrial parks (at least one industrial park in each county). Identify measures to improve non-fiscal indicators in the global competitiveness index. Activation of regional / local offices in terms of interaction with foreign investors (replication of the central model - organization, materials available to investors, staff - at regional level, with the specifics of each region). Provide "after-care" services for investors, to encourage the expansion of investments and, possibly, the location of other segments of the value chain in Romania (research-development, design, etc.).

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