

THE CONTEXT AND DYNAMICS OF ROMANIAN STATE-OWNED ENTERPRISES

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Abstract: *Among the largest reforms in the world that affected the public sector is the reorganization and privatization of state-owned enterprises that limit the efforts to reduce poverty and, consequently economic growth. This study aims to provide a road map on how Romanian state-owned enterprises acted within the decentralization reform. Using qualitative research methods to analyze the national regulatory frameworks, two big restructuring waves of Romanian state-owned enterprises were identified. The results of the research show that the reform of Romanian state-owned enterprises is done gradually and depending on the industry in which it operates.*

Keywords: state-owned enterprises; public sector reform; decentralization;

JEL codes: D73; M21;

Introduction

In a constantly developing world, governments are striving to reform their economies. But, as expected, not all parts of the economy react the same way when a change occurs. One of those parts that have remained stubbornly resistant to reform is represented by state-owned enterprises (World Bank, 1995). The effects of the prolonged reaction of this type of company can be observed in the whole national economy, especially in the poorest and emerging countries.

State-owned enterprises are companies totally or partially owned and controlled by the state. Their aim is not to make money but rather to pursue other goals (Yeyati and Negri, 2023, Grossi et al., 2015; Grossi and Thomasson, 2015). Even if SOEs have been affected by numerous changes over time, they still represent a substantial part of GDP, employment, and market capitalization (OECD, 2015). Regardless of the role they play in the economy, state-owned enterprises are often prevalent in utilities and infrastructure industries, such as energy, transport, telecommunications, and in some cases also hydrocarbons and finance (OECD, 2015). By offering goods and services impetuously needed, their understanding and dynamics are of great importance to broad segments of the population and other parts of the business sector.

Among the largest public sector reforms in the world is the reorganization and privatization of state-owned enterprises that limit the efforts to reduce poverty and, consequently economic growth. The Romanian government also responded to this challenge with a significant impact. Even nowadays, Romanian state-owned enterprises play an important role despite massive privatization efforts during the past decades. According to the reports published by the Ministry of Public Finance and the National Institute of Statistics the GDP contributed by state-owned enterprises represents an important part of the national markets. The joint sales amount of Romanian state-owned enterprises in 2017 was 47,948,358 thousand lei, representing 5.6% of Romanian GDP. Moreover, the number of SOEs in 2018 increased from 209 in 2017 to 211, employing over 186 thousand people (Ministry of Finance, 2014-2018; National Institute of Statistics, 2014-2018).

This study aims to provide a road map on how Romanian state-owned enterprises acted within the decentralization reform. The understanding of the reform trajectory and its effects is of

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high importance, as the Romanian state-owned enterprises have represented for a long time the largest shareholding held by a government in Europe and continue to have a significant contribution to GDP, a large number of employees, and resources. Another argument that could explain the importance of the reform understanding is that the Romanian state retains a central role in key sectors like energy, transport, national defense, finance, and pharmaceutical.

The paper includes a presentation of the research methodology used to achieve the objective of the study, followed by a section describing the state-owned enterprises within the Romanian public sector. The further section comprises the analysis of the decentralization reform of Romanian state-owned enterprises. The paper ends with conclusions and future research directions.

Research Methodology

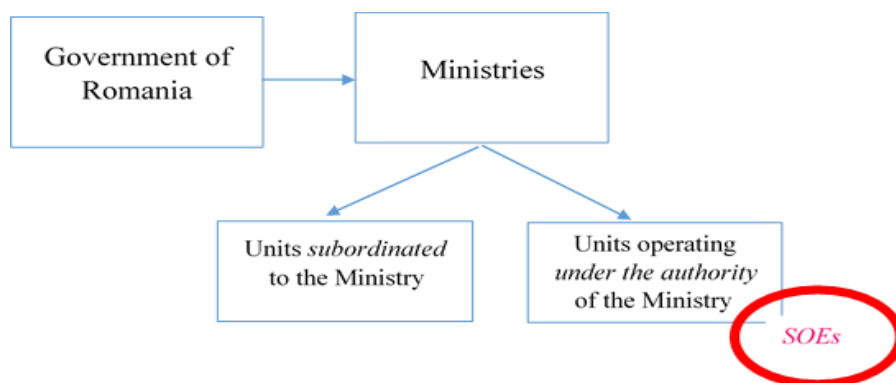
The main research questions, correlated to the aim of the study are: How decentralization was done within Romanian state-owned enterprises? What are the factors that influenced the inclusion of state-owned enterprises in the decentralization process? To achieve the main objective of the study and answer the research questions, the national regulatory framework was qualitatively analyzed using the content analysis research method. The following regulatory frameworks designed to reorganize Romanian state-owned enterprises were identified and analyzed:

- Law no. 15/1990 - The reorganization of the state economic units as regie autonomous and commercial companies;
- OUG no. 30/1997 – The reorganization of regie autonomus.

State-owned enterprises within the Romanian public sector

The reforms that affected the public sector worldwide have also reached Romania’s public sector. The organizational structure of the public sector has experienced changes that led to a new form of delivery services and goods, fulfilled by state-owned enterprises. Starting from the premise that state-owned enterprises can be found under different names and characteristics (PWC, 2015), it was considered important to clarify where state-owned enterprises could be found within the Romanian public sector. As can be observed in Figure 1, state-owned enterprises within the Romanian public sector are located in the category - Units operating under the authority of the Ministry.

Figure 1. State-owned enterprises within the Romanian public sector



Source: Authors' projection

The Government is the public authority of executive power that follows to ensure the achievement of internal and external policy of the country and exercises the management of public administration. The Government coordinates the activity of 20 Ministries. Each Ministry fulfills its duties in a direct way or through specialized technical bodies. So, each Ministry has units that are subordinated to it and units operating under the authority of the Ministry.

Units subordinated to the Ministry - Ministries can set up subordinate units with the approval of the Court of Accounts. These units perform as administrative-territorial units and can be identified as public services that are in the Ministries' control, regulated by Law no. 90/2011 Organising and Functioning of the Romanian Government and the Ministries (the same law that applies to Ministries). The decision to set up or to close one administrative-territorial unit, but also to set their objectives, activities, organizational structure, board members, and key management positions, the number of employees must be approved by the Ministry representative (Law 90/2011, art.44). We were able to identify three major categories of units subordinated to the Ministry using the budgeting criteria: units subordinated to the Ministry fully funded from the state budget, units subordinated to the Ministry partially funded from the state and units subordinated to the Ministry financially independent from the state budget.

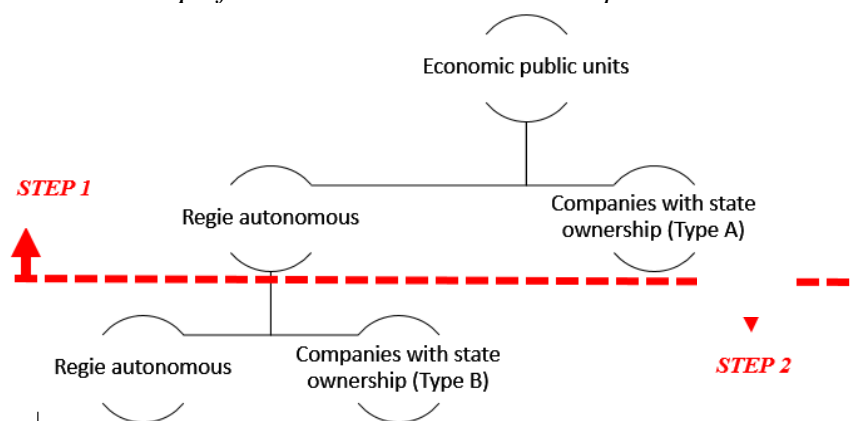
Units operating under the authority of the Ministry – One of the Government's roles is to manage the interests owned by the state in different types of public entities. Thus, the Government through its Ministries is seen as a body responsible for monitoring state-owned enterprises. Romanian state-owned enterprises are grouped within Ministry into units operating under the authority of the Minister. The Ministry has to pursue impartially the fulfillment of the public policy objectives. Their main challenge is to find out the equilibrium of their active shareholder role while not interfering with company management.

By comparing the two types of units could be noticed some significant differences in terms of control and legal form. In terms of control, in the state-owned enterprises' case, the Ministry doesn't interfere in the day-by-day management, while the units subordinated to the Ministry are fully controlled by the Ministry (AAAS, 2018). Besides, in terms of the legal form, the units subordinated to the Ministry are organized and function under the same law as the Ministries (Law 90/2001), while state-owned enterprises are organized mainly under the commercial law (Companies Law no. 31/1990), or even under specific laws.

Decentralization reform and Romanian state-owned enterprises

In the beginning, the engine of the Romanian economy has laid on economic public units. The first wave of decentralization, or the first step as it can be observed in Figure 2 took place around 1990. By adopting the Law no 15/1990 all economic public units were reorganized as state-owned enterprises. State-owned enterprises were split between regie autonomous and national companies based on their economic interest: strategic or not. All economic public units activating in the weapon, energy, mining and gas, transport industries, and other industries specifically mentioned by the government were transformed into regie autonomus. The remaining economic public units that were not considered to have strategic objectives became national companies.

Figure 2: A road map of Romanian state-owned enterprises' decentralization reform



Source: Author's projection

The second step began seven years later and focused on all regie autonomous established according to Law no. 15/1990 - *The reorganization of the state economic units as regie autonomous and commercial companies* that provided public utility services and recorded losses. The strategic interest can also be identified in the second restructuring wave through the fact that certain entities were exempted from the reorganization reform even if they provided public utility services: Regie Autonomous "Monitorul Oficial", Regie Autonomous "Loteria Naționala". Regie Autonomous "Imprimeria Naționala", Regie Autonomous "Monetaria Statului", and Regie Autonomous "Multiproduct".

The reorganization framework was endorsed by OUG no. 30/1997 – *The reorganization of regie autonomous*. According to this, each Ministry or local public administration was accountable for identifying what entities deserve a reorganization or not, and also establishing the reorganization measures for each of its state-owned companies (regie autonomous category) selected to be included in the restructuring process. Thus, all efficient regie autonomous that provided public utility services turned into state companies organized under commercial law and were subjected to the privatization process. The closing steps were established for the rest of the regie autonomous for which reorganization was not a solution.

Thus, the decentralization reform has been done in two steps based on two fundamental regulations that reformed the Romanian state-owned enterprises. For a better understanding of the process, the table below (Table 1) synthesizes the main factors that influenced the decentralization process:

Table 1: Determining factors in the decentralization reform

<i>Criteria</i>	<i>Step 1</i>	<i>Step 2</i>
<i>Field of activity</i>	All, except weapons, mining and natural gas industries, mail, and rail transport	Public utility services
<i>Privatization</i>	Total or partial privatization	The state has to decide whether it wants to keep the ownership or golden share property
<i>Name</i>	n/a	National companies or National enterprises
<i>Capital/ assets owned after the reorganization</i>	The company takes full assets	The company doesn't take the assets referred to in Art. 135 alin.4 from Constitution

Source: Author's projection

The determining factors that guided the decentralization reform are the field of activity, subsequent privatization, state-owned enterprises' name, and capital/assets owned after the reorganization. The leading criteria used in both waves of state-owned enterprises restructuring was the field of activity. The first wave of restructuring was stronger than the second, with all state-owned enterprises except weapons, mining and natural gas industries, mail, and rail transport being subject to restructuring. The emphasis on criteria such as privatizations, name, and capital/assets owned after the reorganization could be explained by the smaller number of state-owned enterprises that were selected for restructuring.

Conclusions

The fact that large companies in Romania maintain significant public ownership must be a guarantee that the economic value is created and maintained for the benefit of the Romanian citizens. The need to improve Romanian state-owned enterprises' efficiency has principally economic reasons: the functionality, solvency, and liquidity of these companies have a broad influence on the whole economy, as the Romanian state-owned enterprises are seen as an important vector for economic recovery and state budget balancing (AAAS, 2018, p.6).

This study aimed to provide a road map on how Romanian state-owned enterprises acted within the decentralization reform. The reform of state-owned enterprises has been done based on two legal frameworks: Law no. 15/1990 - The reorganization of the state economic units as regie autonomous and commercial companies, and OUG no. 30/1997 – The reorganization of regie autonomous. Using qualitative research methods to analyze the national regulatory frameworks, two big restructuring waves of Romanian state-owned enterprises were identified. The results of the research show that the reform of Romanian state-owned enterprises is done gradually and depending on the industry in which it operates.

Regardless of the added value of the research, the study has several limitations. The research analyzed only the legislative framework that directed the decentralization reform of Romanian state-owned enterprises. Future studies can extend the research to other similar countries or could analyze the impact of the reform on the national economy to generate in-depth additional insights on this topic.

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Disclaimer

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