

Forum Series on the Role of Institutions in Promoting Economic Growth

Extending the Analysis:
Romania

**Lessons from the Investors Roadmap:
Implementation Challenges
and
An Exploratory Assessment of the Major Barriers to Rural
Entrepreneurship from a New Institutional Economic Perspective**

By

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Forum 8

New Institutional Economics and Development: Case Studies and Applications

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Executive Summary

This report synthesizes the result of the Mercatus Center investigation aimed at extending the analysis of barriers to investment in Romania from the perspective of the New Institutional Theory. These results are intended as complementary to the USAID projects already undertaken in Romania. With this end in view the report is structured along two lines:

- (1) An assessment of earlier USAID initiatives, specially the application of the IRIS-USAID policies to improve the legislative and regulatory framework for business investment;
- (2) An alternative analytical approach focusing on the entrepreneurship processes in rural areas from a multilevel institutional perspective building on a methodology based on interviews, fieldwork and media content analysis.

Due to the fact that the report is a synthesis of studies, surveys, media analyses, case studies and fieldwork observation files, some of the most relevant details regarding them and the methods and approaches employed are provided in an annex.

1. PREVIOUS USAID EFFORTS IN ROMANIA

A. An Overview of Previous Efforts

In order to identify the relevant barriers in the development of small and medium sized enterprises, IRIS Center Romania drafted a report on Red Tape and regulatory procedures that affected Romania's business environment. Following the Red Tape Analysis report, IRIS developed a series of initiatives to simplify bureaucratic procedures and to clarify the confusing and unpredictable regulatory and legal environment in Romania. Out of them five deserve a special attention: (1) "*Local Approvals - Five Step Program*" –project was designed as a private and public sector partnership in order to reduce the time and effort necessary to obtain approvals and other related site development authorizations to operate and register a small and medium sized enterprise. (2) "*Payroll Reporting and Inspections Regime*" project tried to improve the efficiency and to reduce corruption in payroll reporting and inspections. (3) "*Cost-Benefit Analysis*" initiative was meant to introduce government agencies to the concept of cost-benefit analysis. (4) "*Transparency*" was an initiative meant to develop administrative procedure codes that create transparency in the public decision-making process. (5) "*Economic Police*" investigated how the business community—particularly MSMEs—perceive these agencies in order to provide an informational basis for reform recommendations.

B. Assessing Previous Efforts

Based on the analysis of the design and implementation of the programs our team concluded that: (1) In terms of strategy and conceptualization the approach developed by IRIS was efficient in identifying the barriers to investment. The approach identified correctly a set of problems and their solutions, from a specific conceptual perspective: that static compliance costs of regulations imposed on investors start up processes are a critical remaining barrier to entrepreneurship in urban Romania. (2) The success of the implementation of the solution was more local and fragmentary and indirect than expected but was impressive if compared to analogous programs. (3) The local-level central-level dynamics revealed by the IRIS experience draws attention to the important notion of institutional levels or decision arenas in policy implementation and to the linkages between them. (4) The limits of the approach were not determined primarily by the conceptualization or methodology but by the inherent barriers to policy initiatives. Those barriers could be identified as political economy and "public choice" related and point to among other things to the very important notion of "policy ownership". The Romanian actors need to endogenize the policies identified by outside agencies or experts in order to overcome the interest groups and institutional inertia supporting the status quo. Significant lessons can be learned and generalizations drawn from the Romanian USAID case.

Our team considers that the crucial significance of the political economy processes surrounding initiatives aimed at identifying and removing barriers to economic activity is one of the key lessons emerging out of the Red Tape exercise. The *implementation phase matters* and the definition of problems and their solutions might be differently perceived if from the very beginning the "implementation processes" is considered explicitly and systematically at the very beginning of the initiative.

The IRIS experience in Romania shows that it is critical for USAID to engage in a policy implementation pre-assessment and to systematically and institutionally generate policy ownership effects for the measures it promotes.

C. Lessons learned and further investigations

Studying the IRIS implementation lead us to identify a general dysfunction in the economic policy making and implementation process in Romania. Any economic policy, irrespective of its analytical quality and its justification would be mired and blocked by the maze of interests and institutional inertia that characterize this process. As long as the policy process is not tightened up and well structured in terms of political support, any initiative, no matter how analytically and pragmatically grounded, will likely be dissipated, eroded and emasculated in the implementation process.

To bolster these conclusions top Romanian economic policy decision makers that were involved at one point or another in the economic reform process at the top tier were investigated: ex-ministers of finance, ex-ministers of privatization, two ex-prime ministers, ex-ministers of reform, secretaries of state, chairs of the parliamentary economic commission and several top academics that played an advisory role. The responses of thirty-eight top economic decision makers to a 33 questions survey and ten in-depth interviews confirm the assessment of the dysfunctional state of the economic policy decision-making and implementation process. The economic policy process seems to be perceived as incoherent by the very actors that implement it. There is no clear institutionalized process for articulating policies and for supporting economic policy initiatives. As a result when policies are defined and supported by foreign development agencies, policy ownership and responsibility are even more weak and diffused.

As a general conclusion one could conjecture that one of the reasons USAID-like initiatives in countries like Romania haven't been as successful as expected is because the dysfunctional economic policy process generates weak support and a lack of "policy ownership" among potential reformers. In other words, absent a strong economic policy institutional mechanism and a strong policy ownership element built into the reform process, USAID efforts like those discussed in our assessment are unlikely to achieve optimal results despite having correctly identified necessary policy changes.

2. EXTENDING THE ANALYSIS: COMPLEMENTARY APPROACHES AND ALTERNATIVE PERSPECTIVES. EXPLORATORY ASSESSMENT OF THE MAJOR BARRIERS TO RURAL ENTREPRENEURSHIP IN ROMANIA

A. Extending the investigation: practical and analytical rationales

Our study developed an approach focusing on the entrepreneurship processes in rural areas from a multilevel institutional perspectives building on a methodology based on interviews, fieldwork and content analysis. The selection of each element of the approach had a strong practical and analytical rationale.

The focus on *entrepreneurship* and the entrepreneurial process shifts the focus from the *investment process* to the broader *economic process that surrounds entrepreneurial actions*. From this perspective the investment process is one element or step in the larger entrepreneurial process. The study shifted from barriers to investment to impediments to entrepreneurial action. The *rural sector* is especially important in the case of Romania both in its structural and in its quantitative aspects. The first aspect is due to its long-lasting historical and institutional impact, while the quantitative is a reflection of the significant weight of the rural sector as an employment base in the national economy. Almost half (47.3%) of the Romanian population lives in rural areas, agriculture employs 40% of the total number of employed persons. Previous IRIS-USAID looked at the urban areas. Our investigation focused on the rural.

Finally in terms of the conceptual framework employed, the study uses an “institutional configuration analysis”. This marks a move from an approach that investigates the sector- and activity- centered procedures related to the investment process, to one that looks at the broader entrepreneurial process, captures the linkages between institutional levels and political economy processes and is uniquely sensitive to the specific contexts.

B. Approach and method

Our analysis is based on a set of approaches and methods: rural field work conducted in two rural communities, representative of two historic regions in Romania: the less developed Wallachia (the southern part) and the more developed Transylvania (the western part). Interviews, discussions and study visits were conducted on a systematic basis both in the rural and urban areas. A large number of special interviews with decision makers and academics were also conducted in Bucharest. A content analysis study looking at the way the problems facing rural entrepreneurs and entrepreneurial initiatives were reflected in mass media was undertaken: four national daily and two weekly newspapers were examined. Besides the standard reports and statistical sources the analysis and synthesis of previous studies was another important source of data.

To code and evaluate the data a grid was developed. The grid was meant to map and identify how various institutional variables pertaining to the International, National and Local institutional and decision levels impact the various stages of the entrepreneurial process: Existence of entrepreneurial situation and its identification; Planning, financing, resource mobilization & project launch; Organization, consolidation & operation; Reassessment of plan. By combining the institutional level with the entrepreneurial stages one obtains a two-dimensional framework for analyzing the impact of various actions made at various decision levels on specific points in the entrepreneurial process.

C. Rural Entrepreneurship: assessment of barriers and comparison with urban areas in the post 2001 situation.

Our investigation has established that rural entrepreneurs have similar bureaucratic and administrative problems and encounter similar barriers to those encountered by urban entrepreneurs. From that respect their environment is perceived as similar and it is similar to the urban environment. Moreover the changes introduced in the regulatory environment since 2000 have yet to have an impact on rural economic life. The study revealed no awareness or signs of a significant change in the business environment for rural entrepreneurs since 2000. The interviews, the field observations and the content analysis revealed that the same problems reported by urban entrepreneurs in 1999-2000 plagued the rural entrepreneurs in 2003. Comparing reports of the entrepreneurial environment and the investment climate at the end of the last decade with the current data, one may conclude that little if anything has changed.

D. The special predicament of the rural entrepreneurs: the absence of a real market and the control from the center

While rural entrepreneurs share the same regulatory burden and administrative problems with urban entrepreneurs, they have to cope with two sets of additional challenges. First, a mere extension of the typical urban problems, amplified by the distance from bureaus, lack of information, and other associated burdens and costs. These costs could be alleviated but not eliminated through the standard approach. Second, and more importantly, there is a set of special

barriers that are due not to direct administrative measures or regulatory decisions but to broader *structural institutional and political economic factors*. Analyzing the data gathered in terms of the basic political economy and institutional elements, four special features of the rural entrepreneurs' institutional and political economy situation emerge which far exceed the importance of the administrative barriers:

- (1) the lack of a solid market and of market relations in rural areas;
- (2) the dysfunctional land property rights and land ownership structure;
- (3) the center-periphery dynamics between the political center and the rural areas: the administrative, political and economic dependency of rural areas on the center;
- (4) the direct and indirect negative impact of the European Union's Common Agricultural Policy on Romania's agricultural sector and rural communities.

These are the most damaging barriers to entrepreneurship in rural Romania and are exceedingly difficult to deal with as they require major policies aimed at increasing the market participation of the rural population, changing the property rights structure and the institutional dynamics at the national political level. Their crucial importance is clearly revealed if the analytical focus is shifted from the investment phase to the broader entrepreneurial process. Even a perfectly functional administrative and bureaucratic process, in terms of entrepreneurial needs, would not cause the entrepreneurial energies of the Romanian rural entrepreneurs to be properly rewarded if these major barriers remain in place.

CONCLUSIONS

Both the study of the barriers to policy implementation and of the barriers to rural entrepreneurs from a New Institutional Economics perspective demonstrate that systematic focus of the reform of national/central level institutions that shape the economic policy making process is crucial. Both require bold, comprehensive policy initiatives at the center. Although local level efforts aimed at improving the bureaucratic and administrative process might be successful, they have clear limits and no amount of such small-scale successes can lead to a tipping point. Even assuming 100% success and a totally functional bureaucratic system, the absence of market relations in rural areas cannot be solved by these means (or only by those means). The question is how to generate a "big push" at the center in terms of political will to implement a set of policies thoroughly and consistently. Although there are many factors, interests and institutions shaping a given policy, the analysis of USAID experience from a New Institutional Economics perspective points to the need to develop a functional and firmly institutionalized economic policy making process at the center and the need of nationals to internalize the policy, to learn how to develop and sustain it, and thus to own it and take responsibility for it. Consequently the challenges of initiatives like the USAID initiative used as an analytical vehicle by our team is not only how to identify the problems and define intuitively feasible solutions but (a) how to imagine and implement feasible solutions incorporating the realities of local communities and the existing institutional configurations and (b) how to involve the locals in the process so they take responsibility for the implementation of the solution.

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INTRODUCTION

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- (3) An assessment of earlier USAID initiatives, specially the application of the IRIS-USAID policies to improve the legislative and regulatory framework for business investment;
- (4) An alternative analytical approach focusing on the entrepreneurship processes in rural areas from a multilevel institutional perspective building on a methodology based on interviews, fieldwork and media content analysis.

Both sections of the report place a special emphasis on the conclusions and lessons that can be drawn from the Romanian case and that can be relevant for USAID initiatives not only in Romania but also in other transition or developing countries.

Due to the fact that the report is a synthesis of studies, surveys, media analyses, case studies and fieldwork observation files, some of the most relevant details regarding them and the methods and approaches employed are provided in an annex.

I. ECONOMIC HISTORY AND CURRENT SITUATION

A. Economic History

The modern economic history of Romania begins with the Treaty of Adrianopole in 1829. This treaty ended Ottoman economic domination and opened the way for Romania's integration into the international economic system. Starting as an almost entirely agrarian economy, in the next part of the century Romania quickly developed trade, economic infrastructure and the beginnings of industrialization. Important political successes in this time strengthened these developments. For instance, Moldavia and Wallachia were unified in 1859 and Romania gained formal independence in 1877. During this period Romania became one of the major world exporters of grain and meat. Economic policy oscillated between free trade and protectionism, ending in a slightly protectionist position after 1866.

Romania's economic development during the interwar period has been dubbed "the Romanian miracle."¹ Following WWI, Transylvania, Basarabia and Bucovina united with Romania in 1918. Despite heavy losses incurred during war, the economy grew quickly in these years. Industrialization continued, as did the development of a modern economic infrastructure. Romania became a major oil exporter, although agriculture remained the most significant source of income. This fact is due mainly to agricultural reform that took place during this period, which divided land into parcels averaging 3.92 hectares. Although large (more than 100 hectares) land possessions remained important, this reform created a large class of Romanian peasants among the close to 80 percent of the population located in rural areas.

The communist period (1947-1989) not only destroyed Romania's burgeoning market economy, but wreaked havoc with Romania's social structure as well. In its first phase, Soviet economic exploitation slowed Romania's recovery from the heavy losses of WWII. In its second phase, communist projects like land collectivization, forced industrialization and economic planning,

¹ Maria Mureşan and Dumitru Mureşan, „Istoria economiei”, Ed. Economică, Bucharest 1998.

created an economy completely unequipped to satisfy consumer demands. Instead, the economy was designed to satisfy predefined indicators of development specified by the party leadership.

B. Current Situation

Romania is a lower middle-income developing country in transition from a centrally planned economy to a market economy. Its population is approximately 22 million, making it one of the largest countries in Central Europe. According to a national census conducted in March 2003, over 47% of the population lives in rural areas.² Romania is a constitutional democracy with a multiparty, bicameral parliamentary system. In 2002, Romania was invited to join NATO and in 2003 the international community targeted 2007 for potential Romanian accession in the European Union.

GDP Growth. Since its economic transition began in 1989, the Romanian economy has experienced its ups and downs. GDP growth reached its trough in 1992 at about -13 percent. It peaked in 1995 around 7% and currently stands at just under 5%. Romania's "Pre-Accession Economic Program" projects average GDP growth of slightly over 5% between now and 2005. The most recent data available suggests that Romanian GDP is worth about \$47 billion. However, it is important to note that official statistics significantly understate economic activity because of the considerable size of Romania's informal economy.

Inflation. Romania's annual inflation rate reached its peak in 1993 at an estimated 256.1%. Since then, it has fallen significantly and is currently below 18%.

Privatization. The private sector has continued to grow but the weight of large loss-making public enterprises remains high. Averaging 63.7% over the period, the share of the private sector in GDP has steadily increased, climbing to 70%. However, public companies still account for more than 40% of enterprise investment and 75% of all tangible assets. In the agricultural sector despite some progress, the problem of property titles is not yet fully clarified and nearly all land is privately owned and an effective land market is still at an early stage. This and the limited progress in the privatization of agricultural companies hold back the consolidation of fragmented

² All statistics in the above paragraph are from the *CIA World Factbook*, 2003

holdings.³ In 2001 the private sector employed 62.8% of the work force, primarily in commerce and services (37.5%), agriculture and forestry (17.3%), industry (17.3) and construction (3.4).

Economic Freedom Index. Since 1995, Romania's total Heritage Foundation/World Street Journal Economic Freedom Index Score varied between a low of 3.3 in 1998, 1999 and 2000, and a high of 3.75 in 2003. This range of scores falls into the category of *Mostly Unfree*.⁴

II. PREVIOUS USAID EFFORTS IN ROMANIA

A. An Overview of Previous Efforts

USAID objectives regarding the private sector and the problems of overcoming barriers to the development of Small and Medium-sized Enterprises in Romania were operationalized through a series of initiatives, the most relevant in the recent period being: Enterprise development and strengthening by providing comprehensive access to credit, capital and investment financed through NGO-based lending, private micro-finance companies and commercial bank cooperation; Raising the entrepreneurial capacity of credit unions; Technical assistance in development of initiative and business advocacy; Strengthening business associations in various sectors; Investment and loan programs for private businesses, and Advisory services to Romanian financial institutions.

The set of initiatives aimed at private and public partners such as Business Associations, Chambers of Commerce and Local Authorities meant to improve the business environment for small and medium-sized enterprises (SME⁵) was a pivotal element among those activities mentioned above. The purpose of this assistance was to streamline the legal and administrative processes required for a Romanian enterprise to register and operate.

A special attention has been given to specific policies in MSMEs development. The investor was one of the key elements of these policies. In order to identify the relevant barriers in the development of MSMEs, IRIS Center Romania drafted a report on Red Tape and regulatory

³ "2002 Regular Report on Romania's Progress Towards Accession", issued by the Commission of the European Communities, Brussels, 9.10.2002, SEC (2002) 1409, p.45.

⁴ The Heritage Foundation, Index of Economic Freedom. Available at: <http://www.heritage.org/research/features/index/>. (Scale: 1-Free, 5-Unfree).

⁵ (M)SME – (Micro) Small and Medium Sized Enterprise – company with less than 250 employees

procedures that affected Romania's business environment. This report contained information and an analysis of the regulatory framework, as well as economic data generated by interviewing 200 small and medium sized enterprises throughout Romania. The report presented the barriers that a company is faced with in the field of business registration, licensing and approvals, fiscal obligations, utilities, land ownership, construction and various regulatory and legislative obligations.

The Red Tape Analysis was influential in the creation of the Government of Romania's Action Plan for improving the business environment, which was passed via Government Decision 1189 on August 23, 2001 and amended via Government Decision 209 on February 28, 2002. Also, most deregulation recommendations within the Red Tape Analysis were incorporated into a new NATO accession action plan coordinated with NATO and the Ministry of Foreign Affairs.

Following the Red Tape Analysis report, IRIS developed a series of initiatives to simplify bureaucratic procedures and to clarify the confusing and unpredictable regulatory and legal environment in Romania. Out of them five deserve a special attention:

“Local Approvals - Five Step Program” – IRIS Center with the support of the U.S. Agency for International Development, the US Embassy and the Research Triangle Institute launched this program in July 2000. Eighty cities in Romania were called to participate and ultimately 29 of these cities sent formal letters of participation and took part in the six-month program. The project was designed as a private and public sector partnership in order to reduce the time and effort necessary to obtain approvals and other related site development authorizations to operate and register an SME. This was to be accomplished through both the elimination of some approvals, reduction of the paperwork involved in processing and fostering mechanisms for increased communication and transparency between officials and MSMEs .

Five steps were defined. Each step corresponds to a particular barrier identified within the “Red Tape Survey”: (1) Eliminate the operating authorization issued by city halls in order to reduce the redundant approvals that a business needs to obtain. (2) Reduce time in local approvals process in contract processing for Local Community Sewer Authority, Local Water Management Authority, Local Supplier of Thermo Energy and Local Garbage Removal, by allowing for Health, Environment and Fire Brigade approvals and authorizations to be applied simultaneously. (3) Increase transparency in local approval processes by conducting public hearings / debates on

business environment decisions issued locally, by establishing an office within city halls as points to register complaints against both the government and individual businesses. (4) Reduce time in building construction permit process – by using the concept of a “one stop shop” facility. (5) Enable simultaneous issuing of the fiscal code and registration certificate.

As of December 31, 2000, when the first stage of the project reached its completion, four cities had completed all five steps required (Timisoara, Iasi, Giurgiu, Cluj). Although a handful of other cities had also made significant progress within the program (Buzau, Arad, Bacau, Pitesti) their success was more limited.

“Payroll Reporting and Inspections Regime”. The “Payroll Reporting” initiative identified that the Romanian payroll reporting and inspections regime is subject to excessive red tape, administrative duplication, a time-consuming and costly burden for MSMEs . This finding has been corroborated with a subsequent report drafted by World Bank – FIAS (Foreign Investment Advisory Service), which identified labor reporting as a barrier to investment in Romania. The project aimed to improve the efficiency and to reduce corruption in payroll reporting and inspections by promoting a set of principles such as: centralization of payroll reporting and consolidated declaration forms, reduction in payroll reporting frequency and/or computerization of reporting, simplification of the payroll reporting procedures for MSMEs and improvements in targeting of inspections.

In order to reduce the red-tape in this area without going through thorough legislative amendments IRIS recommended the monthly declarations be converted into a unique declaration that would be filed with the Pension Houses; inter-institutional communication of the information needed by the other involved state institutions, replacing the 6 payment orders to the State Treasury with a special payment order in which the payments would be in separate accounts, and the State Treasury oversee the payments in the separate accounts arranged by the business.

The project was implemented in coordination with representatives of the Ministry of Labor, the Ministry for MSMEs and all the relevant social fund agencies, the World Bank, European Union, USAID, US Embassy, Business environment representatives: National Council of MSMEs , UGIR-1903 and other representative SME associations, including regional organizations.

“Cost-Benefit Analysis”. The goal of this initiative was to introduce government agencies to the concept of cost-benefit analysis. Focus was placed on considering the interests of various groups and individuals and measuring costs and benefits that different potential courses of action would generate. IRIS held a series of cost-benefit analysis training sessions beginning in 2001 where these concepts were presented to both central and local authorities.

“Transparency”. The initiative to increase transparency was aimed at developing administrative procedure codes that create transparency in the public decision-making process. These transparency codes include stipulations such as prior notice of upcoming decisions and pending regulations, as well as mechanisms for meaningful private participation in the decision-making process. This transparency project worked with local communities and was adopted in Giurgiu, Sibiu and Timisoara. The transparency codes adopted in these communities were superceded by the national Transparency Law (Law no. 52) passed by the Parliament of Romania on July 21, 2003. The national law will not modify the use of transparency at the local level. Rather, it is aimed at ensuring the continuity of transparency across localities.

“Economic Police”. IRIS Center Romania conducted a survey from May 2001 to June 2001 of the Financial Guard and Economic Police in Romania. The study investigated how the business community—particularly MSMEs—perceive these agencies. The objective of the study was to provide an informational basis for reform recommendations. The results were included in the Action Plan between the Romanian Government and the World Bank for the Second Private Sector Adjustment Loan (PSAL II).

B. Assessing Previous Efforts

Our teams examined the substance and implementation process of each of these programs. These programs and the analyses they were based on took as a starting point the investors and the sequence of events related to the bureaucratic process associated with their activities. Their modus operandi was to identify problems or clusters of problems and then to address them with specific initiatives. A large number of problems were thus identified and addressed and a large number of policy initiatives and laws emerged as potential solutions to those problems. When evaluated in the light of initial expectations one may consider that many of these initiatives were not very successful however if expectations are gauged by the success of other, similar projects

that typically end up with a very limited set of legal or institutional results the success was considerable and must be acknowledged.

However our analyses reveal that the routes, conditions and factors affecting the implementation process and its success were crucial and deserve special attention. Irrespective of how analytically correct the identification of a specific barrier to economic activity is, the success of any solution intended to overcome that barrier will be determined to an overwhelming extent by the existence of a series of policy hurdles. Thus as a result of an overview of the way the IRIS-USAID policy programs were implemented, the issue of *factors, conditions and barriers to policy initiatives emerges as critical*. The set of programs emerging out of “Red Tape” survey was an extremely important social experiment pushing to the limelight the important issue of the factors that determine the success of such policies aimed at eliminating barriers to investment, entrepreneurship and economic activity in general.

In this context our team identified two related but different pivotal themes:

- (a) the political economy and public choice factors that influenced the success of the implementation of the reform policies of the type analyzed and
- (b) the importance of the distinction between different decision arenas/institutional levels - between the level at which the targeted problem is located and the level at which the solution addressing it is implemented.

One can distinguish between: *Local level* – (e.g. “Local Approvals”); the implementation and decision-making process falls under the responsibility of the local public administration, the territorial representative offices of various governmental institutions, the civil society and the business environment. *Central level* – policies with focus at the national level, the Government, the Parliament, national agencies, etc. An economic policy implementation strategy must consider the political economy and institutional circumstances of each level and the interplay between them before starting an initiative.

The implementation of the IRIS-USAID policies intended to improve the legislative and regulatory frameworks for business shows that on the one hand that those dimensions of the strategies focused at the local level or relying on both local and national action were more successful than those who relied directly and exclusively on action at the national/center level. On the other hand, our team also concluded that in the case of the local approaches the magnitude of

change induced was limited. At best local institutions could optimize within the existing institutional framework. They were able to change things but only within existing limits. The existing institutions and regulatory parameters determine the degree of change and most of these parameters and institutions are currently set in various degrees by the “center” and not at the local level. In order for a reform to be effective and efficient it takes more than local initiatives to optimize within the existing conditions. A local policy often means elimination of redundancies, increased efficiency in the application of a law, and so on, which requires structural modifications, hence a central policy, i.e. a policy aimed at affecting higher institutional levels or decision arenas.

It should be noted that IRIS knew from the beginning that it was engaged in a test aimed at determining the extent to which improvements could be made within the existing general political-institutional setting. Thus it is appropriate to conclude that IRIS initiative was a very good experiment in terms of exploring the capacity of various levels. The results reveal the fact that it is important to identify the level to be addressed for a specific policy and that opens up the possibility to explore the issue of calibrating and coordinating policy reforms at different levels.

The analysis of the “Red Tape” initiatives reveals the importance of the policy initiation and lobbying capacity of the implementer for overcoming the status quo lobby and implementing the policy. It is worth noting the importance of the business community and the civil society involvement in the successful reform activity throughout the three years of the IRIS program. For a policy to be implemented it is important to have the active support either of a political party or of the civil society and/or the professional associations that could overcome the lobby of the bureaucratic and economic interests that promote the statu quo.

This set of insights opens a broader perspective on the initiatives aimed at identifying and removing barriers to economic activity. The way the policy process, inspired by an expert assessment is structured by political parties, local communities and interest groups, and the way they use the institutional or administrative barriers to block or further a policy change initiative is crucial for the success of the policy.

The significance of the political economy processes surrounding initiatives aimed at removing barriers to economic activity is in this respect one of the key lessons emerging out of the “Red Tape” exercise. The *implementation phase matters* and the definition of problems and their

solutions might have been different if from the very beginning the “implementation processes” is considered explicitly and systematically at the beginning of the initiative. A formal agreement of support from the government or party in power is insufficient: interest groups, coalitions and institutions matter. Also “policy ownership”, the voluntary and credible commitment of responsibility for a programs of policies, matters. The IRIS experience in Romania shows that it is critical for USAID to engage in a policy implementation pre-assessment and to systematically and institutionally generate policy ownership effects for the measures it promotes. In summary:

1. In terms of strategy and conceptualization the approach developed by IRIS was efficient in identifying the barriers to investment. The approach identified correctly a set of problems and their solutions, from a specific conceptual perspective: that static compliance costs of regulations imposed on investors start up processes are a critical remaining barrier to entrepreneurship in urban Romania.
2. The success of the implementation of the solution was more local and fragmentary and indirect than expected but was impressive if compared with analogous programs.
3. The local-central dynamics revealed by the IRIS experience draws attention to the important notion of institutional levels or decision arenas and the linkages between them.
4. The limits of the approach were not determined primarily by the conceptualization or methodology but by the inherent barriers to policy initiatives. Those barriers could be identified as political economy and “public choice” related and point to among other things to the very important notion of “policy ownership”. The Romanian actors need to endogenize the policies identified by outside agencies or experts in order to overcome the interest groups and institutional inertia supporting the status quo. These barriers are very strong in the Romanian case and they necessitate special attention.
5. Significant lessons can be learned and generalizations drawn from the Romanian USAID case.

C. Lessons learned and further investigations

Studying the IRIS implementation lead us to identify a general dysfunction in the economic policy making and implementation process in Romania. Any economic policy, irrespective of its analytical quality and its justification would be mired and blocked by the maze of interests and institutional inertia that characterize this process. As long as the policy process is not tightened up and well structured in terms of political support, any initiative, no matter how analytically and pragmatically grounded, will likely be dissipated, eroded and emasculated in the implementation process.

To bolster these conclusions top Romanian economic policy decision makers that were involved at one point or another in the economic reform process at the top tier were investigated: ex-ministers of finance, ex-ministers of privatization, two ex-prime ministers, ex-ministers of reform, secretaries of state, chairs of the parliamentary economic commission and several top academics that played an advisory role. The objective was to explore the political economy of economic policy making and to reconstruct this process using the inside perspective offered by the relevant players through an application that offers a glimpse on the way the economic policy making is perceived by the very people that are involved in it. The responses of thirty-eight top economic decision makers to a 33 questions survey (the rate of response was very good, 80 questionnaires generated 38 responses) and ten in-depth interviews offered a solid generalization basis.

Both the results of the interviews and the results of the survey are in line with our assessment of the dysfunctional state of the economic policy decision-making process (See Appendix 2). The economic policy process is perceived as incoherent by the very actors that implement it. The political parties (theoretically the main vehicles for the definition and implementation of policies) are fairly ineffective, and the interest groups and bureaucratic and administrative inertia reign supreme. There is no clear institutionalized process for articulating policies or for supporting economic policy initiatives. As a result when policies are defined and supported by foreign development agencies, policy ownership and responsibility are weak and diffused. This was amplified in the 96-2000 period by the existence of a coalition government and after 2000 by the lack of a strong opposition party. A brief overview of some of the responses given by the top decision makers is very illustrative and offers a clear image from another angle of the situation the IRIS-USAID effort has encountered in the field while working with Romanian counterparts to implement its initiatives:

- 75% of the top decision makers consider the process of implementing economic policy measures more efficient if it takes place through informal channels compared to only 25% who consider the process of economic policy implementation more efficient if it takes place through the normal, formal channels.
- Almost 70% of the top decision makers responded that the parties' *economic policy programs* did not take into consideration the interests of large social groups and classes, and on the contrary, that they were driven by group and party interests. Over 90% think

- the *economic policies implemented* by the parties reflect the general interests and preferences only in a limited measure.
- Over 80% of the respondents consider the economic programs proposed by parties incoherent, namely that they were a contradictory mixture of liberalism, socialism, social democracy, and so on. It is worth noting that 85% of the decision makers surveyed felt that the economic policy of their party was not reflected in the economic policy of the coalitions (governments) from the previous years. From this we conclude an almost total lack of responsibility of ownership for the policies.
 - Moreover 85% of those surveyed think that the extent that political parties managed to create appropriate organizational structures aimed to formulate the economic policies is “more likely small” and “small”.
 - In a similar way 75% of those surveyed consider that the extent that political parties managed to create appropriate organizational structures, in order to support their economic policies in the Parliament and Government is “more likely small” and “small”.
 - Over 70 % of respondents consider that the political parties did not function as efficient mechanisms for selecting the experts and decision-making persons in economic policies.
 - 70% of the top decision makers characterize the performance of the parliamentary economic commissions as “more likely inefficient” or downright “inefficient”.
 - Over 80% consider the concept of “lack of political will” relevant as a diagnosis of the situation of the economic policies in Romania during the previous 10 years and 90% agree that the notions of “cleptocracy” and “economy based on theft and redistribution” are appropriate diagnoses of the situation of the Romanian economic situation.
 - 90% of the respondents consider that in the stage of discussing and negotiating economic policies the communication process between the participants was “more likely unsatisfactory” and “unsatisfactory”.
 - Almost 90% think that politicization of the ministries is a real phenomenon and that it is a major impediment to the economic policy making and implementation process. According to them the assignment of the public officers on strictly political criteria, the too frequent change and the subsequent incompetence of the public officers and the frequent change in organizational structure of ministries are the top forms this phenomenon takes.
 - Finally it is interesting to note that almost one third of the respondents consider that western economic institutions and political decision-makers act relatively coherently against the Romanian economic interests.

In these circumstances it is not surprising that even a formal agreement between an external economic aid institution and the government in power could not secure a sound foundation for the implementation of a package of economic policies. As long as the economic policy process is not functional, the responsibility and the effort for such initiatives will be generated more often by accident than by institutional design. These conclusions are even stronger given that the very people in charge of the process confirm them. The image that emerges substantiates the notion that the implementation phase of economic policy is riddled with barriers and challenges that are far stronger and more complex than expected. It is worth considering that the IRIS USAID program had to face this difficult and confusing environment described by the survey.

As a general conclusion one could conjecture that USAID-like initiatives, in countries like Romania, haven't been as successful as expected due to the dysfunctional economic policy process that generates weak support and "policy ownership" among potential reformers. The IMF defines policy ownership as:

"A willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country's own interest."⁶

This concept is important because policy-providing outsiders and transitioning governments frequently have different perspectives or agendas regarding the substance and timing of reform.⁷ The conditionality of much foreign assistance requires that dissenting leaders nominally agree to changes envisaged by the aid-providing outsider in order to receive loans. But nominal agreement for the sake of obtaining funds is a far cry from genuine involvement and support of policies advised by the international development community. Without solid commitment to reforms proffered by organizations like USAID, national leaders are unlikely to undertake desired policy changes but incompletely or superficially. Under these conditions, regardless of USAID's ability to promote economic reform in Romania, and other countries like it, these countries will not take off as they should. Since it is ultimately public officials who implement or fail to implement reforms, it is important to ensure that the economic policy process is defined by an

⁶ International Monetary Fund (2001). "Strengthening Country Ownership of Fund-Supported Programs," p. 6. Available at: <http://www.imf.org/external/np/pdr/cond/2001/eng/strength/120501.htm>

⁷ Boughton, James and Alex Mourmouras (2002). "Is Policy Ownership an Operational Concept?," IMF Working Paper 02/72, p. 3.

institutional structure that is functional and that encourages policy ownership by these public officials. In other words, absent a strong economic policy institutional mechanism and a strong policy ownership element built into the policy making process, USAID efforts like those discussed, are unlikely to achieve optimal results despite having correctly identified necessary policy changes.

III. EXTENDING THE ANALYSIS: COMPLEMENTARY APPROACHES AND ALTERNATIVE PERSPECTIVES

EXPLORATORY ASSESSMENT OF THE MAJOR BARRIERS TO RURAL ENTREPRENEURSHIP IN ROMANIA

A. Extending the investigation: practical and analytical rationales

Hernando de Soto in his *The Mystery of Capital* talks about a “surprise revolution” starting in the 1950’s in the developing world: “millions of rural people trundling down to the cities” While the fashionable “development” theories were supposed to bring modernity to rural areas peasants left for cities. There they faced an impenetrable wall of rules that barred them from legally becoming productive. His book deals with that situation.

The relevant question, then, is: What happened in the rural areas left behind? And what happened in the cases where people started to return from the cities in disappointment? Romania is a case in point. After the collapse of the communist industry and the regulatory and institutional barriers to entrepreneurship raised in the transition period, more and more people started to return to the places they left a generation ago under the pressure of the communist forced industrialization. What is the institutional environment awaiting for those potential entrepreneurs and workers? Is it in any way better suited to entrepreneurial activities than that in urban areas? The previous IRIS-USAID project examined urban areas. Our investigation turned to the rural.

Our study developed an approach focusing on the entrepreneurial processes in rural areas from a multilevel institutional perspectives building on a methodology based on interviews, fieldwork and content analysis. The selection of each element of the approach had a strong practical and analytical rationale.

The focus on *entrepreneurship* and the entrepreneurial process shifts the focus from the *investment process* to broader *micro level* processes as the unit of analysis. This was selected to determine if a change of focus could bring additional insights and add to the conclusions of the studies that took the investment process as the key unit for analysis. The investment process is, from this perspective, one element or step in the larger entrepreneurial process. Thus the scope of the study is larger and one type of action or economic function, the entrepreneurial process, is explored within the multileveled framework.

The *rural sector* is especially important in the case of Romania both in its structural and in its quantitative aspects - structurally, due to its long-lasting historical and institutional impact, and quantitatively because of the significant weight of the rural sector as an employment base in the national economy⁸. Consequently, exploring the situation of the rural sector and of its potential endogenous entrepreneurial springs of growth is not a marginal concern left over from previous analyses but a crucial and topical element in any attempt to understand Romania's economy and set it up on the path of economic performance.

Finally in terms of the conceptual framework employed the study uses an *Institutional Configuration Analysis*. This marks a move from the approach that investigated the sector- and activity-centered procedures related to the investment process to one that focuses on broader processes better captures the linkages between institutional levels and political economy processes, and is uniquely sensitive to the specific contexts being examined. The advantage of approaching the issues from this perspective is that (1) we are able to illuminate the *linkages* between various institutional levels and to identify with clarity the fact that many problem at one level have their origins at levels other than those in which they manifest themselves, and (2) it creates the possibility that instead of presuming that optimal institutional solutions can be designed easily and imposed at low cost by external authorities, intervening at one level, "getting the institutions right" is a difficult, time-consuming, conflict-invoking process. It shows that one is dealing in fact with a process that requires reliable information about time and place variables as well as a broad repertoire of culturally acceptable rules. New institutional arrangements do not

⁸ Almost half (47.3%) of the Romanian population lives in rural areas, agriculture employing 40% of the total number of employed persons in 2001, compared with 33% in services, 23% in industry, and 4% in construction. During the same year, agriculture's output accounted for a share of only 12.39% of the GDP (compared with services: 50.06% and industry: 37.05%). A large peasant population and its rural localization in small communities (the rural population of 10,418,216 persons lives in 2,688 "communes" composed of an average of 527.6 inhabitants, according to the last census) pose a serious challenge to the Romanian socio-economic development.

work in the field unless they are well specified to fit within the complex configuration of rules and levels. Therefore one needs to rely not only on surveys but also on interviews, field work, and participant observation in order to capture the level and context specific dynamics.

B. Approach and method⁹

Any study of the rural situation in Romania has to accept as a premise that there are important regional and local differences in rural Romania. On the basis of a cluster analysis of land use patterns of the 41 counties of the country, the European Commission & World Bank Farm Survey identified 8 different agro-regions in Romania. Given the fact that significant differences can also be found at a more micro-level, sometimes even between the different villages of a single administrative area, any study like the present one has to accept that in a certain sense, its conclusions are merely exploratory. However despite these limits, when corroborated with data from other sources they can offer a very illuminating picture of the situation facing rural entrepreneurs in Romania.

The rural field work of our team was conducted in two rural communities, representative of two historic regions of Romania: the less developed Wallachia (the southern part) and the more developed Transylvania (the western part).¹⁰ The team engaged in participant observation for roughly two weeks in each area. Interviews, discussions and study visits were conducted on a systematic basis. In addition to the rural areas work, urban interviews were conducted in Bucharest and Arad with two objectives: the interviews with political decision makers aimed to provide a general frame of the situation, and the interviews with urban entrepreneurs served to generate a benchmark for an urban/rural comparison in order to make a clear distinction between two different types of entrepreneurship: rural entrepreneurship and urban entrepreneurship. 38 in-depth interviews and approximately 20 other informal discussions and meetings were conducted.

The second major source of data was a content analysis study examining the way the problems facing rural entrepreneurs and entrepreneurial initiatives were reflected in the Romanian mass media. The objective was to use media reports to get an additional indication of the nature of the relevant problems. The problems were approached and framed using the same analytical grid

⁹ For an extended presentation of the method and analytical framework see the Appendix.

¹⁰ Short descriptions of the two communities are presented as community observation reports in Appendix.

employed in the case of the interviews. Each problem discussed by an article was coded on two dimensions: its location in the entrepreneurial process and the institutional level involved in generating the specific barrier. Four national newspapers (Adevarul, Ziua, Evenimentul Zilei and Romania Libera) and two weekly (Adevarul Economic and Economistul) were analyzed over the interval May 2002 – June 2003. The analysis and synthesis of previous studies was another important source of data. Besides the standard reports and statistical sources¹¹ several studies of interest were identified and their results incorporated.

Our analysis begins with from a new institutionalist framework which applies, as an investigative device, the notion of (rational) social actors acting within levels and meta-levels of decision making. From that perspective we can approach an institutional analysis as part of a multileveled system of institutions, action arenas, or governance levels¹². In framing a case one is to needs to look at the various levels of governance as they are structured in the traditional political and administrative units. For each level there are specific arrangements, configurations of relations and sets of rules that apply to various domains and social affairs. The present study focuses primarily on an analytical grid structured around three levels or action arenas in addition to the individual level: Local, National and International.

The study shifted from barriers to investment to impediments to the entrepreneurial action. This action is seen as taking place in conditions of uncertainty and as shaped by incentives and by institutional structures and rules. The question then is how, if at all, does structural uncertainty affect entrepreneurship? What are the action arenas or institutional levels that affect it? What are the linkages between levels that have an important role in this process? In order to answer those questions we view entrepreneurship as a process that occurs over time. At any point in time an entrepreneur is in some stage along the entrepreneurial process. For the purposes of this analysis, the entrepreneurial process was broken into four stages:

¹¹ EU Commission “Report of Romania’s Progress Towards Accession” for 2000, 2001 and 2002; Country Report No. 03/12, January 2003, “Romania-Selected Issues and Statistical Appendix” of IMF; World Bank project: “Private Sector Development: Regulating Technology Transfer in Agriculture: Impact on Technical Change, Productivity, and Incomes”, 1998; OECD: “Romania: An Economic Evaluation”, July 2002. Two studies, “Barriers to SME” and “Rural Entrepreneurship”, produced by the Institute for Social and Labour Protection Research, a government agency affiliated to the Ministry for Labour and Social Protection seem to have been produced recently and were of some interest for our work. The above-mentioned institute refused our access to these studies. On the other hand professor Vintila Mihailescu the most important Romanian investigator on this subject offered generously access to all his published and unpublished material.

¹² Sue Crawford, Elinor Ostrom, „A Grammar of Institutions“, Indiana University, 1992.

1. Existence of entrepreneurial situation and its identification;
2. Planning, financing, assessment/decision, resource mobilization & project launch;
3. Organization, consolidation & operation;
4. Reassessment of plan.

Given this understanding of the entrepreneurial process we are able to more precisely identify how various institutional variables pertaining to the International, National and Local levels impact entrepreneurship, by pinpointing at which stage of the entrepreneurial process each institutional variable is taking effect. By combining the institutional level with the entrepreneurial stages one obtains a two-dimensions framework for analyzing the impact of various action and decision areas on the entrepreneurial process.

C. Rural Entrepreneurship: a relevant economic factor in the Romanian economy

Since the very issue of whether there exists a rural entrepreneurial class in Romania in any significant number is still questioned, the first step of our research was to investigate in this direction. All the elements gathered at this exploratory level of analysis support the notion that the “entrepreneurial spirit” is not lacking in the Romanian rural population. Rather, rural Romanian people have creative ideas and see opportunities to make profits. Several studies¹³ found that at least one in four rural adults had tried or had seriously thought about starting a business. Although our analysis does not claim to have a national statistical basis, the evidence gathered lends credence to the refutation of the hypothesis that the rural population is deficient in terms of entrepreneurship. This is supported by the low level of concern raised by political agents and entrepreneurs regarding the impact of the variables we considered on the first stage of entrepreneurship – identification of an opportunity. Several political agents and politicians explicitly rejected the idea that the mentality of the rural population was a problem. Actors recognize potential opportunities and are willing to explore them to a greater extent before making a decision whether or not to pursue it.

Our investigation confirmed previous studies that identified a distinct entrepreneurial typology in rural areas through a questionnaire. Following the work of Vintila Mihailescu and his team, the

¹³ Vintila Mihailescu, “Peasant Strategies And Rural Development In Romania. Coping With Local Diversity In Development Policy”, *Social Consequences of Economic Transformation in East-Central Europe* (Institute for Human Sciences, Vienna, 2002)

entrepreneur could be defined as an individual having made at least one type of investment since 1990, has at least one type of business operation expense, sells and buys agricultural products, is involved in market operations. The distribution of this type is around 25%. The most surprising observation concerning this social type is that entrepreneurial behavior does not depend upon any amount of resources taken into consideration and is not conditioned by the standard parameters. Therefore, being entrepreneurial “does not mean being younger, better educated, owning more land, or even having a higher income”. Also, there is “no correlation between this type of economic behavior and social mobility”. All these findings challenge the current prejudices regarding the existence of entrepreneurial attitudes in rural Romania¹⁴.

D. RURAL ENTREPRENEURSHIP: ASSESSMENT OF BARRIERS AND COMPARISON WITH URBAN AREAS IN THE POST 2001 SITUATION.

In terms of an evaluation of the barriers facing entrepreneurs since 2000 the results are rather unambiguous. Although as this report has argued, the 2000 project had a relatively significant institutional and legislative follow up, very little, if any impact could be noticed at the level of rural entrepreneurs. Our study revealed no awareness or signs of a significant change in the business environment for rural entrepreneurs since 2000. The interviews, the field observations

¹⁴ In our view this non-standard type of rural entrepreneurs explains the fact that the overall visibility of that category is so low and its existence questioned by so many, despite the fact that entrepreneurs seem to be about 25% of the rural populations studied. Their perceptions of the rural situation is distorted by this. One additional note should be made about the controversial issue of the existence and nature of entrepreneurship in rural areas in Romania. Applying this analysis at the level of the locality, one finds that in some cases entrepreneurial behavior is dependent upon resources, but this is only occasionally true. Corroborating our observations with previous studies we could confirm the existence of at least two distinct economic strategies, one linked to material resources and the other based apparently on symbolic capital and interpersonal skills, rather than on material and educational capital. One can speak about a special entrepreneurship: entrepreneurship in social networks. These networks continue to function, mainly as a distribution network of resources and services and require a great entrepreneurial skill in building up and operating them. This issue has significant consequences for the entrepreneurial dynamics at the rural level. Making entrepreneurial combinations in social networks absorbs quite a lot of entrepreneurial energies.

and the content analysis revealed that the same problems reported by urban entrepreneurs in 1999-2000 plagued the rural entrepreneurs in 2003.

The number of authorizations, approvals and licenses varies in function of the region and line of business. However in all cases investigated the entrepreneurs complained about their large number and often of their irrelevance. The entrepreneurs from rural areas try to avoid the process altogether, which means that many join the underground economy or look to better connected individuals from urban areas who specialize in obtaining the necessary approvals, authorizations, etc. on behalf of their clients. This means the official and unofficial fees paid by rural entrepreneurs are comparatively higher than those paid by their urban counterparts. The time devoted to completing the documents needed in order to obtain a license and the time spent waiting for licenses and authorizations is not perceived as a major problem by most of the entrepreneurs we interviewed¹⁵. They assume that this is a normal procedure and many seem to think that this time is not a function of the nature of the regulatory or administrative procedure, but a matter of the bribe offered and personal connections involved¹⁶.

Inspections in rural areas pose a special problem. Due to the relatively smaller number of enterprises and entrepreneurs in each local bureau's jurisdiction as compared to urban areas, the inspections tend to take place more often. Moreover, personal relations tend to develop between inspectors or agents of the bureaus and the entrepreneurs. These relations involve most of the time bribes and unofficial fees. The time spent to solve a bureaucratic procedure, for instance obtaining a certificate, varies in many cases based on the relationship between the entrepreneur and the bureaucrats¹⁷.

For instance one interviewee¹⁸ cited 5 major licenses/permits he needed before he could open his business: re-charting his company statute, environmental protection, sanitary/animal police, fire, and worker protection standards. These registrations/approvals could only be obtained by going

¹⁵ Entrepreneur 12, Vișina Nouă, 6/1/03; Entrepreneur 16, Vișina Nouă, 6/2/03; Entrepreneur 17, Vișina Nouă, 6/2/03; Entrepreneur 19, Vișina Nouă, 6/3/03; Entrepreneur 20, Vișina Nouă, 6/4/03;

¹⁶ Entrepreneur 13, Vișina Nouă, 6/1/03; Entrepreneur 19, Vișina Nouă, 6/3/03; Entrepreneur 20, Vișina Nouă, 6/4/03;

¹⁷ In these circumstances there is no surprise that the time and fees spent with the mayor's office and the local council varies primarily as a function of the personal relations developed between the entrepreneur and the mayor or the council members. What's more, the licenses and permits are given both by county level decentralized government agencies and by the local mayor, which creates confusion and entrenches bureaucracy.

¹⁸ Interview 24, Buteni

to the Chamber of Commerce in Arad. It took him 7 trips to Arad¹⁹ over the course of 1.5 months to obtain all the necessary paperwork to open his business. He said that it is possible to hire professionals to undertake all of the start up activities for you but this is rather costly. Each permit took about 3 hours to obtain and the office in Arad (which recently became a singular central place to obtain the necessary paperwork) is only open until 11 am each day. He estimates the total cost of obtaining authorization at about 10 million lei (\$300).

When coded and ordered in function of the institutional levels, the main barriers reported by those interviewed and the main barriers reported by the media investigated clustered in a similar way [see Annex]. The analysis of the two sets of synthetic data reveals a concentration of the barriers in the second and third stage of the entrepreneurial process and identifies the main sources of these barriers as the local and national levels. The international level seems to become more important in the Organization, Consolidation & Operation phase. However during interviews, if pressed to follow the logic of their analysis the entrepreneurs sooner or later identified the international level, and specifically the EU protectionist agriculture policies as a major source of problems. Policymakers interviewed recognized this explicitly and systematically.

In terms of the main elements that are creating an unfriendly environment for rural entrepreneurs, the problems identified offer a very similar picture as the one that emerged from the surveys of the barriers to urban entrepreneurs and investors. Many of the same impediments to entrepreneurial activity indicated by the 2000 Red Tape Analysis persist.

Administrative incapacity of both the central and local government represents a continuous problem. Not only does the existence of excessive and uncertain regulations raise barriers to entrepreneurs, but their random and ineffective enforcement compounds the problem. The high velocity of regulatory changes is not supported by appropriate resources (mainly institutional and human resources, but also financial) and produces an incoherent legal framework for businesses. This in turn creates an environment of arbitrary enforcement and widespread corruption. As one entrepreneur put it, “changes are so fast that no one, including public functionaries, know what the law requires on any given day.”²⁰ This situation is strongly reinforced by the lack of an efficient court system.²¹ As an entrepreneur reported, you “cannot use state courts; they do not

¹⁹ 50 miles away.

²⁰ Interview with Entrepreneur 7, Bucharest, 5/27/03.

²¹ The current state of state courts and the impact on the entrepreneurial process were discussed in interviews with: Entrepreneur 1, Bucharest, 5/19/03; Entrepreneur 4, Bucharest, 5/22/03; Entrepreneur 7,

exist for me.”²² One entrepreneur in Vișina Nouă told us that he has never used state courts for dispute settlement because “whether you are guilty or not, you have to pay.”²³

The structural uncertainty created by legal instability, excessive regulations and corruption affects the entrepreneurial process over a number of stages.²⁴ For those who recognize a potential business opportunity, bribes must be paid at each level of government to obtain the appropriate permits, licenses and authorizations. These bribes continue once the business is up and running. As one entrepreneur summed up the situation, “I’m upset about paying bribes but I’ve adapted to them. I want to make money.”²⁵ Even when these initial authorizations are secured, the fact that the law is unclear and unstable makes it difficult to develop a long-term business plan.²⁶

The relevant laws and regulations that are in place today may very well be drastically different next week let alone next month or next year. This makes it extremely difficult for entrepreneurs to decide whether or not to pursue a start-up business let alone forecast the future of a business once it exists. This also poses a problem for obtaining funding from lending institutions that require a forecast of expected profitability in future periods.

Both corruption and structural uncertainty carry over to the subsequent stages of the entrepreneurial process and make it extremely difficult to maintain and develop a business once it has been started. Bribes must be paid to all levels of government officials – central and local – to obtain the appropriate permits, licenses and authorizations.²⁷ The need to pay bribes continues once the business is operating. Due to the constantly changing legal and regulation environment it is nearly impossible for even the most willing entrepreneur to be fully legal.²⁸ To do so, one

Bucharest, 5/27/03; Entrepreneur 8, Bucharest, 5/27/03; Cristian Boureanu, Bucharest, 5/28/03; Entrepreneur 13, Vișina Nouă, 6/1/03; Entrepreneur 16, Vișina Nouă, 6/2/03 and Entrepreneur 18, Vișina Nouă, 6/3/03.

²² Interview with Entrepreneur 1, Bucharest, 5/19/03.

²³ Interview with Entrepreneur 13, Vișina Nouă, 6/1/03

²⁴ The impact of the unstable legal system and regulations on Stages 2, 3 & 4 of the entrepreneurial process was discussed in interviews with: Entrepreneur 1, Bucharest, 5/19/03; Valentin Ionescu, Bucharest, 5/20/03; Entrepreneur 4, Bucharest, 5/22/03; Entrepreneur 7, Bucharest, 5/27/03; Entrepreneur 8, Bucharest, 5/27/03; Entrepreneur 9, Bucharest, 5/27/03; Cristian Boureanu, Bucharest, 5/28/03; Entrepreneur 11, Bucharest, 5/28/03; Entrepreneur 12, Vișina Nouă, 6/1/03; Entrepreneur 13, Vișina Nouă, 6/1/03; Entrepreneur 16, Vișina Nouă, 6/2/03; Entrepreneur 17, Vișina Nouă, 6/2/03; Entrepreneur 19, Vișina Nouă, 6/3/03; Entrepreneur 20, Vișina Nouă, 6/4/03; Aurel Dinga, Buteni,, 6/13/03; Petronel Marcut, Buteni,, 6/13/03; Entrepreneur 24, Buteni, 6/14/03; Entrepreneur 26, Busteni, 6/15/03.

²⁵ Interview with: Entrepreneur 1, Bucharest 5/19/03.

²⁶ Interviews with: Entrepreneur 1, Bucharest 5/19/03, Entrepreneur 9, Bucharest, 5/27/03.

²⁷ See footnote 2 for the relevant interviews.

²⁸ See footnote 3 for the relevant interviews.

would have to dedicate a large amount of time, effort and resources to tracking down, understanding – given the lack of a central source of information and transparency – and conforming to new laws. Given the frequent change in laws, inspectors, police and other government officials know that business owners are guilty of breaking the law before they set foot in the place of business.

This environment also makes structuring a new business extremely difficult. New labor laws (2003 Code) make it difficult to hire short-term labor and also make the process of firing employees arduous. Moreover, the excessive taxation of labor leads many entrepreneurs to report the minimum wage on the books while paying employees the remainder (and majority) of their salary under the table.²⁹ Changes in the tax law make it difficult for entrepreneurs to calculate their tax liability and to forecast future liabilities. Many understate their revenues in order to avoid paying taxes or being subject to future changes in the tax law. Finally the interconnections between business and politics, present mainly at the county and national level are crucial. Especially in agriculture, where the state aids can make the difference between survivals or disappearance of a business there is a need for political connections in order to obtain state orders, aids or state financing.

The difficulty in expanding one's network of clients, lenders, suppliers, etc. is increased by the widespread ineffectiveness of state courts. There is the perception that the courts are characterized by widespread bribery and are expensive and time consuming to use. The lack of an effective court system makes it extremely difficult for entrepreneurs to extend their network of suppliers and clients beyond a few close friends and neighbors who they know well. The fear and costs of being cheated with no avenue of recourse places a strong constraint on the extent of the business network of the entrepreneur. The effects of this constrained network on starting, maintaining and developing a business are apparent.³⁰

²⁹ Interviews with: Entrepreneur 1, Bucharest, 5/19/03; Entrepreneur 7, Bucharest, 5/27/03; Entrepreneur 8, Bucharest, 5/27/03; Entrepreneur 12, Visina Noua, 6/1/03; Entrepreneur 13, Visina Noua, 6/1/03; Entrepreneur 16, Visina Noua, 6/2/03; Entrepreneur 18, Visina Noua, 6/3/03; Entrepreneur 26, Visina Noua, 6/15/03.

³⁰ The current state of state courts and the impact on the entrepreneurial process were discussed in interviews with: Entrepreneur 1, Bucharest, 5/19/03; Entrepreneur 4, Bucharest, 5/22/03; Entrepreneur 7, Bucharest, 5/27/03; Entrepreneur 8, Bucharest, 5/27/03; Cristian Boureanu, Bucharest, 5/28/03; Entrepreneur 13, Visina Noua, 6/1/03; Entrepreneur 16, Visina Noua, 6/2/03 and Entrepreneur 18, Visina Noua, 6/3/03.

Many entrepreneurs raised other issues related to financing as well. Almost all of the people interviewed either started their business with personal savings or with funds borrowed from friends. Many of the EU funds sent to Romania in past for small and medium size enterprises never reached the businesses but were lost in the bureaucratic mix or went to those with political connections.³¹ Bank loans require the applicant to file a lot of paperwork and hold a large percentage of the loan in collateral. Several entrepreneurs reported that one has to have connections at the bank and in some cases pay bribes to be considered for a loan.³² It is unclear whether the individuals interviewed were risk averse in terms of risking collateral for a loan but even if this is the case there are further barriers to obtaining a loan. The result is that the extent of financing for entrepreneurs is only as great as the extent of their personal savings and social network of friends who have funds that they are willing and able to lend.

Thus the structural uncertainty in Romania causes rural entrepreneurs to be overly pessimistic and overly cautious in their actions. The current environment prevents them from taking risks to expand and develop their business. There is therefore no question that on the whole the political and economic environment in Romania is stifling productive entrepreneurial efforts in the rural areas. In short, as in the urban sector, the ideas and effort are present but the overall institutional environment is crushing the initiative.

The institutional disincentives do not kill the entrepreneurial spirit; they merely redirect it toward different ends. For instance, entrepreneurs expend time and resources avoiding regulations, taxes and appeasing inspectors. This is time that could be spent building their businesses. As an entrepreneur we interviewed in Vișina Nouă put it: “The sole profitable business in this environment is to have a connection in the government and to make money from cheating and stealing”.³³ In this way, the ensuing corruption stifles productive entrepreneurial efforts and makes it extremely difficult to open, maintain and develop a business.³⁴

³¹ Interviews with: Entrepreneur 7, Bucharest, 5/27/03; Entrepreneur 15, Visina Noua, 6/2/03; Entrepreneur 18, 6/3/03; Entrepreneur 19, Visina Noua, 6/3/03.

³² Interviews with: Entrepreneur 13, Visina Noua, 6/1/03; Entrepreneur 15, Visina Noua, 6/2/03; Entrepreneur 17, Visina Noua, 6/2/03.

³³ Interview with Entrepreneur 16, Vișina Nouă, 6/2/03.

³⁴ The impact of corruption on Stages 2, 3 & 4 of the entrepreneurial process was discussed in interviews with: Entrepreneur 1, Bucharest, 5/19/03; Entrepreneur 4, Bucharest, 5/22/03; Entrepreneur 12, Vișina Nouă, 6/1/03; Entrepreneur 13, Vișina Nouă, 6/1/03; Entrepreneur 14, Vișina Nouă, 6/1/03; Entrepreneur 16, Vișina Nouă, 6/2/03; Entrepreneur 17, Vișina Nouă, 6/2/03; Entrepreneur 18, Vișina Nouă, 6/3/03; Entrepreneur 19, Vișina Nouă, 6/3/03; Entrepreneur 24, Buteni, 6/14/03.

In summary, the same problems that plagued the entrepreneurs in the 1990's and were repeatedly reported for urban areas continue to plague rural entrepreneurs. Comparing the reports of the entrepreneurial environment and the investment context at the end of the last decade with the current data one may conclude that little if anything has changed. However, there are specific features of the rural entrepreneurs predicament that make their situation special. Rural entrepreneurs face a special set of barriers that is *sui generis*. We deal with these in the next section.

E. The special predicament of the rural entrepreneurs: the absence of a real market and the control from the center

The first stage of the study has established that in terms of bureaucratic and administrative problems the rural entrepreneurs encounter similar barriers to those encountered by urban entrepreneurs. In this respect their environment is similar and is perceived as similar to the urban environment. Moreover, the changes introduced in the regulatory environment since 2000 seem to not have made a difference in rural economic life yet. In addition to these impediments, rural entrepreneurs are faced with a unique set of problems generated by the lack of information, lack of communication, and distance from administrative centers. These costs added to the relatively higher transportation costs, represent an undeniable obstacles to entrepreneurs in most cases. In some cases their marginal increase is decisive in blocking productive initiatives or in terminating them.

There is an additional dimension of problems facing rural entrepreneurs that extends beyond those identified by the traditional analysis of administrative barriers. These are a set of powerful structural barriers unique to rural entrepreneurship. Analyzing the data gathered in terms of the basic political economy elements, four special features of rural entrepreneurs' institutional and political economy situation emerge that far exceed the importance of the administrative barriers³⁵:

1. The lack of a solid market and of market relations in rural areas;
2. The dysfunctional land property rights and land ownership structure;

³⁵ These four features define the situation structurally. They are interrelated and form a block and as such they could be conceptualized in different ways. For instance the second could be seen as an extension of the first and also vice versa. The fourth could be seen as an example of the third, with EU policy being yet another instance of the dependency created by the center periphery dynamics. However, irrespective of the way the issues are conceptualized, the basic idea remains unchangeable.

3. The center-periphery dynamics between the political center and the rural areas: the administrative, political and economic dependency of rural areas on the center;
4. The direct and indirect negative impact of the European Union's Common Agricultural Policy on the Romanian agricultural sector and rural communities.

These culminate in the absence of the institutional prerequisites of a market process which leaves entrepreneurs to act in an institutional environment that distorts, stifles and blocks their efforts and initiatives in a very basic way.

The lack of a solid market and of market relations in rural areas

The lack of a functional markets and of market relations in rural areas and the overall lack of integration into the market economy process is undeniably the most important economic problem of Romanias rural areas. The lack of marketization in the rural economy is one of the most striking aspects for an external observer. Entire areas of the economy are outside or at the margin of the cycle of exchange typical within a market economy. The key links are found in the process of collecting and buying the rural sector's products. During the communist regime the state guaranteed the means for distribution and sale of products. But as a 2002 study put it after the rural population become very reluctant to trust, work, and do business with the state, 64% of the population researched did not intend to sell their agricultural products to the state; between 25% and 50% of them did not accept the acquisition prices offered by the state; and only between 1% and 8% of the population questioned declared that they were satisfied with the state's acquisition prices. On the other hand, the market hasn't developed yet to absorb this production.

As a result of the dismantling of the collective farms and the massive reduction of committed purchasers, "products of households can be sold only in small quantities, which causes, both a decrease of production for which there is no incentive, and a reduction in the potential incomes from individual farms (...) This critical situation has already engendered a vicious circle of diminishing supply and demand: lack of demand decreases dramatically the range of products offered by peasants, while their interest in crop diversification is almost non-existent, and their faith in the success of future production initiatives is reduced accordingly. The locals' negative

experiences with private or state firms, firms that offer them their services quite often, unfortunately, only serves to strengthen their isolation within the village economy”³⁶.

This lack of integration into the market process is on the other hand reinforced by the propensity to deal with and trust a network of friends and relatives. As a result, the widespread barter and exchange in agricultural goods resulting from the subsistence nature of many facets of the rural economy is reinforced by the social exchange process specific to traditional social networks. In the communities researched, bartering or the exchange of agricultural goods, still appears to be widespread. On average, the researched population still practices bartering or the exchange of agricultural goods and still exchange other products with each other. As long as it is more effective to use social exchange networks instead of markets, the phenomenon is likely to persist. Only the reduction of the traditional sector is a minimal guarantee of success. Even so an inertial and path dependent trend might continue for some time. Thus the solution is a deliberate attempt to have market systems, as opposed to social exchange networks, established; in other words, to penetrate and to destroy reliance upon the social networks and to replace them with market networks.

Thus the situation cannot improve without a “big push” in the direction of the marketization of the economy. But this big push cannot result from mere better and more efficient administrative and bureaucratic procedures. In communism after all the bureaucracy was rather reliable and efficient in the parameters given by the regime. A structural change is required. This is best illustrated by the case of property rights and the land market.

The dysfunctional land property rights and land ownership structure

The problem of markets in rural areas are clearly related to the problem of land property rights and of the structure of land ownership. The structure of land distribution in Romania is characterized by extreme fragmentation and a manifest subsistence-orientation. A major reason for the largely non-market character of agriculture in Romania is the structure that resulted from the land reform conducted in the early 1990s. The restitution of land according to its pre-collectivization structure recreated a host of problems reminiscent of the pre-communist period.

³⁶ Vintila Mihailescu, “Peasant Strategies And Rural Development In Romania. Coping With Local Diversity In Development Policy”, *Social Consequences of Economic Transformation in East-Central Europe* (Institute for Human Sciences, Vienna, 2002)

One such problem is how to generate on a voluntary basis the consolidation of land in large economic undertakings driven by market oriented efficiency criteria.

Despite the introduction of private property rights over the land, an active land market did not form in Romania and the land structure is largely immobile. This inertia correlates well with the inertia of the entrepreneurs and its origins are not in a lack of entrepreneurial spirit. The situation is the result of a number of factors related in part to the content and the implementation of the Land Law of 1991 – the main law guiding the post-communist land reform, and in part to the disruption of the relationships established during the communist period between agriculture and related processing industries led to this situation. Below, both these causes are discussed.

Many of the legal causes that hampered the formation of an active land market in Romania originate in a number of laws that defined the post-1989 land reform. First, the slow distribution of the property titles was a major obstacle for the creation of an active land market. For instance by the end of the 1990s almost a quarter of the property titles were still to be distributed. Second, given the difficulty of restoring the pre-1948 property structure that had been taken as a reference by the 1991 Land Law, the process of land restitution resulted in a high number of decisions being contested in courts. The uncertain status of the disputed land and the slow resolution of the processes also slow down the appearance of an active land market. Third, the Land Law established that land was to be free of taxes until 1996 but the period was repeatedly prolonged under the threat of popular protests, and no government had the willpower to ever introduce them. Paradoxically, a tax in these circumstances, could be considered a pro-market measure. The inexistence of agricultural land taxation meant that there were no costs associated with owning land. As a result, landowners were not under the pressure to find the most efficient use for their land. In this context it is significant to note that 40-45% of the individuals that received property titles after 1991 no longer live in the proximity of their land³⁷ and the agricultural land market remains still very underdeveloped. Moreover, the Land Law capped the surface of land to be owned by a household to a maximum of 100 hectares. Only in 1998 was this limit increased to 200 hectares by the Law 54/1998 concerning the legal circulation of land. But presently about 44.5% of the individual households still own plots of less than 2.5 hectares while another 10% have plots of less than 5 hectares.³⁸

³⁷ Romanian Ministry of Agriculture, *National Plan for Agricultural Development*, 1999

³⁸ Romanian Ministry of Agriculture, *National Plan*, 1999

Quite apart from the legal hindrances that impeded the development of the land market, a number of economic factors also explain its slow formation. Except for the land situated close to the big cities or tourist areas, land prices are extremely low, so that land consolidation in larger holdings through buying and selling is very limited. Contrary to the opinion that high levels of de-collectivization and land fragmentation would encourage the buying and selling of land, the land market in Romania is poorly developed and inactive. As long as the agricultural production in Romania is not firmly driven by market forces and remains in a significant measure subsistence oriented, there is very little incentive for the creation of an active market in land.

Another significant aspect of the post-1989 period was the constantly increasing gap between agricultural production and the creation of the food industry. In spite of the uncertainties brought about by the redistribution of land, agricultural output never fell below about 95% of its 1989 level, taken as a reference basis. However during the period 1989-1998, production in the food industry as a whole went down by about 50% (Except for 1990 when the production level still represented 80.7% of its 1989 level)³⁹. Combined with the fact that the channels for the distribution of the agricultural products that functioned during the planned agriculture period did not correspond to the new private structure of agriculture and that new channels for the marketization of the agricultural products were not put in place, this situation resulted in a distorted, undervalued structure of prices for the agricultural products and consequently in very low prices of land. A significant portion of the agricultural products reached the non-rural consumers not through markets but through family ties.

The subsistence character of the Romanian agriculture is not only a consequence of land reform with its extreme segmentation, but equally if not overwhelmingly the result of a breakdown of the relationship between agricultural production and its upward beneficiary industries. In this respect the subsidized products from the European Union that have the effect of “dumping” on Romanian products is crucial and will be discussed later. EU subsidized farm products caused industries to loose interest in organizing the needed relations with rural producers and thus the possibility of emergence of a viable market was stalled if not prevented altogether⁴⁰.

³⁹ Romanian Ministry of Agriculture, *National Plan*, 1999

⁴⁰ Many blame the rural entrepreneurs and the small size of farms for the situation of Romanian agriculture. In fact, the behavior of the agricultural sector is rather puzzling to those considering the small farm size as an essential indicator for the low productivity level in agriculture and consequently for the behavior of industries. In the context in which the capital endowment of agriculture, the use of fertilizers and pesticides, and the use of certified seeds decreased markedly in the last ten years, the performance of the agricultural

Entrepreneurs also indicated that difficulties result from restricted entry to exporting due to government restrictions.⁴¹ This was especially evident in the agricultural sector. Entrepreneurs without the proper authorizations, by law, cannot export agricultural products. Rather, they must sell them to a government-approved intermediary who in turn sells them on the world market. Firms receive government approval through political connections or influence. The end result is that the market for agricultural products is artificially constrained by government laws and restrictions in order to provide benefits to a select few. As Romania continues to attempt to meet the requirements that go along with integration into the European Union, political influence by special-interest groups have expanded beyond Romania into the international realm.⁴² This has led to further barriers to Romanian entrepreneurs as the Romanian government feels additional pressures not only to cater to indigenous interest groups but to international pressures as well.

The direct and indirect negative impact of the European Union's Common Agricultural Policy

The direct and indirect negative impact of the European Union's Common Agricultural Policy and of its interventions on the European agricultural markets on the Romanian agriculture and rural communities cannot be understated. The EU can fairly be described as having a protectionist import policy in agriculture. The EU Common Agricultural Policy's (CAP) second principle, formulated in the Roma treaty, is the communitarian preference towards obtaining the agricultural necessities mainly from internal production. The trade policy instruments employed by the EU in this respect are vast⁴³.

sector was surprisingly good. Therefore due to merely natural endowment and hard work the entrepreneurs even in these harsh circumstances managed to survive.

⁴¹ Interviews with: Entrepreneur 11, Bucharest, 5/28/03; Entrepreneur 16, Visina Noua, 6/2/03; Entrepreneur 17, Visina Noua, 6/2/03.

⁴² Interview with Entrepreneur 16, Visina Noua, 6/2/03.

⁴³ (a) High import tariffs and tariff rate quotas (for example, import price per ton of wheat is increased to 157 euros), reference tariffs. (b) Non-tariffs barriers; the most important being the especially high quality and ecological standards, but also preferential imports (for tropical agricultural products the formulated preference is for the former colonies of the European countries, although they prove ten times more expensive than the world price). (c) Export subsidies: export refunding of the difference between the high European price and the world price, export premia, etc, reaching 4150 millions euro for 2003. Highly developed non-tariff barriers characterize the protectionist trade policy, being laboriously designed in a long period of time as instruments for passing by the GATT-WTO agreements. The CAP is primarily a price management system, responsible for: price regulation (intervention price, target price, reference price, minimum guaranteed price, threshold price), trade mechanisms (export refunds, export premia, reference tariffs), intervention stock and warehouse facilities (costing 348 millions euro in 2003). Other policy instruments are: intervention buying of surpluses, production quotas (for example, at milk, combined with stiff fines for overproduction). Prices for major commodities such as grains, dairy products, beef and

The CAP transformed EU from a net importer to a more balanced position, making it account for about 15% of the world's agricultural exports and 20% of the imports. Those most affected by this complex protectionist and interventionist system are the rural entrepreneurs from agricultural countries like Romania. Both the interviews and the media analysis revealed that the entrepreneurs, decision makers, and journalists understand this situation.

We find that rural entrepreneurs are inclined to ask for similar protection and subsidies to those received by EU farmers. This fact is extremely significant. The option of competing on equal footing in a free market seems to be considered unfeasible. They consider that EU enlargement is inevitable and the best hope is to get access to the EU agriculture processes. The possibility of, in the future, having a free market in which Romanian farmers and rural communities could take full advantage of their endowment is more and more discounted as unrealistic or implausible. We consider this a very negative effect on entrepreneurs as it distorts and undermines their energies and projects. The more Romanians understand how the EU works in agricultural issues the more the natural, market competition mentality is undermined and replaced by a willingness to redirect their energies toward navigating an EU-administrative-bureaucratic-style administrative system.

Meanwhile Romania is making efforts to adopt and implement the relevant EU *aquis*, in order to harmonise the agricultural sector with the newly adopted EU agriculture legislation on farm organisation, which allows farmers and processors to organise themselves and play a role in the European economic organisation management. Several organisations are emerging and the preparation of administrative structures for the operation of common market organisations is slowly taking shape.

veal, and sugar depend on the EU price support system. The cotes system is sharing the EU internal market for each product between the member states, each cote being negotiated on the basis of former years average production figures. Some data illustrate that: EU subsidies and other transfers from governments of member nations accounted for 35% of farm revenue in 2001. The CAP annual expenses of 42.086 billion euro, accounts for over 50% of the EU's total budget. Agriculture is 1.7% of EU's GDP and only 4.3% of the EU population is employed in agriculture. Another aspect of the intervention is the high ecological protection and quality standards. While there is a separate market for natural products (their producers being highly supported by the state), the quality standards sometimes become absurd. For example, a much derided EU law in Romania (Law 1677/1988 of June 15, 1988) prescribes that class I cucumbers have to be "reasonably well shaped and practically straight (maximum height of the arc: 10mm per 10cm of the length of the cucumber)".

Besides the distortions and undermining of the rural entrepreneurial spirit, the foreseeable impact of CAP on Romania will be that it will lead to the institutionalisation of a dysfunctional system⁴⁴. The net deficit of the agricultural commercial balance, currently US\$774 million -representing a quarter of the total commercial deficit⁴⁵-, will likely continue, although in a decreasing trend, at least until 2008. Some scenarios, like those presented by the Institute for World Economy or similar Phare studies estimate that, if this trend continues, Romania will import more than 80% of its internal consumption in 2008-2010⁴⁶. With EU funds, the agriculture has some chance of reform, which would allow it a fixed share of the EU common market of food. Still, agriculture will need state support and protection. All this will happen despite the fact that Romania is one of the best-endowed countries in terms of agricultural production in Europe. Finally the corruption in agriculture will likely remain at a high level, because of its state/EU-dependent nature, which generates preferential contracting and political distribution of the subsidies. The implications for rural entrepreneurship are disheartening.

The center-periphery dynamics between the political center and the rural areas: the administrative, political and economic dependency of rural areas on the center

The issue of subsidies is in fact an illustration of the larger problem of the center-periphery dynamics between the political center and the rural area and of the administrative, political and economic dependency of rural areas on the center. The most visible, almost striking symptom of this situation is demonstrated by the perceptions of the rural entrepreneurs interviewed. In the rural entrepreneurs' perception of impediments to their initiatives, the barriers are seen to be caused by the center (Bucharest). A typical interpretation of the situation assumes that the local and regional levels are powerless, unable to break the fetters imposed by the center. For them, the efforts to remove the barriers are meaningless. Their efforts are spent learning to live with them.

⁴⁴ The Government adopted a law in January 2002 on the Organisation and Operation of Agricultural and Food Markets. This law sets the general framework for common market organisations and introduces elements for price regulation (intervention price, target price, reference price, minimum guaranteed price, threshold price), trade mechanisms (export refunds, export premia, reference tariffs) and intervention stock and warehouse receipts. It defines and introduces a range of market intervention instruments that have been taken over from the CAP - although further clarifications are needed regarding the implementation of these provisions. The state intervention foreseen by the law does not designate specific market mechanisms for each specific sector. Instead, the law provides for the creation of a National Authority for Agriculture and Food Product Markets, which issues decisions regarding conventions to be established by the Ministry of Agriculture, Food and Forestry with individual commodity councils or inter-branch organisations.”⁴⁴

⁴⁵ According to the OECD “Economic Evaluation” on Romania from July 2002

⁴⁶ Studies quoted in article “In 2010, Romania could import more than 80% of the food”, signed B.P., in newspaper *Curentul*, 05.22.2003.

This perception is validated by the analysis that identified a strong linkage between the administrative and institutional levels and the impact the higher institutional levels have on lower levels.

Several examples demonstrate the linkages between the levels and the way the local level is stifled by its dependency on the center. The tax and public budgeting system is mainly responsible for undermining effective local administrative autonomy with all its implications for the entrepreneurial environment. For instance according to one of the mayors interviewed⁴⁷ the local taxes in his commune cover only 15% of the local budget. The rest of 85% comes from county level redistribution and EU funds. Such a situation is possible because the largest part of the taxes are paid at the county level to the decentralized agencies of the government. Of 56%, which is the general tax level, only an insignificant part is due to local taxes, that include property tax, building tax and commercial tax, which is calculated depending on the size of the board in front of your business. Moreover, financing local budgets through county level redistribution and EU funds makes way for arbitrary budgeting -according to political criteria or special interest group pressures⁴⁸. This system has serious consequences for the local level and its relationship with the county and national level; in fact, it makes the local community level dependent on the county and Bucharest, the county level being the key intermediary between the national and the local level.

Corruption is another very interesting example of inter levels linkages. There are two different types of corruption: first, there is the inherent corruption, which can be treated as a local social behavior. Second, there is the high level corruption, which supposes developed business involving both vertical and horizontal social networks. The vertical chain of such a business is anchored in all levels and structures. A good example is wood stealing. Wood stealing has been a wide-spread business in Romania in recent years⁴⁹. Most of the wood was supposed to be exported, until the government forbade these exports. In the case of Buteni, the former mayor was

⁴⁷ Interview 22: Aurel Dinga.

⁴⁸ Although it is a public agenda issue in Romania, political involvement in local communities financing wasn't recognized by subject 22: Aurel Dinga, Buteni but it was affirmed by: subject 15, Vișina Nouă; subject 25, Buteni

⁴⁹ The corruption networks are extremely well established in agriculture, probably because this is a state-dependent sector. From agriculture, probably the most affected sector is the forestry. More than offering preferential contracts⁴⁹, all the state actions in agriculture can be manipulated by political orders: for example, Law nr. 1/2000 regarding the restitution of the agricultural properties was modified, stipulating that the location of the resituted forest will be "*usually* on the old coordinates", meaning that the restitution commissions will decide whatever they want regarding the placement of the former properties.

obliged to resign because of political pressure from part of the county level structures of the governing party, after he opposed a group involved in stealing wood⁵⁰, that included mayorial officials and local police officers, connected at the county level. This subject is presented in more detail as a Case Study in the appendices.

Finally, the following examples illustrate the inter-level linkages between the business financing, licensing and permits systems. All the rural entrepreneurs we talked with financed their businesses from their own resources or by borrowing from friends. The low occurrence of loan financing of rural entrepreneurship is due to the difference in access opportunities in rural and urban areas. Both bank loans and EU funds can be obtained only at the county level or at best, from neighboring towns. The level of information regarding the financing opportunities is very low, while the collateral and formalities required in other towns make these opportunities very costly. One interviewee stated that although he heard about EU funds for MSMEs, they are impossible to obtain “because you must have important political connections and be willing to bribe these connections in order to get them”⁵¹. This view was supported by the information surfacing during the time of the interview as an outcome of a public scandal related to preferential Phare crediting. Also, it should be noted that the EU funding for agricultural reform (SAPARD funds) go to city-based agricultural companies that make new investment in small collecting or processing centers because they can present the whole project and documentation while providing 50% of the financing on their own, which is requested. Neither the peasants nor local mayors are able to provide the requested co-financing.

As a result, it is no surprise that the rural entrepreneur’s propensity is to see outside arenas as defining the dynamics of the local economy, the center as the ultimate source of these problems, and to acknowledge and develop a dependency on higher level decisions. The dependency is double: formal (bureaucratic and administrative) and informal (the personal connections needed to smooth the process and overcome the formal burdens). A top down dynamics is revealed. Even if they do not realize how large their involvement with the network is, how large their reluctance to trust the state is, and how involved they are in social exchange (as opposed to market

⁵⁰ While it is a common known business, it was also affirmed by subject 24, Buteni subject 25, Buteni and subject 26, Buteni. In fact, Filip Georgescu, the general manager of the National Forrest’s Authority declares that “the traffic of influence is flourishing”, in an interview to Ion Teleanu, published in “*Curentul*” newspaper from 06.09.2003

⁵¹ Subject nr. 19, Vișina. Different scandals related to EU funds appeared also in the press, ex. Mihai Ionel, “Tartorul PHARE”, article in *Jurnalul Național*, 10.29.2002.

exchange), the rural entrepreneurs still have the correct intuition that the center's policies are a crucial factor in maintaining or dismantling their situation.

IV. CONCLUSIONS

In summary, we find that while rural entrepreneurs share a similar regulatory burden and administrative problems with urban entrepreneurs, they have to cope with two sets of additional challenges. First, a mere extension of the typical problems amplified by the distance from bureaus, lack of information, and other associated burdens and costs. These costs could be alleviated but not eliminated through the standard approach. Second, and more importantly, a set of special barriers that are due not to direct administrative measures or regulatory decisions but to broader structural institutional and political economic factors: the lack of the institutional prerequisites for a dynamic market process and the pressure exerted by higher level institutional structures. These are the most crucial barriers to entrepreneurship in rural Romanian and are more difficult to deal with, as they require major policy overhauls aimed at increasing the market participation of the rural population and changing the property right structure and the institutional dynamics of the national political economy. Their importance is crucial and is clearly revealed if the analytical focus is shifted from the investment phase to the broader entrepreneurial process. Even a perfectly functional administrative and bureaucratic process in terms of entrepreneurial needs would not cause the entrepreneurial energies of the Romanian rural entrepreneurs to be fully rewarded if these barriers remain.

Both the study of the barriers to policy implementation and of the barriers to rural entrepreneurs from an institutional perspective point to the fact that factors pertaining primarily to the center (national level) institutions and political processes are crucial for the elimination of those barriers. Both require bold, comprehensive policy initiatives at the center. Although local level efforts aimed at improving the bureaucratic and administrative process might be successful, they have clear limits and no amount of such small-scale successes can lead to a tipping point. Even assuming 100% success and a totally functional bureaucratic system, the absence of market relations in rural areas cannot be solved by these means (or only by these means).

The question is how to generate a "big push" at the center in terms of political will to implement a set of policies thoroughly and consistently. Although there are many factors, interests and institutions shaping a policy, the analysis of USAIDs experience from a institutional perspective

points to the dual need of developing a functional and firmly institutionalized economic policy making process at the center and the need of nationals to internalize the policy, to learn how to develop and sustain it, and thus to own responsibility for it. The implementation phase matters and developing tools meant not only to diagnose but also to pre-assess and map the terrain of the potential policy process aiming at reform in the targeted issue areas is a necessity⁵².

Consequently the challenges of initiatives like the USAID one used as an analytical vehicle by our team is not only how to identify the problems and define intuitively feasible solutions but (a) how to imagine and implement feasible solutions incorporating the realities of local communities and the existing institutional configurations and (b) how to involve the locals in the process so they take responsibility for the implementation of the solution. The solution must involve capturing local, dispersed knowledge and mobilizing support for public policy issues. Thus the “best” solutions are those that combine the USAID expert knowledge based on scholarly theories and practical experience with local knowledge, political will and imagination.

From a *diagnostic/analytical* point of view we suggest as part of the design of any project and program that the following themes should be considered:

1. What is the indigenous entrepreneur’s perception/definition of the problem(s) they encounter?
2. What is the indigenous bureaucrat’s and decision maker’s perception/definition of the problem(s) encountered by the entrepreneur?
3. What is the indigenous actor’s (entrepreneur, bureaucrat and policy maker) perception/definition of the political dimension of the problem(s) encountered and of the role of politics in generating/maintaining/aggravating those problems?
4. What are the indigenous actor’s (entrepreneur, bureaucrat and policy maker) suggested solutions?
5. What is the stakeholders’ map that defines a problem and its solution emerging out of (1)-(3)?
6. How does the policy solution emerging out of (1)-(4) measure up to
 - 6.1 Comparison to similar situations in other countries.

⁵² In an appendix we present an attempt to develop such a diagnostic tool by our team, based on our experience with the case discussed above.

Where there similar situations in other places?

With what degree of success were they dealt with?

6.2 Theoretical/conceptual standards.

6.2.1 Is the problem mere conceptual, informational and technical?

If yes, what are the means to introduce the solution without generating adverse reactions and unintended consequences?

6.2.2 Is the problem a collective action problem?

If yes:

- What is its nature: coordination, cooperation, motivational, missing information, asymmetric information etc.?
- What is the strategic structure involved in it?
- Does it require a change only at the operational level?
- Does it require a meta-level rule change?
- Does it require a major restructuring of resources and power allocation between actors to succeed?
- Does it require a change in preferences set on behalf of some actors involved?
- What are the institutional linkages involved in a possible change?
- Could those linkages be used in promoting the initiative?

From a practical/policy point of view we suggest as part of the implementation strategy of any project and program that the following themes should be considered:

1. How could the political support for an initiative be generated?
2. How could the political support for an initiative be maximized?
3. How could a winning coalition be created?
4. Who should play a leading role as mediator and facilitator of that coalition?
5. How could the issue be brought to public visibility? How could it be brought to the media and public's attention?
6. How could media be involved in the process?

A prerequisite that could enormously facilitate the process is the existence of a basic organizational apparatus and institutional structure to shape and sustain the economic policy

making process. That requires, in countries like Romania, a renewed emphasis on the economic policy capacity building and institutionalization.

APPENDIX

1. COMMUNITY OUTLOOK

Village Profile: Vișina Nouă village, Olt County

The village of Vișina Nouă is part of the Vișina commune in the Danube plain and is situated 12 km from Corabia and 40 km from Caracal.

| Community development indicators | |
|----------------------------------|---|
| Population | about 4800 |
| Roads | Unpaved, excepting the main street (which is covered with asphalt) |
| Water quality | Poor; there is no public network of current water |
| Heating | Based on wood |
| Electricity, phones | Existing public networks |
| Gas network level | Nonexistent; cooking is based on household gas reserves. |
| Criminality | Low |
| Free time /cultural activities | Pottery workshop for youth, local cable TV network, church, bar. |
| Employment | Mainly in agriculture: the plants in the neighbor towns were closed. Further, the villagers who moved to Calarasi years ago have come back following massive dismissals at the plant and because of the difficult life in the town. |
| Local economy | Agricultural companies and trading companies in the village. Most of them are offsprings of the old kolkhoz structures. |
| Schools | Primary school existing in the village; distance to the closest secondary school: 16 km. |
| Hospitals | Closest hospital: 16 km. |
| Public transport | Poor, public bus lines to the town. Closest railway station: 2 km. |

Village Profile: Buteni village, Arad County

The village of Buteni is the administrative center of the Buteni commune (composed of 3 other villages except Buteni village) in the Western Carpathians, on the valley of the Criș river, and is situated 6 km from Sebiș and 68 km from Arad.

| | |
|----------------------------------|--|
| Community development indicators | |
| Population of the commune | about 5000, including the 3 other villages |
| Roads | Paved, main streets covered with asphalt |
| Water quality | Good; there is a public network of current water |
| Heating | Based on wood |
| Electricity, phones | Existing public networks |
| Gas network | Nonexistent; cooking is based on household gas reserves. |
| Criminality level | Low |
| Free time /cultural activities | Local cable TV network, cultural house, sport facilities, churches, bars. |
| Employment | Mainly in services and small industries in the village and in the neighbor towns; agriculture as family business/second occupation; administrative jobs. |
| Local economy | Small industries, agricultural companies and trading companies in the village. |
| Schools | Primary school existing in the village; distance to the closest secondary school: 6 km. |
| Hospitals | Closest hospital: 6 km. |
| Public transport | Crossroad location: public and private bus lines to the towns. Closest railway station: 5 km. |

2. APPROACHES AND METHOD

The team engaged in participant observation for roughly two weeks in each community/area. Interviews, discussions and study visits were conducted on a systematic basis. In addition to the rural areas work, urban interviews were conducted urban with two objectives: the interviews with political decision makers aimed at providing a general frame of the situation, while the interviews with the urban entrepreneurs served at generating a benchmark for a urban/rural comparison in order to make a clear distinction between two different types of entrepreneurship: rural entrepreneurship and urban entrepreneurship. For the same reason an interview was taken in Arad. A number of 28 in-depth interviews and about 20 other informal discussions and meetings were conducted. The in-depth interviews were semi-structured.

The semi-structured structure was chosen for its obvious advantages in an exploratory and policy oriented study like this: the flexibility (meaning the possibility of obtaining specific answers to each question), the high rate of the answers, the ability to control the succession of the questions and the possibility of exploring complex issues. Other particular advantages came from the possibility of investigate in depth entrepreneurial experiences, get direct feed-back regarding the barriers encountered and the possibility to discover hidden barriers and aspects of the entrepreneurial space that are not an issue on the public agenda or not even conceptualized as such by those interviewed. The problems encountered while conducting the interviews were: the lack of questions standardization reduced the comparability of the answers; a lot of time was needed to identify and convince the subjects while the pressures posed by the interviews on their time and effort was high; the impossibility of ensuring the anonymity of the subjects made them reluctant in providing sincere answers, especially in sensitive issues as officials corruption, black market and special interest groups; that is why the incomes declared to us are surely understated, as are the situations when it was necessary to pay bribes, if declared.

The second major source of data was a content analysis study looking at the way the problems facing rural entrepreneurs and entrepreneurial initiatives were reflected in mass media. The objective was to use the media reports to get a glimpse on the nature of those problems. The problem were approached and framed using the same analytical grid employed in the case of the interviews. Each problem discussed by an article was coded on two dimensions: its location in the entrepreneurial process and the institutional level involved in generating the specific barrier. Four national newspapers (Adevarul, Ziu, Evenimentul Zilei and Romania Libera) and two weekly (Adevarul Economic and Economistul) were analyzed over the interval May 2002 – June 2003.

The analysis and synthesis of previous studies was another important source of data. Besides the standard reports and statistical sources⁵³ several studies of interest were identified. Two studies, “Barriers to SME” and “Rural Entrepreneurship”, produced by the Institute for Social and Labour Protection Research, a government agency affiliated to the Ministry for Labour and Social Protection seem to have been produced recently and were of some interest for our work. The above-mentioned institute refused our access to these studies. On the other hand professor Vintila Mihailescu the most important Romanian investigator on this subject offered generously access to all his published and unpublished material.

3. ANALYTICAL FRAMEWORK

Our study employed as a starting point analytical vehicle a new institutionalist framework by applying as an analytical device the notion of (rational) social actors acting within levels and meta-levels of decision making. From that perspective an institutional analysis case could be approached as part of a multileveled system of institutions, action arenas or governance levels (Ostrom, 1993).

⁵³ EU Commission “Report of Romania’s Progress Towards Accession” for 2000, 2001 and 2002; Country Report No. 03/12, January 2003, “Romania-Selected Issues and Statistical Appendix” of IMF; World Bank project: “Private Sector Development: Regulating Technology Transfer in Agriculture: Impact on Technical Change, Productivity, and Incomes”, 1998; OECD: “Romania: An Economic Evaluation”, July 2002.

There are several possible ways of framing a case. One is to distinguish between the operational level, the collective choice level and the “constitutional” or “constitutive” decisions level⁵⁴ (Ostrom, 1986; Crawford and Ostrom 1995). Another is to look at the various governance levels as they structure themselves in the traditional political and administrative units. For each level there are specific arrangements, configurations of relations and sets of rules that apply to various domains and social affairs. The individual is embedded into a local dimension. Immediately above the local level is the sub-national regional level, followed by the national one. Finally there is the international level or action arena. Given this conceptual structure the task of the analyst is to identify in any social situation or institutional structure the relevant actors, the levels or action arenas, to disentangle these arenas, to explore how they generate interaction in the specific setting they create and to trace to them the problems and solutions to those interactions. Finally the linkages between the levels become crucial. Identifying how specific rules or decisions from one level have consequences for the structure and dynamics of another levels is an important part of the analytical effort. Indeed it is not necessary to introduce all the time all the possible levels. The idea of an institutional action arena and metalevel institutional rules is sufficient for analytical purposes in many circumstances.

The present study focused primarily on an analytical grid structured around three levels or action arenas besides the Individual level: Local, National and International. One of the major advantages of approaching the issues from this perspective is that this multilevel institutional framework is able to illuminate the *linkages* between levels and to identify with clarity the fact that many problems at one level have their origins at different levels from the one they manifest themselves.

The *individual level* consists of personal features and resources that immediately influence the entrepreneurial choices and possibilities. Such important factors are for instance education and available social networks. The *local level* is the lowest governance unit⁵⁵, represented in Romania by the administrative units that are ruled by the mayor: the town in urban areas and the commune in rural area. Usually, in rural areas such political-administrative units are equivalent with the anthropologic notion of “community”. Somewhere between the local and national level is the *county level*. Through a law of Local Administration Autonomy (that entered into application beginning with January 1, 2002), some attributes of the former centralized government were transmitted to the county level and to the local level, but the taxation system wasn't consequently reformed. The *national level* is composed of central government structures and activities that generate nation-wide settings and behaviours, affecting the

⁵⁴ “Constitutive” decisions are the most fundamental because they are decisions about rules governing future collective decisions. They determine the rules to be used in crafting the set of collective choice rules that in turn affect the set of operational rules. They also determine who is eligible to do that crafting. The collective choice level is the level at which it is determined, enforced or altered the basic framework within which actions take place. This level shapes who and how will be affected by rules at the operational level. The operational level consists of direct actions and strategies depending on and directly reacting to everyday, concrete circumstances, expectations etc. In this case, the sphere of action and decision is established by the other, higher levels. Although these actions and decisions affect the higher levels, they do it in only an indirect and aggregate way.

⁵⁵ The “commune” represents the smallest administrative unit in Romania, each commune being composed of one or more villages, so the actual average number of the community members represents less than 527.6. Furthermore, the rural social unit is the household, usually composed of one or more generations of the enlarged family.

entrepreneur's opportunities, barriers and environment. This is the major source of taxation, taxation level and taxation system; regulations, financing, legislations etc. and the major area of action for special interest groups. The *international level* is referring to factors originating in the international arena that affect the entrepreneurial space, such as customs and customs regime, subsidies in other countries, protectionist measures. The international level is especially important in the case of Romania, considering its accession efforts towards the EU and its medium size.

In our investigation the focus shifted from the *investment process* to the broader *entrepreneurial process*. From this perspective the investment process is one element or step in the larger entrepreneurial process. The study shifted from barriers to investment to impediments to the entrepreneurial action. This action is seen as taking place in conditions of uncertainty and as shaped by incentives and by institutional structures and rules. One can differentiate between uncertainty that is inherent in the market system and uncertainty that is created by the actions of human actors. The latter is termed *structural uncertainty* and refers to uncertainty resulting from instability in man-made institutions. Such things as unstable political institutions, unstable economic institutions and unstable legal institutions would all serve to illustrate the notion of structural uncertainty. The question then is how, if at all, does structural uncertainty affect entrepreneurship? What are the actions arenas or institutional levels that affect them? What are the linkages between levels that have an important role in that?

One can view entrepreneurship as a process that occurs over time. At any point in time an entrepreneur is in some stage along the entrepreneurial process. For the purposes of this analysis, the entrepreneurial process was broken into four stages. Given this understanding of the entrepreneurial process it is easier to identify how various institutional variables pertaining to the International, National and Local levels impact the various stages: existence of entrepreneurial situation and its identification; planning, financing, assessment/decision, resource mobilization & project launch; organization, consolidation & operation; reassessment of plan.

Existence of Entrepreneurial Situation and Identification. This stage involves the actual identification of an opportunity for an entrepreneur to be alert to. Analysis of this stage involves the examination of the impact of the various action arenas or institutional level variables on the existence of an entrepreneurial situation – do the variables prevent or promote the existence of such situations? Assuming that such a situation exists, the process of identification by the entrepreneur is then analyzed. How do the factors impact the entrepreneur's identification of the opportunity?

Planning, Financing, Assessment/Decision, Resource Mobilization & Project Launch. This stage involves the development of a business plan by the entrepreneur as well as the process of seeking, meeting and pitching the plan to potential investors. Based on the availability of funds, the entrepreneur assesses his prospects for obtaining funding and makes a decision as to whether to proceed. If he does decide to proceed, the entrepreneur begins the process of mobilizing resources – taking possession of and investing funds and securing psychical resources – leading to the launch of the enterprise. Analysis of this stage involves analyzing each of these sub-steps as they are impacted by variables located at different institutional levels.

Organization, Consolidation & Operation. This stage involves the organization of the start-up firm with the main focus on human capital – hiring labor and determining its various roles, wages as well as the general management structure of the firm. It is in this stage where the business plan (determined in stage two), as it relates to the structure of

the firm in delivering the product or service to market comes to fruition through the operation of the firm. Analysis of this stage includes studying the impact of the various institutional levels on human capital (labor laws, etc.) and the structure of the firm (regulations, etc.).

Reassessment of Plan. This stage involves two key aspects. The first is ex post analysis by the entrepreneur of actions he has taken to this point. Analysis requires one to ask how the variables from different levels impact the ability of the entrepreneur to evaluate the past performance – did some specific variable(s) cause the entrepreneur to incorrectly undertake, what are now revealed as the incorrect actions? Closely connected to this is second aspect of plan reassessment which involves looking into the future and forecasting future conditions – should the entrepreneur expand or contract his business? As in the former case, analysis of the forecasting aspect involves studying the variables as they impact the entrepreneur’s ability to consider his future position.

By combining the institutional level with the entrepreneurial stages one obtains a two-dimensions framework for analyzing the impact of various action and decision areas on the entrepreneurial process.

BARRIERS TO ENTREPRENEURSHIP AS IDENTIFIED BY MEDIA

ANALYSIS

Rural entrepreneurship cases not very often reported. Therefore were also analyzed articles dealing with the entrepreneurial environment in rural areas. All redundancies eliminated (cases that were reported in several media sources). Only one report per case was coded.

Barriers to entrepreneurship as identified by media analysis

| | | | | | |
|--------------------------------|----------------------|--|--|--|--|
| Variables Impacting Each Stage | International | <u>Frequency:</u> 6 <u>Overall Impact:</u> Medium | <u>Frequency:</u> 8 <u>Overall Impact:</u> Medium | <u>Frequency:</u> 4 <u>Overall Impact:</u> Low | <u>Frequency:</u> 3 <u>Overall Impact:</u> Low |
| | National | <u>Frequency:</u> 7 <u>Overall Impact:</u> Medium | <u>Frequency:</u> 16 <u>Overall Impact:</u> High | <u>Frequency:</u> 14 <u>Overall Impact:</u> High | <u>Frequency:</u> 9 <u>Overall Impact:</u> High |
| | Local | <u>Frequency:</u> 2 <u>Overall Impact:</u> Low | <u>Frequency:</u> 7 <u>Overall Impact:</u> Medium | <u>Frequency:</u> 6 <u>Overall Impact:</u> Medium | <u>Frequency:</u> 6 <u>Overall Impact:</u> Medium |
| | Individual | <u>Overall Impact:</u> None | <u>Frequency:</u> 2 <u>Overall Impact:</u> Low | <u>Frequency:</u> 2 <u>Overall Impact:</u> Low | <u>Frequency:</u> 2 <u>Overall Impact:</u> Low |
| | | Existence of Entrepreneurial Situation & Identification | Planning, Financing, Assessment/Decision, Resource Mobilization & Project Launch | Organization, Consolidation & Operation | Reassessment of Plan |

Stages in the Entrepreneurial Process

Breakdown of barriers to entrepreneurship as identified by media analysis

| | | | | |
|---|---|--|---|----------------------|
| International - Customs/Bribes - Restricted Entry (Special-Interest Groups) | XXXX | XXXXXXXX | XX | XXX |
| | XX | XX | XX | |
| National - Corruption - Taxation - Legal - Uncertainty/Excessive Regulations - Sources of Finance - Restricted Entry (Special-Interest Groups) | | XXX | XXX | |
| | X | XXXXX | XXX | X |
| | X | | XXXXX | |
| | | XXXX | | XXX |
| | XXX | | | |
| | | | XXX | X |
| Local - Corruption - Legal - Uncertainty/Excessive Regulations | X | XXX | XXX | XXX |
| | X | XXXX | XXX | XXX |
| Individual - Social Network - Education | | | | |
| | | XX | XX | XX |
| | Existence of Entrepreneurial Situation & Identification | Planning, Financing, Assessment/Decision, Resource Mobilization & Project Launch | Organization, Consolidation & Operation | Reassessment of Plan |

Stages in the Entrepreneurial Process

Barriers to Entrepreneurship as Identified by Interviews

| | | | | | |
|--|----------------------|---|--|--|---|
| Variables Impacting Each Stage | International | <u>Frequency:</u> 1 <u>Overall Impact:</u> Low | <u>Frequency:</u> 3 <u>Overall Impact:</u> Low | <u>Frequency:</u> 6 <u>Overall Impact:</u> Medium | <u>Overall Impact:</u> None |
| | National | <u>Frequency:</u> 4 <u>Overall Impact:</u> Low | <u>Frequency:</u> 21 <u>Overall Impact:</u> High | <u>Frequency:</u> 28 <u>Overall Impact:</u> High | <u>Frequency:</u> 16 <u>Overall Impact:</u> High |
| | Local | <u>Overall Impact:</u> None | <u>Frequency:</u> 8 <u>Overall Impact:</u> High | <u>Frequency:</u> 10 <u>Overall Impact:</u> High | <u>Frequency:</u> 1 <u>Overall Impact:</u> Low |
| | Individual | <u>Overall Impact:</u> None | <u>Frequency:</u> 1 <u>Overall Impact:</u> Low | <u>Frequency:</u> 1 <u>Overall Impact:</u> Low | <u>Frequency:</u> 2 <u>Overall Impact:</u> Low |
| | | Existence of Entrepreneurial Situation & Identification | Planning, Financing, Assessment/Decision, Resource Mobilization & Project Launch | Organization, Consolidation & Operation | Reassessment of Plan |
| Stages in the Entrepreneurial Process | | | | | |

Breakdown of barriers to entrepreneurship as identified by interviews.

| | | | | |
|---|---|--|--|---|
| International - Customs/Bribes - Restricted Entry (Special-Interest Groups) | X | XXX | X XXXXX | |
| National - Corruption - Taxation - Legal - Uncertainty/Excessive Regulations - Sources of Finance - Restricted Entry (Special-Interest Groups) | XX X X | XXXXXX XXXXXXX XX | XXXXXXX XXXXX XXXXXXXXXXXX XXX XXX | XX XXXXXX XXXXXX X |
| Local - Corruption - Legal - Uncertainty/Excessive Regulations | | XXXXXX XX | XXXXXXX XXX | X |
| Individual - Social Network - Education | | X | X | XX |
| | Existence of Entrepreneurial Situation & Identification | Planning, Financing, Assessment/Decision, Resource Mobilization & Project Launch | Organization, Consolidation & Operation | Reassessment of Plan |

Stages in the Entrepreneurial Process