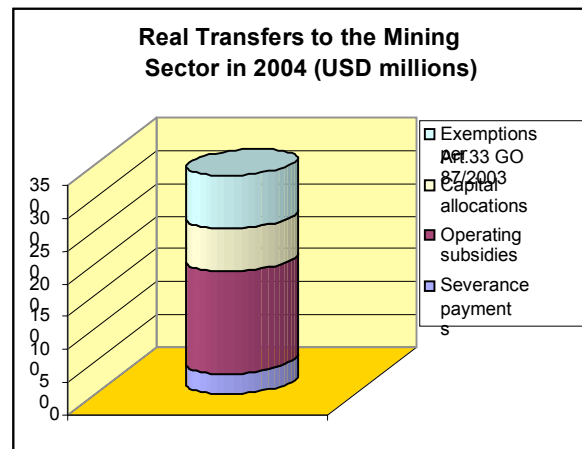


Political economy of reform: Mining sector restructuring in Romania

The mining sector has been plagued by political economy issues since the beginning of sector restructuring in 1997. In the mid-1990s, Romania had 464 mines of which many were uneconomical. By 2004, only 120 were operational, and workforce had been downsized from 171,000 in 1997 to 50,000 in 2004. But subsidies to the mining sector did not decline; in 2004 they reached 0.5 percent of GDP. Periodic strikes by the trade unions led to frequent concessions and a perpetuation of subsidies. As part of the poverty and social impact analysis of the mining sector, the political economy effect was assessed by analyzing financial data for the mining sector to unpack the effect on the budget as a whole, and its distributional consequences within the mining sector.

Real transfers to the mining sector.

The extent of subsidy to the mining sector was unclear due to continuously evolving terminology and ambiguity in the use of terms. The Ministry of Energy overseeing the mining sector has lobbied for higher subsidies ostensibly to make severance payments and to pay “social allocations” – transportation, worker meals, safety equipment and uniforms -- which should be classified as production costs. In reality, these two amount to one-sixth of total transfers. Despite the high severance payments in 2004, the main cost was for subsidies to keep the sector afloat (see graph). Half of the subsidies are for operating costs of mining companies, while one-third is for capital investments and exemptions under Article 33, GO 87/2003 from payment of current debts to the state budget, social insurance budget, health insurance and the unemployment budget.



Distribution of benefits and costs within the mining sector. The second part of the political economy analysis explored the degree of inequity within the sector. While mines are widely dispersed over the country, hard coal mines are concentrated in the Jiu Valley, which has a history of active trade unionism and has received greater attention by successive governments. The sector consists of 10 mining companies, of which 9 were loss making in 2004. To reach an objective assessment of the use of subsidies, data on budgets, wages, productivity, revenue and downsizing were analyzed for these 9 companies. The data revealed that:

- Wages at Petrosani Hard Coal Company (CNH), which is located in the Jiu Valley, are 50 percent higher than in other mining companies;
- Despite having deep underground mines, the labor to capital cost ratio is highest at CNH, over 70 percent being the labor cost;
- While CNH has the largest amount of gross output, the output/salary ratio at CNH is significantly less than four of the other mining companies;

Source: Adapted from Tools for Institutional, Political and Social Analysis of Policy Reform: A Sourcebook for Development Practitioners (Conference Edition) (2007) The World Bank, Washington, DC.