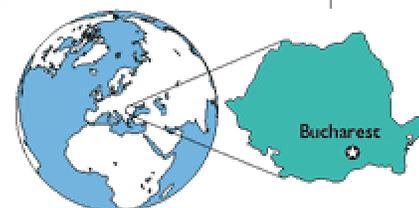


USAID/Romania Country Strategic Plan 2002 - 2006



October 2001



USAID/Romania
Country Strategic Plan
2002 – 2006



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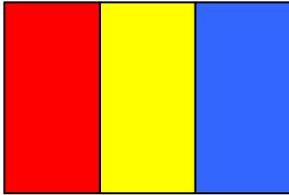
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R O M A N I A



Land area

88,934 square miles

Coastline

140 miles

Length of boundaries

Bulgaria 378 mi., Hungary 275 mi., Moldova and Ukraine 812 mi, Yugoslavia 339 mi.

Total population

22,364,022 (July 2001 estimate)
51% urban, 49% rural

Largest cities

Bucharest 1,975,808	Cluj-Napoca 309,843
Brasov 346,640	Galati 292,805
Constanta 323,236	Craiova 275,098
Timisoara 318,955	Braila 234,600
Iasi 314,156	Ploiesti 234,021

Length of road network

45,235 miles (9,794 hard surfaced)

Length of rail network

7,006 miles (2,119 electrified)

International airports

Bucharest, Timisoara, Targu Mures

Languages

Romanian, Hungarian, German

Religion

70% Romanian Orthodox, 3% Roman Catholic,
3% Greek Catholic (Uniate), 6% Protestant,
18% other

Literacy

98%

Climate

Temperate: long, sometimes severe winters;
hot summers; prolonged autumn.

Size of
Romania



Area comparison



ACRONYMS

ABA/CEELI	American Bar Association/Central and Eastern Europe Law Initiative
ACDI/VOCA	Agricultural Cooperatives Development International/Volunteers in Overseas Cooperative Agriculture
ADRA	Adventist Development and Relief Agency
AED	Academy for Educational Development
AHAP	American Humanitarian Assistance Program
BHR	Bureau for Humanitarian Response, USAID
CAD	Children Aid Direct
CDC	Citizens Democracy Corps
CEC	Central Electoral Commission
CHF	Cooperative Housing Foundation
EBRD	European Bank for Reconstruction and Development
ECHO	European Community Humanitarian Office
ESAF	Enhanced Structural Adjustment Facility European Union/Technical Assistance in the Commonwealth of Independent State
EU	European Union
FINCA	Foundation for International Community Assistance
FSA	Freedom Support Act
FSN	Foreign Service National
GDP	Gross Domestic Product
GDF	Global Environmental Facility
GOR	Government of Romania
ICRC	International Committee of the Red Cross
IDP	Internally Displaced Person
IFC	International Finance Corporation
IFES	International Foundation for Electoral Assistance
IMC	International Medical Corps
IMF	International Monetary Fund
IFI	International Financial Institution
IR	Intermediate Result
IRC	International Rescue Committee
IRI	International Republican Institute
ISAR	Initiative for Social Action and Renewal in Eurasia
LOL	Land O'Lakes, Inc.



MCI	Mercy Corps International
MPP	Mission Performance Plan
NDI	National Democratic Institute
NGO	Non-Governmental Organization
NIS/C	New Independent States/Caucasus, Department of State
OE	Operational Expenses
OSCE	Organization for Security and Cooperation in Europe
PAO	Public Affairs Office
PRRO	Protracted Relief and Rehabilitation Program, WFP
PSD	Social Democratic Party
PVO	Private and Voluntary Organization
R4	Results Review and Resource Request
RH	Reproductive Health
Section 907	Portion of the United States Freedom Support Act
SME	Small and Medium Enterprise
S/NIS	Office of the Coordinator for Assistance to the New Independent States
SO	Strategic Objective
SOE	State-owned Enterprise
TA	Technical Assistance
TI	Transparency International
UMCOR	United Methodist Committee on Relief
UNDP	United Nations Development Program
UNFPA	United Nations Fund for Population Assistance
UNHCR	United Nations High Commission on Refugees
UNICEF	United Nations International Children's Education Fund
USDA	United States Department of Agriculture
USDH	United States Direct Hire
USG	United States Government
USPSC	United States Personal Services Contractor
WB	World Bank
WFP	World Food Program
WHO	World Health Organization
WVI	World Vision International

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

This document presents USAID Romania's FY 2002-2006 Assistance Strategy. It represents a participatory effort involving the U.S. Country Team, USAID/W advisors, Government of Romania partners, stakeholders, contractors, grantees, and other donors.

Our task has been to streamline USAID's program in a way that allows the Mission to concentrate on fewer strategic objectives with high potential impact on Romania's future. We have crafted the program to align directly with U.S. foreign policy goals. In the process, we have built more effective teams to design and implement activities. By reducing the administrative burden related to the number of individual obligation and procurement actions, the Mission expects to manage a more cost-effective program while facilitating a tighter focus on achieving expected results.

The number of Strategic Objectives (SOs) in USAID's new strategy has been reduced from nine to three. The proposed SOs are:

- Accelerated Private Sector Growth by Supporting a Market-Driven Environment
- Improved Democratic Governance at the Local Level
- Increased Effectiveness of Selected Social and Primary Health Care Services for Targeted Vulnerable Population

These follow the three key objectives outlined in the U.S. Embassy's Mission Performance Plan (MPP): economic restructuring, strengthening democracy, and social and humanitarian assistance. The strategy's direction also supports the State Department's MPP which identifies the promotion and maintenance of regional stability in Southeast Europe as the cornerstone and principal goal of U.S. foreign policy. A prosperous, democratic, and peaceful Romania, with membership in the European Union (EU), would contribute considerably to the stability of a region marked by hostility and division. USAID plays an important role in fostering the process for enhanced prosperity, democratic development, and social welfare defined in the MPP.

The new USAID strategy represents a refinement of previous strategic plans implemented between 1990 and 2001. The main premise of transition that guided past efforts remains valid today. The simultaneous goals of creating a free market and a democratic polity out of state socialism are monumental, requiring financial support and sustained, strategic technical assistance. USAID's program does not represent big money in Romania. The EU and the International

Our task has been to streamline USAID's program so we can concentrate on fewer strategic objectives with high potential impact on Romania's future.

"Romania is a country with so much potential and it could be so much more if the right decisions are taken."

Ambassador Michael Guest
October, 2001

The main premise of transition that guided past efforts remains valid today.

Financial Institutions (IFIs) do. But USAID has provided valued, notable technical assistance in areas ranging from energy deregulation to fiscal decentralization to redefining child welfare. More and more, our initiatives help Romanian entities unlock resources from other donors.

Rather than an all-inclusive approach to reform, the 2002-2006 USAID strategy hones in on critical areas of change in which the Mission has: 1) experience; 2) reasonable expectation of significant near-term progress; 3) well defined end results; and 4) ongoing relationships with other donors.

Some key principles that have guided the development of USAID's strategic objectives and program plans are:

- USAID will expand support for reforms in areas where political will is most evident including agriculture, financial markets, energy, health, child welfare, and local public administration recognizing that the reform process will still not be easy even with stated commitment from the GOR
- Assistance is designed to leverage resources available from other donors and IFIs especially in private sector initiatives
- USAID programs will support economic and democratic reform objectives that are consistent with the expectations of NATO membership and EU accession
- Political and economic advocacy building at the local level is necessary, while service delivery by local NGOs is necessary to help the many Romanians for whom transition is synonymous with suffering
- USAID's programming will support the prospects of regional development, promoting cross-border linkages and learning whenever possible
- When feasible, some activities will conclude at the end of the strategy period, including, it is expected, activities in reproductive health and child welfare
- USAID's new strategy is an intermediate one, not a graduation strategy

The three new SOs cover standard areas of activity— promoting economic growth, developing democratic pluralism, improving the provision of basic social services—but the strategy development teams were determined to break down old walls that stood between sectors. Among the themes that cut across all activities are *competition*, *local involvement*, and *public accountability*. Greater competition in the private sector will spur growth. Greater competition in political processes and civil society will improve representation. Greater

USAID has provided valued, notable technical assistance in areas ranging from energy deregulation to fiscal decentralization to redefining child welfare.

“The EU and the accession process has been a beacon for good policies in the Central European countries, and it can play a similar role within South East Europe.”

IMF/World Bank
October 2001

Competition, local involvement, and public accountability are themes cutting across all activities.

competition in local service delivery will improve the quality of public services. Moving the locus of economic and political power out of Bucharest will deepen reform. Without greater accountability at every level of public authority, neither growth nor citizen satisfaction can be assured. And in each sector, more opportunities are being found to apply and pass on lessons from successful programming in the region.

USAID has high expectations for what we can accomplish through this strategy. As a function of our coordinated effort with other donors, by the end of 2006, USAID expects:

- Private sector economic activity will account for 70 percent of GDP, up from 65 percent
- Small and medium enterprise (SME) employment will represent 55 percent of total employment, up from 40 percent
- Agriculture sector will have a positive trade balance
- Average national farm size will increase from 2.3 ha. to 15 ha. in order to boost productivity
- Fifty percent (900,000 ha.) of total irrigated lands will be managed by private water users associations, up from zero today
- At least 25 percent of the energy sector will be competitive, up from 15 percent in electricity and 10 percent in gas
- Capital markets will be governed by an effective regulatory system encouraging increased amounts of both domestic and foreign investments as measured by 50 percent growth in listed share value traded, and a doubling of total market capitalization from 2001 levels
- At least 70 percent of targeted local governments will improve administrative structure and procedures contributing to transparent financial management and reduced corruption
- Increase of 200 percent in citizens active in local forums—town hall meetings, council sessions, and community advisory groups
- In child welfare, 30 percent reduction in 534 state-run institutions currently open
- Approximately 60 percent of children in alternative care settings will receive certified quality care, a target with no current baseline due to the absence of a national monitoring system
- All hospitals will be using a market-oriented reimbursement system, opening the door to a shift in health care resources to lower cost environments

In sum, the new strategy will promote greater effectiveness in the use of limited USAID resources while continuing to complement and reinforce the work of other donors. It will enhance the programming and administrative effectiveness of USAID through the consolidation of program reporting and management. By streamlining the portfolio

USAID has high expectations for what we can accomplish through this strategy.

The Mission expects to improve the staff's ability to work across sectors, thereby strengthening program impact.

and focusing on fewer Strategic Objectives, the Mission expects to improve the staff's ability to work across sectors, thereby strengthening program impact.

Significant achievements have been realized over the last eleven years in Romania. The private sector's contribution to GDP has grown to 62 percent and the private sector accounts for around half of employment. Democratic institutions are squarely established, with new authority vested in local government. Dramatic improvements in, for example, the rate of maternal mortality have been made. Abortion rates declined from 3.4 to 2.2 per woman between 1993 and 1999. Close to 100,000 abandoned children who used to live in miserable state institutions have left the system.

For the first time since 1995, Romania's economy experienced growth in 2000 of 1.6 percent. It is a most welcome sign. Unfortunately, through much of the country's belabored transition, Romania's economy has staggered along, avoiding disaster but skirting growth. Living standards are lower today than they were in 1989 when Romanians revolted against the economic misery and suppression enforced by communism. Over 40 percent of the population lives below the poverty line as defined by the World Bank. The lack of visionary political leadership with tenacious dedication to implementing practical reform has hurt Romania tremendously. Since 1990, Romania has simply not completed essential economic and governance reforms resulting in increased poverty and macro-economic instability. Neither the EU nor the U.S. Department of Commerce considers Romania to have a functioning market economy.

The grave economic situation has contributed to Romania being a major country of origin and transit for human trafficking. Unofficial numbers are shocking, suggesting thousands of victims. A weak social service structure provides little assistance for victims who are often perceived as perpetrators of crime, not as victims of violence and abuse whose rights have been profoundly violated.

A new government was elected in December 2000, led by former president (1990-1996) Ion Iliescu and the Social Democratic Party (PSD). The coalition that governed between 1996 and 2000 was rejected for its lack of accomplishments and inability to improve economic performance. The new PSD government represents a propitious opportunity to re-invigorate the reform process. Despite its stated commitment to reform though, not enough progress has been achieved by the GOR in restructuring, selling, or closing state-controlled enterprises that are a major economic drag. Enterprise arrears are substantial and growing, putting huge pressure on the

Progress:

- ◆ *Modest economic growth*
- ◆ *Improved functioning of the judiciary*
- ◆ *Law on the civil service adopted*
- ◆ *Some progress in macro-economic stabilisation*
- ◆ *Exports have increased*
- ◆ *Continue to advance with the adaptation to EU law*

Progress yet to be made:

- ◆ *Progress on reforming state-owned economy must be accelerated*
- ◆ *Living conditions in orphanages must be improved*
- ◆ *Agricultural reform needs to progress*
- ◆ *The level of corruption needs to be reduced*
- ◆ *Discrimination against the Roma minority needs to be fought*
- ◆ *The police and other bodies subordinated to the Ministry of Interior should be demilitarized*
- ◆ *The country cannot yet be regarded as a functioning market economy*
- ◆ *The country is not able to cope with competitive pressure and market forces within the EU in the medium term*
- ◆ *Steps are needed to improve its future economic prospects*

EBRD, March, 2001

“The past 10 years have demonstrated that transition is not a fast forward march along a straight road, but a challenging process, more complex and difficult than many had imagined.”

EBRD, March 2001

budget and thwarting IMF negotiations. Fortunately, external assistance and relations—particularly the compelling prospects of EU accession and NATO membership—are strong incentives for the government to follow through on its many commitments.

The timetable for Romania to fulfill numerous, specific requirements for EU accession roughly coincides with the time frame of USAID's strategy and planning horizon. The World Bank, the EU, and the European Bank for Reconstruction and Development (EBRD) are the principal donors assisting Romania. Donors remain somewhat skeptical regarding the GOR's level of commitment to some stated goals, but donors are unified in encouragement and offers of support.

USAID's new strategy takes this uncertainty about the GOR's level of commitment into account. The primary assistance providers in Romania will be other donors, especially the EU and IFIs, with USAID playing a key catalytic role, focusing on a few key strategic areas. The strategy identifies these target sectors—areas of great opportunity where we have a comparative advantage to make a difference. To design and manage activities, USAID/Romania staff funding levels over the period of the strategy will remain constant, although the USPSC staff will decline slightly.

Improving life and governance at the local level is an angle of vision found in each of the three SOs. In democracy, local government will be directly strengthened through efforts to increase accountability, service delivery, and revenue management. To promote multiple avenues of democratic expression, activities will help build associations, civil society coalitions, and strengthen the independence of local political parties and labor groups.

Much of the humanitarian assistance portfolio will also be locally focused, concentrating on community alternatives for child welfare, the integration of reproductive health into general practices, and improved financial stewardship to ensure funding of local health services.

Economic development efforts will concentrate on reducing bureaucracy, improving access to credit, supporting more productive agricultural holdings, and building business associations—all unfolding locally. Business associations will serve as the primary actors on legal and policy development bringing the perspective of local impact to national decision-makers. Corruption, trafficking of human beings, the adjudication of business disputes, and transparency within both the public and private sectors are problems which invariably must be tackled locally as well as through national level

Improving life and governance at the local level is a shared vision in the three SOs.

“In Bulgaria, Croatia and Romania, health and pension reforms have reached a crucial stage”

IMF/World Bank
October 2001

Many reform efforts must be worked at the center.

policy. USAID will not lose sight of the fact that many reform initiatives absolutely must be worked at the center. In the economic development portfolio, for example, national level programming will focus on privatization and the reform of corporate governance. The national budget process will be a reform target for the democracy team. Policy decisions governing health and child welfare invariably emanate from Bucharest and USAID will remain seated at those leadership tables.

In addition to the emphasis on improving local government, USAID will continue to support countrywide private sector activities in those areas in which reform is most likely. These include: assisting in the de-monopolization of the IT sector; expanding support for SMEs; helping the agriculture sector leverage World Bank other donor funding in irrigation and agriculture credit; restructuring and privatizing the energy sector; revamping and improving the operation of finance and capital markets; and defining a new private sector role within health reform.

Strengthening Romania's ability to reform itself, helping this pluralistic society become more representative, and promoting health and welfare will be accomplished utilizing a wide range of partners, both experienced and new. USAID will meaningfully engage local partners to implement this work.

Conceptually, what allowed the strategy development teams to combine subject areas (for example, once separate, democracy and local government assistance became one SO) was the fact that the teams developed Intermediate Results (IRs) that are functional and reflect common areas that must be addressed by every sector. This initiative should reduce the amount of program reporting, allowing the Mission to focus efforts on obtaining results. This streamlined approach should add administrative benefits on the procurement side as well. When possible, USAID intends to use umbrella mechanisms related to each new SO to reduce the number of procurement actions particularly in democracy and the social sector areas.

An innovation in the Mission's strategy development process was the nature of strategy development team leadership: each team was led by a senior Foreign Service National. The teams were empowered to fully define the new Strategic Objectives and Results Frameworks with oversight from management. One of the guiding principles to emerge from this process is "Romanianization," the notion that future programming under the new strategy should be increasingly defined and implemented by Romanians and indigenous organizations. To follow this principle will enhance the ultimate sustainability of USAID's initiatives.

USAID will continue to support countrywide private sector activities where reform is most likely.

"Romanianization" means that future programming under the new strategy should be increasingly defined and implemented by Romanians and indigenous organizations.

PART I.
SUMMARY ANALYSIS OF THE
ASSISTANCE ENVIRONMENT
AND RATIONALE FOR
STRATEGIC CHOICES



PART I: SUMMARY ANALYSIS OF THE ASSISTANCE ENVIRONMENT AND RATIONALE FOR STRATEGIC CHOICES

A. US FOREIGN POLICY INTERESTS IN ROMANIA

Romania plays an important role in the stabilization of conflict-ridden Southeast Europe. A democratically vibrant and economically prosperous Romania is a strategic asset for regional peace and stability. Romania is the largest country in Southeast Europe, so its potential impact is significant. With the former Republic of Yugoslavia (FRY) now an active participant in regional integration, U.S. commitment to Romania and to the region is compelling.

A democratically vibrant and economically prosperous Romania is a strategic asset for regional peace and stability.

The principle goal in terms of U.S. national interest is regional stability. The U.S. Embassy Bucharest MPP stresses regional stability and the mutually-reinforcing objectives of economic growth, democracy, and humanitarian assistance. Progress in this area is principally defined by Romania's economic and democratic reform objectives which are consistent with the expectations of NATO membership and EU accession.

Romania has proved to be a worthy U.S. partner at important occasions: Romania has been an enthusiastic member of NATO's Partnership for Peace program, serving as a strong ally during the Kosovo conflict, and committing resources to the war on terrorism. This year, Romania held the chairmanship of the Organization for Security and Cooperation in Europe (OSCE), and did an excellent job in this important, and highly visible, international task.

U.S. national interest is not just a function of geo-politics as U.S. Ambassador Guest noted during testimony to the U.S. Congress. He underscored that economic reform and much needed privatization are far from complete. The rule of law is not fully anchored: corruption is still endemic and affecting everything from contracts to business registrations to adoptions. He also pointed out that Romania is a source and transit country for trafficking in women and children. These issues are included in USAID's new strategy.

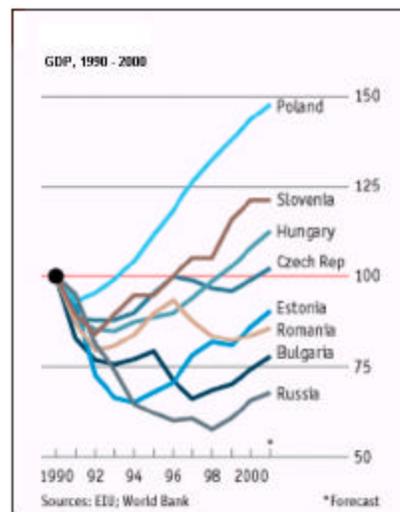
The rule of law is not fully anchored: corruption is still endemic and affecting everything from contracts to business registrations to adoptions.

B. COUNTRY CONDITIONS TRENDS AND ISSUES - AND STRATEGIC PRIORITIES

1. Economic Trends

Overall, economic reform progress in Romania has been modest compared to other transition countries. The greatest reform gaps are in second stage reforms such as the mutually reinforcing and overlapping areas of enterprise restructuring, financial sector reforms, competition policy, and large-scale privatization.

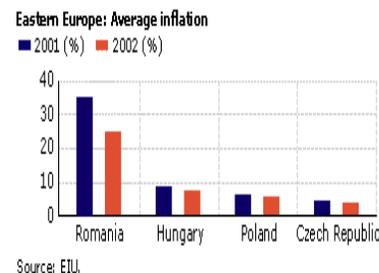
Drawing from EBRD measures, Romania ranks 11th out of 27 transition countries in progress in such reforms, lagging behind what has been achieved in the eight northern tier Central and Eastern European (CEE) countries plus Bulgaria and Croatia. Similarly, the EU rates Romania as the economic reform laggard of the ten CEE countries on the accession track. In its November 2000 assessment, the EU concluded that, “Romania cannot be regarded as a functioning market economy and is not able to cope with competitive pressure and market forces within the Union in the medium term.” Foreign direct investment (FDI) levels in Romania remain low relative to other transition countries, and very low relative to Romania’s potential. Cumulative net FDI inflows from 1989 through 2000 were \$303 per capita in Romania which is below the southern tier average of \$345.



Part of the explanation for the difficulty of implementing reform in Romania lies in understanding its starting point. Under deposed dictator Nicolae Ceausescu, Romanians endured severe hardships as an increasingly distorted economy headed towards collapse. Moreover, rapid foreign debt repayments (of roughly 20-30 percent of GDP) during the 1980s proved extremely onerous to both the population and to the economy. Perhaps partly as a result of this difficult legacy, early transition reform efforts, particularly during President Ion Iliescu’s first rule from 1989-1996, were piecemeal, and progress was slow. The victory of a coalition led by Emil Constantinescu in late 1996 brought high hopes for more decisive reform progress. However, political infighting characterized the coalition government, and it was not until mid-1999 that important efforts to structurally overhaul the economy emerged. By that time, the economy had contracted by close to 15 percent over three successive years, from 1996-1999. In 1999, Romania was confronted with another debt crisis, but managed to avoid default. Nevertheless, poverty escalated substantially. These hardships helped set the stage for Ion Iliescu and his party’s return to power in December 2000.

Romania’s transitional economy has achieved some progress during the last decade and continues to face large hurdles in its efforts toward EU accession.

Economic growth resumed in 2000 at 1.6 percent, and is forecast to continue at close to 4 percent in 2001-2002. Inflation remains too high, though it is falling, from 41 percent in end-year 2000 to perhaps 30 percent by end-year 2001. Exports have surged, expanding at an annual rate of roughly 25 percent from 2000 through mid-2001. Up to 70 percent of these exports go to the EU. Current year trends from a monthly survey of businesses undertaken by the National Bank of Romania suggest that many in the private sector are cautiously optimistic.



To a large extent, economic growth has been occurring despite slow progress on reforms due to favorable global economic conditions such

as strong economic growth in Western Europe, coupled with expansionary policies of the current government and domestic business cycle trends. This current expansion of the economy will not be sustainable if critical structural reforms are not undertaken.

The current government has certain advantages that did not exist for the previous government. It is a single party minority government, not a coalition government as was the last, and hence has greater capacity to make decisions and execute them. In addition, for this year, the government has a favorable macroeconomic setting as the economy is growing and unemployment is low. Its popularity is quite high as recent polls show almost half the population trusts government (44 percent) and believes the government can improve things (46 percent).

2. Democracy and Governance

As with other Central and Eastern European countries, political and democratic reforms in Romania are farther along than economic reforms. Nevertheless, by Freedom House measures, Romania’s progress in democratization lags behind the eight northern tier CEE countries which have achieved democratic reforms roughly on par with Western Europe, while being roughly comparable to progress in Croatia and Bulgaria (and further along than all other transition countries). The EU has given Romania a decent score on democratic reforms, although the plight of Romania’s Rroma (gypsy) community, weak public administration, and inefficient court administration are singled out as requiring improvement.

According to an assessment of democracy and governance trends completed this summer by a USAID/G/DG team, the good news is that free and fair elections and the peaceful transfer of power have occurred in the last two national elections. Freedom of speech and association are well established as is a competitive press—although the media is not playing much of a role in providing effective oversight of political institutions. Considerable progress has been made in decentralization and strengthening democracy at the local level. Civil society progress has been more mixed, and the expected positive impact of NGOs in widening political space has hardly occurred. Business associations and professional groups have probably had the strongest impact on national policy among civil society organizations (CSOs). However, the evidence for this is largely anecdotal.

Romania’s problems in democracy and governance are most striking and perhaps most debilitating in the area of rule of law. Salient among the shortcomings that have surfaced during transition is a system of governance that suffers from severe institutional weaknesses, especially in the parliament and the judiciary. More broadly, there is a general lack of accountability on the part of politicians and

“The future will be build through competent governance...it is what we committed ourselves to do after the December 2000 elections”

Adrian Nastase, Prime Minister, November 2001

The EU has given Romania a decent score on democratic reforms. The plight of Rroma, weak public administration, and inefficient court administration, however, require improvement.

Transparency International Corruption Indicators		
Countries	2001 CPI Score ¹ (Index ranges from 1-10)	Country Rank (among 91 countries rated)
Hungary	5.3	31
Bulgaria	3.9	47
Romania	2.8	69
Croatia	3.9	47
Poland	4.1	44

For CPI index:
10 = highly clean
0 = highly corrupt¹

government bureaucrats, an absence of effective oversight mechanisms to provide that accountability, and few channels for popular pressures to bear influence on it. Trust in political parties and in the judiciary is among the lowest of political institutions: three-quarters of Romanians recently polled think that political parties are not trustworthy; only slightly fewer (71 percent) had trust in judiciary. A negative vote every four years is about the only means by which the broader population influences the actions of the political elite. Moreover, although internal pressures for change are mounting as a result of persistent economic hardships and frustration, external pressures (particularly with the carrots of EU accession and NATO membership) remain critically important.

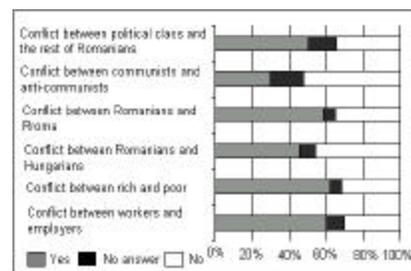
A negative vote every four years is about the only means by which the broader population influences the actions of the political elite.

Checks and balances on the power of the political parties and elite are not forthcoming from parliament or the judiciary. The administrative capacity of parliament is very limited, and the continued difficulties to pass legislation have slowed reform progress. Moreover, the excessive recourse to emergency decrees has further marginalized parliament. The previous government used emergency decrees hundreds of times while the current government has already invoked this constitutional clause over 100 times in the first half year in office.

In too many cases public good tends to be subordinated to partisan and personal interests. Little political will is evident for a judiciary significantly more independent from the executive. There is no effective coalition for judiciary reform. The need for fundamental reform in the rule of law is pressing and of great importance, but the challenges are also monumental and not easily tackled without significant resources—and evidence of political will. It is thus risky to contemplate donor investment in this sub-sector without some clear signals regarding the government's commitment to the independence and integrity of the judiciary. The World Bank is currently carrying out a needed systematic assessment of this sector. The EU remains committed and extensively engaged in court administration reform.

According to the EU, Romania's democratic institutions are well established, but the process of decision making remains weak. In terms of administrative capacity, Romania has met the short-term Accession Partnership priorities by adopting a law on civil service and by setting up a civil service agency.

The World Bank, in its May 2001 Country Assistance Strategy, notes that fiscal decentralization began in earnest in 1998, and that the new government calls for an acceleration of decentralization, with further allocation of responsibilities for delivery and financing of public service to local governments. This will call for more policy initiatives, a more effective system of transfers, a more appropriate degree of consolidation of local governments, measures to build a professional



Source: UNDP

civil service, and steps to strengthen and simplify the legal and regulatory framework for locally provided public services. Indeed, by 1999 the legal framework decentralizing power to local government was largely completed. However, the implementation of this legislation has been problematic. The financial relationship between central and local levels of government remains unclear and delays in financial transfers have caused problems. A related issue is that while new responsibilities have been devolved to the local level these have not been adequately matched fiscal resources. Particular care needs to be taken to ensure that sufficient financial and human resources at the local level match decentralized responsibilities.

The USAID strategy development team concurred with conclusions reached by the DG assessment team that USAID's best opportunity for results is at the local level and assistance at the local level can achieve tangible, positive results. Local political participation tends to be somewhat higher than national participation, which reflects the spark of dynamism that has emerged at the local level. Local politics are perceived as having more direct impact on daily life and mayors are elected directly by citizens. But, decentralization is a relatively new phenomenon, and decision-making tends to reflect top down rather than bottom up influences.

3. Social Transition

Poverty and income inequalities have increased in Romania during the years of transition. Income inequality has grown during the period and most efforts to compare incomes during the transition period find the average Romanian increasingly worse off. A recent World Bank study found that approximately 41 percent of the population is below the poverty threshold. Measures of this sort are volatile, but all studies indicate increases in poverty. Poverty impacts most heavily on rural households, female-headed households, and families with more than three children. These groups are found to be disproportionately at risk.

The link between labor market trends and poverty rates are relatively weak for Romania. Romania's unemployment dropped to 8.8 percent in June 2001 from 10.5 percent in 2000 and 11.5 percent in 1999. This is the lowest unemployment rate of the southern tier CEE countries. However, the low unemployment figure reflects the continued existence of many large state enterprises and their ability to shield numbers of workers from market forces that ultimately they will have to face. At this time, the low and falling unemployment level may make it easier to implement needed economic restructuring and probable labor reduction in some sectors.

Estimates of relative poverty burdens suggest that being "officially" employed or unemployed has less bearing on one's risk of being in poverty in Romania than elsewhere in CEE. Romania's profile in this

The financial relationship between central and local levels of government remains unclear and delays in financial transfers have caused problems.

USAID's best opportunity for results is at the local level.

Some 41 percent of the population is below the poverty threshold. Rural households, female-headed households, and families with more than three children are disproportionately at risk.

regard is more similar to that found in Eurasia where the informal economy is particularly large. Labor markets are adjusting quite differently with lower open unemployment, but larger drops in real wages and greater wage arrears and underemployment. Hence being officially unemployed means less personal hardship due to unofficial safety nets, while being officially employed confers less of a gain, since wages are relatively lower or are not being paid.

In Romania, most social services were heavily subsidized during the communist era. After 1989, the country has increasingly found itself unable to maintain and manage these systems. Romania ranks among the lowest in the CEE in health care spending. Hospitals consume a growing proportion of health care resources—now more than 70 percent—reducing monies that could go to primary health care and preventative services. As a result, many of Romania's health indicators have been declining since the fall of communism and are not recuperating. Both mortality rates and life expectancy lag significantly behind other CEE countries.

Child welfare and the institutionalization of children continue to be important issues retarding EU accession progress. The government has shown a commitment to addressing these problems and responsibility for the child welfare institutions has been transferred to local authorities. However, taking the essential step of closing large state-run facilities has been resisted. The institutions are often big employers in poor regions. In addition, alternative child welfare services have not developed fast enough nationwide to care for the vulnerable young population that needs help, so they end up in residential care.

In education, the situation is somewhat mixed. Romania experienced the largest proportionate drop in secondary school enrollment during the transition—from 92 percent in 1990 to 78 percent in 1997—of any CEE country. However, it also witnessed a small increase in primary school enrollment—from 94 percent in 1989 to 97 percent in 1998.

A major theme related to economic and political development in Romania is corruption. It is widely recognized as a critical problem. Romania falls roughly in the middle of transition countries on various scores on corruption. From the WB/EBRD September 2000 study, Romania ranks 14th out of 22 countries in administrative or petty corruption. The EU's November 2000 assessment notes that little progress has been made in reducing the levels of corruption, and improved co-ordination is needed between various anti-corruption initiatives that have been launched.

Internal conflict in Romania is most likely to stem from ethnic problems. The principal group that currently has the greatest problem

Hospitals consume a growing proportion of health care resources – now more than 70 percent – reducing money that could go to primary health care and preventative services.

Alternative child welfare services have not developed fast enough nationwide to care for the vulnerable population that needs help.

assimilating in Romania is the Roma community. This group experiences high levels of discrimination and there are serious concerns regarding actions limiting Roma access to education, other public services, and their ability to participate in the labor market. Roma progress has been severely limited and they trail behind other groups in terms of social and economic progress. Currently, the GOR is preparing a strategy that will involve the participation of the Roma community and hopefully address issues of discrimination. The GOR strategy is a direct response to the EU's concerns in this regard.

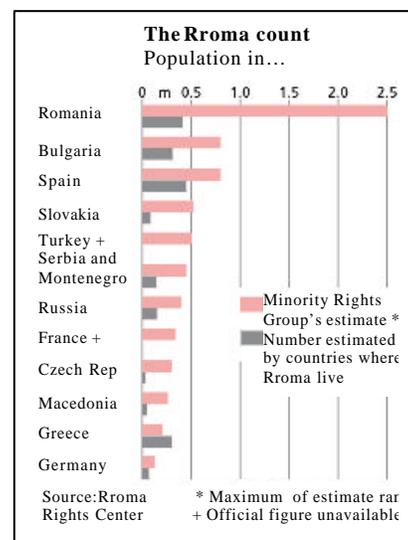
Trafficking in human beings has emerged as an important issue for the GOR and the region. Romania serves as both country of origin, transit, and destination for large numbers of women. They are smuggled in and out of Romania for the purposes of prostitution and placed in situations of virtual enslavement. Not enough is being done to arrest and prosecute traffickers. Protection for victims is also inadequate. Recent passage of a law against trafficking could improve GOR attention to these problems. This is due to a number of shortcomings including: a lack of public awareness of the problem, a lack of political will to take action, and a lack of appropriate training in executing steps necessary for coordinated enforcement between countries.

C. USAID ASSISTANCE TO DATE

USAID has provided \$350 million in assistance over the period 1990 through 2001. Funding has been provided to more than 50 specialized organizations that have provided technical and management assistance. Most implementing partners have been NGOs. There have been substantial accomplishments as a result of USAID's efforts. Nonetheless, the overall expected results have been mixed primarily due to the reform environment. The government's weak commitment and slow implementation of essential reform has led to continuous macroeconomic instability.

About 50 percent of USAID's past assistance was targeted for economic restructuring activities. The emphasis has been on stimulating the growth of the private sector, improving the operations of the financial sector, agribusiness development, improved environmental resource management, and the development of the legal and institutional framework for promoting the development of a sustainable energy sector. During the period of USAID assistance the private sector's share of GDP grew from 45 percent to over 60 percent.

USAID activities have been designed to support the development of small and medium enterprises (SMEs). Efforts have concentrated on reducing the administrative and legal barriers to business development. Assistance was provided to central and local



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governments resulting in legal and institutional reforms, simplified licensing/approval procedures, and the establishment of one-stop shops for business registration. Local bureaucracy was streamlined in coordination with USAID local government initiatives. New sources of credit were provided including finance companies, credit unions, and lending institutions for communities to expand access and financing for SMEs which has increased by over \$8 million.

USAID has successfully assisted in the establishment of capital markets institutions and associated regulatory oversight. USAID's banking supervision program strengthened the capability of the National Bank of Romania to conduct on and off-site examinations of both state and private banks, enforce prudential regulations, and address the needs of problematic banks. It also assisted the GOR in establishing the Competition Council and its implementing arm which is now able to properly carry out its anti-monopoly mandate. At the same time, USAID support materialized in the issuance of critical legislation for the financial sector and private pensions.

USAID's programs strengthened and created sustainable business support organizations. Specific assistance to both the miller's and meat processors' associations has created viable organizations. In addition, technical assistance has improved the capacity of dairy and poultry associations to provide meaningful policy advocacy and services to their members, impacting thousands of producers. The number of self-sufficient business organizations resulting from our assistance increased by eight as a result of USAID's support.

USAID technical assistance and training have helped to build critical skills in the environmental sector, to develop institutional capacity, and to establish key policies to address critical environmental issues. Activities were directed at both national and local environmental protection authorities (EPAs) and included training and direct technical assistance for local demonstration projects. Assistance has also been provided to facilitate access to financing sources for environmental investments.

USAID's energy reform program has been designed to promote competition, private sector participation, and compliance with EU requirements and to leverage significant multilateral lending to the sector. Assistance emphasized restructuring and commercialization of the power sector and successfully created independent regulatory authorities in both power and gas sectors. The GOR elaborated its first energy efficiency strategy with USAID help.

Democracy assistance has focused on improving political processes, the capacity of governing institutions and the judiciary, elections administration, civil society activism, labor participation, and media

USAID successfully assisted in establishing capital markets institutions and associated regulatory oversight.

The agriculture sector contributes 23 percent of the GDP and employs 23 percent of labor.

Romania is a net energy importer.

professionalism. Elections have been successfully carried out and transfers of power accomplished in a peaceful manner at both the national and local levels. A number of democratic mechanisms have been supported including political parties, the development of an independent media, the creation of advocacy NGOs engaged in human rights and civic education, and associations of local officials. Several strong NGOs, supported early on by USAID, are independent and sustainable today.

A particularly important area of success has been the development of the legal and regulatory framework for administrative decentralization and the subsequent devolution of authority to the local level. USAID contributed significantly to the adoption of decentralization legislation. The new legal framework fundamentally changed local public administration by expanding authority to establish expenditure priorities, approve investments, execute long-term budgeting, gain access to credit from internal and external markets, and, most importantly, assess and collect revenues from local taxes and fees. As a result, the value of local taxes and fees increased between 1998 and 1999 by over 70 percent in real terms. This source now represents over 50 percent of total local revenues, one of the highest percentages in the region.

USAID/Romania's social sector programs have concentrated on three principal areas: child welfare reform, reproductive health reform, and human capacity—sponsoring participant training for managers and decision-makers in all sectors. USAID has developed many essential components of a comprehensive system for reform in both child welfare and reproductive health (RH), which will help to close out USAID's efforts in these areas by 2006. In RH, especially, there are many lessons learned through best practices in the region and USAID worldwide including model community-based programs for RH services. Alternatives to institutionalization of children have been piloted by USAID in anticipation of greater systemic change. Programs such as day care centers, maternal shelters, emergency funds, life-skills programs, foster care, specialized support services for children with HIV/AIDS, and domestic adoption have provided examples of programs that must be made available nationwide.

Child welfare assistance has increased community-based alternatives to the institutionalization of children, and has led to the emergence of USAID as a key advisor to the GOR in ongoing child welfare reform efforts. Results include a 56 percent decrease in the number of institutionalized children nationwide since 1990 and the increased availability of family-based alternatives. USAID helped re-create the social work profession (banned under the communists) in the early 1990s, and the profession continues to grow, increasing human resources for the alternative models USAID has developed and is

USAID contributed significantly to the adoption of decentralization legislation. As a result, the value of local taxes and fees increased between 1998 and 1999 by over 70 percent in real terms.

USAID has developed many essential components of a comprehensive system for reform in both child welfare and reproductive health (RH), which will help to close out USAID's efforts in these areas by 2006.

promoting. USAID also helped establish foster care as a viable alternative for unwanted children, and the Mission helped win the adoption of nationwide foster care standards. In the health sector there has been a 100 percent increase in the use of modern contraception methods. Additionally, the Ministry of Health has accepted the need for health financing reform and has requested USAID assistance in implementing case-based-management (using a Diagnostic Related Group, or DRG, system piloted by USAID) in order to contain hospital costs that are putting the nation's health care system in crisis and reallocate resources more appropriately.

D. NEW PROGRAM DIRECTIONS

USAID will continue to support the development of a market-oriented economy, the promotion of democratic governance, and improvements in the effectiveness and accessibility of child welfare and health care services. The new strategy concentrates on fewer Strategic Objectives, focusing and concentrating efforts on areas informed by successful performance in the past as well recent evaluations and assessments. Results are related to commonly identified problems—functional areas cutting across subject matter sectors.

Expanding opportunities for Romanian citizens to improve their standard of living, economic outlook, governance, and quality of life are the bedrock of USAID's mission in Romania. Programs are organized within three new Strategic Objectives.

1. Accelerated Private Sector Growth by Supporting a Market-Driven Environment

The first objective, *accelerated private sector growth*, focuses on improving the economic well being of Romanian citizens. Accelerating private sector growth represents the greatest potential for economic development, job expansion, and a better standard of life for all Romanians. The private sector strategy concentrates on obtaining results in four functional areas spanning across financial markets, SME development, energy, environment, agriculture, energy, telecommunications, and IT. Improvements will be sought in the policy and legal/regulatory frameworks which are still not fully supportive of market expansion. Efforts will be made to strengthen institutional capacity for policy making and regulating bodies, as well as business support organizations in areas key to promoting private sector growth. Effectiveness and competitiveness of both business and government organizations will be enhanced to enable Romania to expand its markets. Finally, the process of transferring state-owned assets to private ownership will be assisted and improved. The poor performance in the economic sector is largely related to the country's inability to make the full transition from a state enterprise-dominated economy to one in which the private sector assumes the lead.

Child welfare assistance increased community-based alternatives to institutionalizing children, and led to USAID emerging as a key advisor to the GOR in ongoing child welfare reform efforts.

Accelerating private sector growth represents the greatest potential for economic development, job expansion, and a better standard of life for all Romanians.

Improvements in capital markets will concentrate on institutional and governance reform pursued with vigor. The European Commission has explicitly called for Romania to decentralize the power of the state and the judiciary, and has stated very clearly the link between further EU funding sources and Romania's compliance with EU directives to this effect. Well functioning financial markets are a high priority area for the World Bank which links tangible improvement in this area with its structural adjustment loan (PSAL II).

Attention and help will be provided for creating a supportive business environment that currently continues to hinder SME sector development in Romania. Effort will be placed on correcting legislation that is unclear and contradictory. Special attention will be directed to reducing red tape and bureaucratic practices where transparency and accountability are lacking, giving rise to corrupt practices.

Support for developing a competitive agricultural sector will concentrate on correcting a number of shortcomings including: legislative gaps and excess regulations, inadequate property law systems, incomplete privatization of state farms, the need to attract financing for agriculture through crop insurance, a dismantled irrigation infrastructure, the lack of export competitiveness, inadequate standards for assuring food quality and safety, and poor logistic systems.

In energy, attention will be directed to helping the energy sector become more competitive. Major imbalances in Romania's economy are generated by energy prices, which are still heavily regulated and even subsidized. At the same time, non-payment of energy bills by state-owned, large industrial consumers, and of fuel bills by electricity, water and heat utilities, are the cause of huge arrears throughout the Romanian economy. Support will be directed toward helping the GOR eliminate energy subsidies, improve regulations, and collect bills.

USAID assistance for the environment will be directed toward developing a legal and regulatory framework consonant with stimulating growth and protecting the environment. Support will also be aimed at aiding GOR in aligning legislation with EU requirements, and making improvements in two other critical areas—enforcement and compliance. This assistance will help initiate a more democratic, transparent and cooperative approach to decision making critical to the sustainability of reforms.

2. Improved Democratic Governance At The Local Level

The second objective is *improved democratic governance at the local*

Romania has been unable to make the full transition from a state enterprise-dominated economy to one in which the private sector assumes the lead.

“The underdevelopment of the agriculture sector is one of the main obstacles in Romania’s way to EU accession.”

EU Pre-Accession Report
September 2001

level. It reflects both past successes and the best opportunity for USAID to make a significant contribution to the democracy sector. USAID has made good progress in helping to establish the basis for effective decentralization. The proposed program will build on this base. The aim is to assist local institutions: 1) increase accountability by promoting more open and transparent governance practices; 2) help improve administrative structure and procedures contributing to transparent procurement and financial management practices; and 3) support the development and enforcement of ethical standards and oversight mechanisms. Strengthening the ability of local NGOs to deliver services and increasing the acceptance of outsourcing service delivery when it is more efficient will lead to improved services for the local populace.

The democracy program will also concentrate on assisting local governments establish local priorities, and develop long-term investment plans to provide critical services for citizen/clients. This task will include helping local governments develop tools to predict more accurately revenue streams, borrow from commercial banks, and make decisions with less interference from the central government. USAID will program activities to broaden the principles of decentralization and empowerment, so that local government units gain the authority and resources necessary to enhance their financial capability.

Civil society assistance will help citizens to organize and act in groups in order to demand better representation by elected leaders and other public servants, supporting the development of public interest coalitions involving NGOs, business associations, and other groups acting on local community needs and economic interests. Through capacity building activities, USAID will help civil society groups strengthen local constituencies while increasing the ability of these groups to deliver services. USAID will also assist underrepresented societal groups, such as the Roma ethnic minority, to develop the leadership and organizational skills needed to strengthen their representation and participation in public life.

USAID will assist local political party organizations to become more responsive to citizens' interests. Political party strengthening at the local level, targeting greater transparency of internal party procedures and responsiveness to local interests, should also increase demand for reform at the national party level. Candidate selection procedures, constituent services, party platforms responsive to local needs, constituency outreach strategies, and programs for marginalized social groups (such as Roma) are targets of opportunity.

Rule of law assistance will engage the "systems for redress of grievances" represented at the local level, building on local strengths

Strengthening the ability of local NGOs to deliver services and increasing the acceptance of outsourcing service delivery when it is more efficient will lead to improved services for the local populace.

to reshape the weaker systems—for example, by developing mediation services to relieve pressures on the courts in conflict resolution.

3. Increased Effectiveness of Selected Social and Primary Health Care Services for Targeted Vulnerable Populations

The third objective is *increased effectiveness of selected social and primary health care services for targeted vulnerable populations*. The aim is to develop coordinated quality services that are accessible and affordable—delivered competently and focused on the needs of the individual. Primary care and community-based services will be the front-line of support. Quality standards of care, evidenced-based clinical protocols, and continuous quality monitoring/improvement systems will be emphasized and help ensure appropriate care.

Previous efforts reduced the population living in large state institutions, created a continuum of community services as alternatives to institutionalization, and promoted access to and use of modern contraception and other quality RH services. New programs will focus on systemic reform and increased effectiveness of services. Initiatives will achieve greater broad-based potential for improved welfare of children and health status of women, especially the poor, rural, and Rroma populations. The initiatives will focus on sustainability, with significant attention to areas fraught with corruption.

In addition, new child welfare activities will improve the legislative framework to ensure permanency planning and shorter timeframes for children in institutions, as well as high quality, community-based services for children and families. Health activities will build on recent changes in regulations, quickly taking advantage of new regulations that permit the integration of enhanced RH services at the primary care level. Each success will be used to broker additional changes in legislation, policy, and regulations.

The new program in the social sector will put strong emphasis on developing partnerships with government counterparts and with organizations that can provide innovative approaches to address formidable challenges in the sector.

Resources for the health and social welfare system are very limited, yet are not efficiently used due to inappropriate funding policies, poor management, corruption, and waste. New incentives must direct both the reduction of funding of inefficient services and an increase in use of funds for preventive, quality and family-oriented services. More transparent systems are required to stem corrupt practices.

Support will include addressing the health sector policy, legislative, and regulatory framework to ensure more consistency between areas

New programs will focus on systemic reform, increased effectiveness of services, and sustainability, with significant attention to corruption.

New incentives must reduce funding of inefficient services and increase funds for preventive, quality and family-oriented services.

of expenditure and priority areas of health concern. Focus will be placed on developing incentives that result in health providers and patients to make more effective use of health care resources. Attention will also be directed toward coordinating service delivery and ensuring that needed services are provided. A public information program will be implemented and disseminated to make health reform more effective, better understood, and to promote healthier lifestyles. Activities will implement recently approved national strategies for achieving a transformed system that improves access to services and minimizes undesirable outcomes.

Preventive services are the focus in health and in child welfare. Promoting systematic reform and the increased effectiveness of key services with measurable local results is the aim. This requires redirecting funds from inefficient services to preventative family-oriented services. Achieving greater synergy between the social sector team and the private initiatives team is already underway: an innovative health financing program will tackle hospital financing methods while increasing the role of the private sector in providing health care alternatives to inefficient state-run services.

Achieving greater synergy between the social sector and private sector teams is already underway.

PART II. STRATEGIC OBJECTIVES AND PROGRAM PLANS



PART II: STRATEGIC OBJECTIVES AND PROGRAM PLANS

Strategic Objective 1.3: Accelerated Private Sector Growth by Supporting a Market-Driven Environment

A. STATEMENT OF STRATEGIC OBJECTIVES

This new Strategic Objective 1.3, Accelerated Private Sector Growth by Supporting a Market-Driven Environment, complements and reinforces the Mission's two other Strategic Objectives of improved governance at the local level, and improved social service delivery. USAID programs under SO 1.3 stimulate economic growth and improve the quality of life for Romanian citizens. The SO consolidates previous objectives and builds on achievements in several critical sectors of the economy in which USAID has made and can continue to make a significant difference. USAID's analysis indicates that there is a common set of functional problem areas where results are most needed to achieve the Strategic Objective. These functional areas constitute four intermediate results that are necessary to accomplish the SO: 1) *Improved policy/legal/regulatory frameworks supportive of market expansion*; 2) *Strengthened institutional capacity of targeted private sector associations, Government of Romania (GOR) counterparts, and sectoral NGOs to serve market economy goals*; 3) *Improved competitiveness of targeted private sector companies and markets*; and 4) *Improved process of transferring state-owned assets to private ownership*.

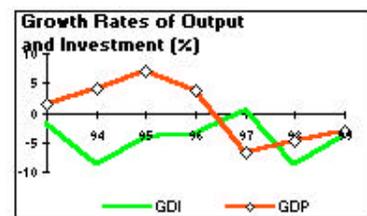
Methodology for Analysis and Selection of Program Approach

Since 1990, USAID/Romania has provided assistance to several sectors that contribute to economic growth. Programs and activities have focused on increased private sector participation in the Romanian economy, as well as the development of the fundamental environment for market-driven growth. Based on 11 years of experience combined with the results and findings of other donors programs and the EU, USAID concluded that economic growth is stymied by the slowness of the transition to market principles. Therefore, early analytic exercises by SO teams concentrated on identifying key constraints inhibiting the development of a free market environment and private sector growth. The SO teams approached the initial problem analysis task from a sector perspective, reflecting past and ongoing programs and the structure of the previous Strategic Plan. During this analysis, a common set of problems and constraints emerged across all sectors that are serious impediments to accelerating private sector-led growth. This finding led USAID's SO teams to the conclusion that the overall objective can best be addressed through a functional approach, rather than an individual sector approach in terms of strategic direction and program planning. As a result, four SOs under the previous strategy have been combined to create the new SO 1.3, with four IRs which address functional areas common to each and every sector.

“The costs of a hesitant reform path in Romania have been higher than if a bolder approach to structural reform had been adopted”

World Bank Country Assistance Strategy, 2001

Economic growth is stymied by the slowness of the transition to market principles.



Source: World Bank

USAID believes that this approach has significant advantages. First, it streamlines management and consolidates reporting by reducing the number of SOs. Second, by emphasizing a functional approach, a flexible program environment is created, allowing sector emphasis within the SO to shift as conditions dictate, as well as adding new sectors where the functional problem areas are pronounced and significant. The results will be more efficient management of our private sector programs and greater program impact through a more focused programming effort that stimulates teamwork and the sharing of lessons and knowledge among specialists from various sectors.

B. PROBLEM ANALYSIS

Poor economic performance is attributed to the country's inability to make the full transition from a state enterprise-dominated economy to one led by the private sector. Accelerating private sector growth represents the greatest potential for economic development, job expansion and a better standard of life for Romanians.

The lack of appropriate and effective laws, policies and regulatory frameworks (**IR1.3.1**) remain a serious constraint to Romania's private sector growth. Despite over ten years of effort, Romania still needs support to further refine existing legal framework and establish and strengthen the institutional structures to ensure the effective implementation of new laws and policies.

Progress across the private sector varies. In some areas substantial gains have been made. USAID's banking supervision program strengthened the National Bank of Romania capacity to provide effective supervisory oversight. Likewise in the financial sector critical legislation for pension reform has been developed and issued.

However, capital markets are still functioning poorly and present a serious obstacle to the generation and channeling of investment funds to enterprises. For example, gross domestic investment has fallen from 30 percent of GDP in 1989 to 20 percent in 1999. Also foreign direct investment levels in Romania are low relative to other transition countries. The capital markets suffer from the lack of an effective legal and regulatory framework, urgently needed to 1) enhance transparency; 2) assure effective court adjudication of commercial disputes; and 3) create systems to protect minority shareholders. The resolution of these problems is important to increasing investor confidence.

Within the SME sector, excessive administrative procedures, high tax rates, and limited contract enforceability continue to cause serious problems. Nevertheless, some progress has been made in this area with USAID assistance. Both at the national and local government levels, improved

A functional approach creates flexibility to shift emphasis as conditions dictate. It promotes teamwork among various sectors.

Accelerating private sector growth represents the greatest potential for economic development, job expansion and a better standard of living for Romanians.

Within the SME sector, excessive procedures, high tax rates and limited contract enforceability cause serious problems.

procedures for establishing new businesses have been made. These pilot efforts initiated by USAID must be further developed and extended to additional ministries and municipalities. National level concerns need to be addressed to improve the overall business environment, including improving freedom of access to information on matters concerning businessmen.

Other legal and regulatory constraints exist that hamper private sector growth. In the energy sector work has been initiated to move from a heavily centralized structure to one that is decentralized and privatized. USAID support for restructuring plans for electric and gas utilities has been critical in the government's restructuring efforts. Significant problems remain in this sector and the legal and policy frameworks for taking the next steps toward privatization must now be developed. Romania has made a significant effort to align its environmental legislation to EU requirements. At present two critical elements are missing: enforcement and compliance procedures, and approaches to ensure that the framework will be effective.

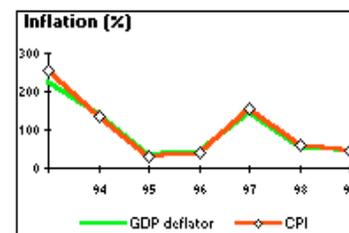
Key institutional weaknesses (IR1.3.2) both in the private and public sectors exist. The institutional setting must be strengthened for capital markets, both the oversight bodies as well as the exchanges themselves. The RASDAQ exchange must deal with a diverse array of over 5000 formerly state-owned firms of all sizes which were placed on the exchange by the Government. This mixing of a large number of poor quality firms with healthy concerns in the same forum has created an unstable situation and has led to a poorly performing capital market in Romania.

Other areas of institutional strengthening are critically important, such as strengthening of credit and financing sources and development of strong associations. This is especially important for the growth and sound performance of SMEs. Small companies face great difficulties in accessing finance through bank loans and therefore alternative financial instruments should be developed. A recent study of SMEs in Romania, funded by the E&E Bureau evaluation program, looked at the SMEs which USAID had supported through micro-lending and small loans (See John Earle, "What Makes Firms Grow" September 2001 preliminary findings). Part of the study compared the performance of the 300 firms USAID had provided finance prior to March 2000 with that of the performance of all SMEs in Romania during the period 1997 -2000. The USAID-assisted firms grew, on average, across all sectors by 20 percent while there was a contraction of 4 percent for all Romanian firms. Thus, it is clear that financing remains an important constraint to SMEs expansion and profitability.

A key concern across the private sector is establishing an effective role for government in terms of ensuring a competitive environment that serves the needs of the society. Major support for regulatory entities is needed in a number of sectors such as energy, the IT sector, and the environment. In

“The continuation of enterprise restructuring, the acceleration of privatization and improvement of the regulatory and supervisory environment in the financial sector are the central issues to be addressed in order to sustain macroeconomic and financial stability and economic recovery in Romania.”

EBRD, April, 2001



Source: World Bank

most cases efforts are underway and progress is being made. Further support is needed to help regulatory entities strengthen their capability to carryout reform legislation and to develop systems to insure compliance.

A significant lack of competition (**IR1.3.3**) permeates the Romanian economy. Although USAID and other donors have supported programs to lay a solid foundation for a competitive environment, there are still serious constraints impeding progress. Remaining constraints include: poor management practices at the firm level; a lack of marketing skills which inhibits expansion into new markets; poor production technology and inadequate information technology systems; the high cost of financing and lack of credit alternatives; subsidies that distort prices and the rational allocation of the factors of production by the marketplace; and monopolistic practices which impair the movement to a free market. An overarching problem is the high inflation rate, which stems from large government deficits required to support poorly performing state enterprises.

The agriculture sector provides a vivid example of a sector suffering from many of these problems which stifle competition and limit growth. Romania was once an exporter of agricultural products, especially in agro-forestry. Since 1992, however, the country has become a net importer of food and other products, a change that has deprived the country of significant export revenues and hard currency earnings. USAID has directly addressed key policy issues in agriculture and reforms have laid a basis for attacking other key problems, such as land consolidation. The current average farm size is 2.33 hectares and most farms operate with fragmented plots that are even smaller. This leads to production inefficiencies which severely limit the potential for growth in the sector. Poor management, a lack of crop insurance programs, and the physical deterioration of irrigation systems further limit production potential.

A competitive malaise also stymies progress in other important sectors that are critical to economic growth and the expansion of the private sector. Although SMEs have benefited from expanded credit sources and an improved regulatory environment, the task is far from complete. Additional credit sources are needed at competitive rates in order for SMEs to improved production and expand output. Additionally, improved management and marketing practices, as well as better quality standards are urgently required if Romania's SMEs are to be competitive.

A pervasive problem limiting competition is monopolistic activity, especially in the energy sector. Romania's economy is highly energy intensive and inefficient. Major imbalances in the economy are generated by distorted energy prices that are heavily regulated and frequently subsidized. Non-payment of energy bills by large, state-owned industrial consumers, and of fuel bills by electricity, gas and other utilities, have caused huge arrears. These arrears crowd out other potential borrowers

State support for unviable enterprises is the root cause of persistently high prices.

“Uniquely in post-communist Europe, agricultural employment has been rising as the jobless poor abandon the cities and return to subsistence farming.”

London Financial Times
October 2001

Energy utilities are state-owned, with losses up to 8 percent of GDP.

from the credit markets and raise the cost of doing business. USAID has made strides in this sector: the GOR has approved USAID-supported restructuring plans for electricity and gas so that separation of generation, distribution and transmission systems can be effectively implemented. More work is needed to make the energy sector truly competitive, especially a continuation of efforts to eliminate subsidies and privatize utilities.

Problems inhibiting competition are closely related to *privatization (IR1.3.4)* efforts. USAID programs in policy and regulatory reform have enhanced the environment for privatization, but the process is still incomplete. Although progress has been made, most of the privatization efforts to date have focused on small companies, while most large-scale enterprises remain state owned. Enormous debts and arrears continue to make private acquisition unattractive to most investors, and the paucity of financing alternatives severely limits investors' options. In agriculture, remaining privatization must be implemented in a rational manner that allows for efficient farm sizes. Finally, privatization is thwarted by massive environmental liabilities of state enterprises, making them too expensive to attract private investors.

C. PROGRESS TO DATE

Romania has successfully assisted in the establishment of capital markets institutions and associated technical trading mechanisms. USAID's banking supervision program strengthened the National Bank of Romania to conduct on-site and off-site examinations of both state and private banks, enforce prudential regulations and address the needs of problematic banks. It also assisted the GOR in establishing the Competition Council and its implementing arms, that now is able to properly carry out its anti-monopoly mandate. Significant progress was made in the continuing enhancement of the progressive tax regime, with positive impact on both domestic and foreign investment decisions.

USAID activities addressed administrative and legal barriers that hinder SME operation through analyses of regulatory constraints. Assistance was provided to central and local governments and resulted in legal and institutional reforms, simplification of ministry licensing/approval procedures and establishment of a one-stop shop for business registration. Local bureaucracy was streamlined in synergy with USAID local government initiatives.

Several interventions were designed to diversify financial instruments and increase access to credit through regional micro-credit programs and credit unions. The Romanian-American Enterprise Fund (RAEF) achieved maturity by attracting significant private resources in privatizing large companies (i.e. Banca Agricola privatization) and by selling their SME loan portfolio to private banks.

“Sustainable growth in SE Europe in the long run can only be based on the development of a sound, dynamic private sector.”

IMF/World Bank,
October 2001

“Romania’s sustainability of current economic recovery will depend upon improvements in domestic market conditions and economic policies resulting in higher, better quality, investment”

European Commission,
November 2001

“Romania’s main challenge is to overcome its economic fragility”

UNDP’s Human
Development Report,
2000

USAID's programs strengthened and created sustainable business support organizations. Technical assistance to the millers' and meat processors' associations has created viable organizations. In addition, technical assistance has improved the capacity of dairy and poultry associations to provide meaningful policy advocacy and services to their members, impacting thousands of producers. This includes: enabling legislation for warehouse receipts, an indemnity fund and grading system as key legal components of the grain sector reform program, and enabling the implementation of state farm privatization that allowed the release of World Bank's Agricultural Sector Adjustment Loan (ASAL) funding.

The reform process for the energy sector has proven to be long and complicated.

In critical areas of the energy sector, the reform process has proven to be long and complicated. Not until 1998 did the government approve the USAID-supported restructuring plan for the electricity sector. In 1999, it approved the USAID supported restructuring plan for the gas sector. Separation of distribution, generation and transmission systems for electricity and gas can now be effectively implemented. The USAID energy reform program has promoted competition, private sector participation and compliance with EU requirements and leverages significant multilateral lending to the sector. As a result, the process of market openness and liberalization is under way.

USAID's assistance built both public and private management capacities to address critical constraints to sustainable development and facilitated urgently needed environmental investments. Assistance was provided in drafting and implementing environmental policies, laws and regulations including advancing the "polluter pays" concept. Environmental improvements had a positive impact on the health of local populations, provided for the rational management of natural resources and local utilities, and were directly linked to the sustainability of economic development.

"The future economic growth in Romania may also be affected by the degree of environmental degradation."

UNDP's National Human Development Report, 2000

D. RESULTS FRAMEWORK

1. Causal Linkages

USAID/Romania SO 1.3, "Accelerated Private Sector Growth by Supporting a Market-Driven Environment" directly supports the E&E Bureau goal (SAA I: Economic Restructuring), "A competitive, market-oriented economy in which the majority of economic resources is privately owned and managed". At a lower level, this SO links directly with the E&E Bureau SO 1.3, "Accelerated growth and development of private enterprises".

Solutions to the problems and constraints identified in the six sectors require Intermediate Results (IRs) focusing on *function, rather than sector*. Achievement of SO 1.3 will require accomplishments of the following four IRs.

Solutions to problems and constraints require results focusing on function, rather than sector.

I.R. 1.3.1 Improved policy/legal/regulatory framework supportive of market expansion

A critical condition for facilitating market economy expansion is the creation of an enabling policy, legal and regulatory environment. This will be undertaken through development of a clear set of policies, laws and regulations that will improve the business environment and generate domestic and foreign investment, as well as employment and income.

I.R. 1.3.2 Strengthened institutional capacity of private sector associations, GOR sector counterparts and NGOs to serve market economy goals

Extremely important aspects of the legislative improvement are implementation and enforcement. In this regard, USAID will provide support for building capacity of government and independent institutions and private sector NGOs and business-support organizations to promote and enforce policies, laws and regulations and participate in the decision-making processes.

I.R. 1.3.3 Improved competitiveness of private sector's companies and markets

Assistance will be provided by USAID to increase commercial operations and investment, promote exports, implement modern management practices, improve production, improve corporate governance and increase the transparency and credibility of Romanian financial markets.

I.R. 1.3.4 Improved process of transferring state-owned assets to private ownership

Finally, USAID support in the process of transferring the state-owned assets to private ownership will increase the private sector share in the economy. This will result in decreased arrears, improved economic efficiency and confidence in market economy, reduced unfair competition, and increased liquidity on the market.

2. Critical Assumptions:

GOR commitment to reform will be maintained;
Other donors will maintain their respective levels of financial support;
Parliament will continue to be receptive to needed legislative support;
Romania's inflation rate will be reduced;
The GOR will expand its program to reduce corruption;
Southeastern Europe will not experience a major regional crisis.

3. Other Donor Support

USAID/Romania activities in support of accelerated private sector growth work in conjunction with a variety of international donor organizations, such as the World Bank, EBRD and EU. Total assistance levels are significant, but the Romanian experience has shown an inability to effectively absorb some donor funds. In this context, donor coordination is critical to achieving results in the private sector strategy.

Building the capacity of the GOR, independent, and private sector institutions will strengthen policy and legal reform implementation.

USAID will help improve the process of transferring state-owned assets to private ownership.

Donor coordination is critical to achieving results in the private sector. Complementing and leveraging other donor programs is key to SO 1.3.

Legal reform and institutional support are being provided through the World Bank's PSAL II, Petroleum Rehabilitation, Power Sector Rehabilitation, Irrigation Rehabilitation, Agricultural Support Services, and Agricultural Pollution Reduction programs. The EU's Structural Accession Program for Agriculture and Rural Development (SAPARD), and the Instrument for Structural Policies for Pre-Accession (ISPA) both include important legal and policy components. Competitiveness support is provided through World Bank's PSAL II and Rural Finance loans, EU's ISPA, SAPARD grants and EBRD's electricity market support loan. Privatization support will be provided through the World Bank's PSAL II and Irrigation loans and EU's grants for electricity distribution privatization. USAID will play a major role in leveraging many of these programs by providing complementary and catalytic assistance along functional lines in key sectors. In agriculture, a major World Bank loan for irrigation will be tied to the development of USAID-supported water user associations. In another World Bank program to improve the business environment, deregulation actions developed under USAID's legal reform activity are being included as conditionalities to the release of Bank funding. USAID-funded activities in the energy sector have set the standards for restructuring in gas and electricity that will be used to implement major privatization programs by other donors. This type of complementarity and leveraging will continue and be expanded under the new SO 1.3.

E. PROGRAM APPROACHES

1. Proposed Program

USAID's program will address the constraints identified above and will concentrate on results to eliminate key bottlenecks across sectoral lines.

I.R.1.3.1 Improved policy/legal/regulatory framework supportive of market expansion

USAID/Romania will pursue policy reform at the macro, sectoral, and local levels, to ensure sustainable reform for accelerated private sector growth.

Capital market reform and improvement is critical to future growth. Legal and judiciary assistance will be provided for interventions to reduce corruption, improve corporate governance, and market transparency, and provide training to enforce capital market regulations. Such results provide the basis for reforms in collateral area development such as pension reform, insurance, and SME development.

SMEs legal reform support started in 1999, when USAID assistance addressed issues related to business legal and regulatory environment in "Red-Tape Analysis" and the Legal Inventory. These critical efforts

The new strategic approach will eliminate key functional bottlenecks across sectoral programs.

Romania's economic program is dwarfed by excessive, confusing and redundant laws and regulations.

identified the main legal, regulatory, and administrative barriers that affect SMEs development and provided the basis for promoting specific legal reforms.

Further, assistance will focus on streamlining the bureaucracy and strengthening the legal system's ability to support various types of business transactions. Special emphasis will be put on increasing accountability and transparency of the government decision-making process through developing an Administrative Procedures Act for Romania and providing Government bodies with "model rules" system. In the IT sector USAID will work with the GOR to develop the legal and regulatory structures needed to de-monopolize the current telecommunication market. This will include helping the GOR put an effective public regulatory body in place.

For agriculture and food processing USAID will support improvements in the legal and regulatory environment to assist in developing long term agricultural policy that supports free trade. Specifically targeted areas will include export, irrigation, crop insurance, warehouse receipts, and finance. A key component of the agriculture's export policy reform will include activities that focus on analyzing standards for food quality and sanitation/labeling/ packaging, and studies of cost effective enforcement mechanisms.

In energy, USAID will continue its policy and legal assistance, to facilitate privatization and competitiveness required to expand the energy market and accelerating private sector growth in this sector. Regulatory support will also continue, through developing and implementing market rules, essential for the sound operation of the sector.

The environment sector requires further legal and policy work. USAID will build on previous activities and will assist the GOR in implementing principles of sustainable development, polluter-pays, and cost recovery, enhancing the GOR's progress towards EU *acquis communautaire*. As the privatization process advances, assistance will be provided to improve environmental legislation, by establishing a consistent framework for environmental liability and clean-up.

I.R. 1.3.2 Strengthened institutional capacity of private sector associations, GOR sector counterparts and NGOs to serve market economy goals

USAID will continue its efforts to assist in building the capacity of the private sector's financial institutions. In this regard, targeted interventions at stock exchanges are envisaged. Support includes measures to strengthen existing stock exchange operations and to improve the corporate governance of member firms. A possible merger of the existing markets (trading systems, clearances, depositories, and registries) will also be examined with a view to enhancing investor protection and transparency

“Recognizing the fundamental role of private sector-led growth for sustained economic and social development, the GOR is committed to promote a stable, neutral and efficient business environment.”

EU Pre-Accession
Report
September 2001

and establishing credibility in capital markets.

Institutional support will continue to be offered to build capacity and sustainability of BSOs, such as professional associations, foundations, think tanks, chambers of commerce, educational and training institutions. USAID will also support selected ministries and municipalities to improve access to information regarding public procurements and contracts and also introduce an appeals process which will enable businessmen to review government decisions in these areas.

A new institutional strengthening activity to support the micro, small and medium size enterprises has been launched to empower SME associations to do advocacy work and lobby campaigns to improve their business environment. The activity will continue to develop BSO advocacy and information dissemination skills. It will develop a business associations' strategy to conduct trade-related activities and to initiate joint ventures and investment.

The financial institutional infrastructure will be assisted through promoting non-profit organizations with legal authority to conduct lending activities focused on groups not effectively served otherwise. Micro-lending will also be continued as this market demand is barely addressed by other financial organizations.

In the agricultural sector, USAID's focus will facilitate the World Bank irrigation rehabilitation loans through support of private water-user associations (WUA's) and irrigation districts. This component will provide critical institutional strengthening needed for delivering water and service to district producers and assure future investments are protected. In addition, working with water-user associations will provide the basis for land consolidation through identifying and pairing commercial producers with landowners willing to provide leases in the irrigated areas. USAID interventions will also assist the formation and sustainability of professional agribusiness associations in different food sectors: grain, dairy, meat processing, viticulture, and regional marketing associations to help members advance in the export markets, increase productivity, introduce new products, improve management and marketing to enhance profitability.

In energy, assistance and training will continue to the National Regulatory Agency for Power and Heat (ANRE) and National Regulatory Agency for Gas (ANRG) to transform these agencies into fully independent and self-sustainable entities capable of issuing and implementing competitive market rules.

Support will be provided for increasing institutional capacity of environmental institutions to monitor floods and accidental pollution which have been major problem areas in Romania. The development of necessary

USAID assistance will empower SME associations to do advocacy work and lobby campaigns to improve their business environment.

Critical institutional strengthening support will be provided to private water-user associations and irrigation districts.

environmental administrative structures has been recognized by EU as a major area of need for Romania's transition to market economy. USAID will also continue its assistance in establishing and operating of the environment fund, through which resources will be allocated to leverage environmental investments in industries and municipalities.

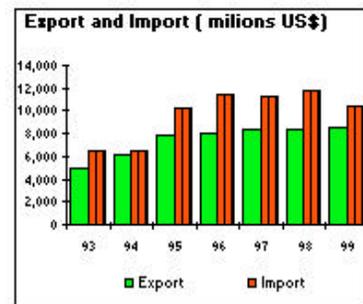
I.R. 1.3.3 Improved competitiveness of private sector's companies and markets

To improve Romanian SMEs' competitiveness, USAID activities will provide technical assistance to BSOs in sectors with high potential for growth, like IT, tourism and light manufacturing. Such activities include the development of entrepreneurs' managerial and marketing skills and the promotion of technology transfers through the facilitation of joint ventures and investment.

This component aims to increase and restore the agricultural export competitiveness Romania previously enjoyed. USAID will help promote and develop Romanian exports to EU and regional markets. The export component is also a vehicle to implement standards of trade and quality. Competitiveness of the agricultural sector will be improved by making available affordable catastrophic crop insurance for all commercial farms in Romania. This program will take advantage of US tools in satellite imagery and crop prediction, as well as advanced statistical risk management tools developed at USDA and the World Bank. It will facilitate access to financing sources and contribute to reducing transaction costs and increasing transparency. Activities under this initiative will contribute toward attaining efficient sized farms and will assist Romania to access other donor funds.

USAID will continue to provide technical assistance and training to increase the commercialization of new electricity generation, transmission and distribution companies, to compete effectively on Europe's newly emerging power markets. In this regard, technical assistance, partnership activities and training will continue to be provided to electricity utilities, in combination with the regional program dedicated to the new Balkan power market.

Assistance in environment management systems including waste minimization and pollution prevention will be granted, which will provide procedures leading to more efficient use of raw materials, better cost control, increased profit, and less costly environmental compliance. This will increase competitiveness of industries and make them more attractive to investors. Implementation of these practices with utilities will enable them to become reliable providers of high quality services, less polluting and a source of revenues to the local community budget. This should make them more attractive to private investors and facilitate privatization. USAID will concentrate assistance in this sector on partnering arrangements with US firms that have advanced skills and technologies in



Source: World Bank

The GOR's Mid-Term Economic Strategy calls for a better business environment capable of attracting domestic and foreign investors.

Environment assistance will concentrate on partnering arrangements with U.S. firms.

waste management and environmentally sound disposal.

I.R. 1.3.4 Improved process of transferring state-owned assets to private ownership

Currently, privatization has been stimulated via existing IESC programs designed to target certain companies with State majority ownership (through the APAPS/Agency for Privatization and State Properties). Teams of American experts in the field of marketing, finance, and manufacturing will assist these companies to develop comprehensive business plans, eventually creating conditions to make them more attractive to domestic and foreign investors.

The climate for privatization is improved when capital market issues are addressed and resolved. Synergistic opportunities exist, as privatization and capital markets need to mesh effectively in order to create healthy investment conditions. USAID efforts to improve capital markets should make the environment for privatization more attractive.

The growth of the SME sector will generate new jobs, thereby expanding employment opportunities for people laid off from the state restructured companies. This will help avoid social disruptions and will accelerate the privatization process.

USAID will assist with policy support and implementation guidelines for completing the land privatization in the agricultural sector, assuring transparent transactions on public markets and will directly support the water users associations to gain private ownership of the irrigation assets from the state and access funding for rehabilitation.

Preparing the Romanian power sector for privatization and defining a specific program that helps the GOR create an equitable environment for private sector participation will continue to be a high priority for USAID. Until the unbundling of the energy activities is complete and a massive transfer of present state owned assets to the private sector is achieved, real competition will not occur and energy will remain as a significant drag on the Romanian economy.

To facilitate the transfer of assets into private ownership, support will be provided for the implementation of a coherent environmental liability regime toward allocation of costs, management responsibility, determination of desired standards of environmental quality, and selection of sites to be cleaned up.

2. Performance Measurements

(see **Appendix B: Performance Assessment** for a complete listing of indicators)

Future initiatives in the private sector arena will be very complex, with

“Loss-making state-owned industrial plants suck money from the rest of the economy, distorting commercial life and breeding corruption.”

London Financial Times
October 2001

“State-owned enterprises account for about three-quarters of industrial output and the state still holds shares in around 6,000 enterprises”

World Bank's Country Assistance Strategy,
2001

ambitious targets that will be measured and monitored as follows: a) at the SO level, increased private sector share in GDP and increased number of SMEs active in the market will be monitored by using data available in the National Statistics Commission's (NCS) yearbook; b) for the improved policy, legal and regulatory support, specific reforms will be identified as critical achievements of the objective, while Strengthened institutional capacity of private sector associations, GOR sector counterparts and NGOs to serve market economy goals will be monitored through implementors' reports, site visits and targeted surveys; c) improved competitiveness of private sector's companies and markets will be measured by increased exports in targeted areas, with data monitored from NCS yearbook and improved process of transferring state-owned assets to private ownership will be measured through percent of remaining state owned assets, desegregated by sectors, with data from the Ministry of Privatization and APAPS reports.

3. Expected Results

By the end of 2006 it is expected that SO 1.3 will have significantly contributed towards reaching the Mission's Strategy for accelerating the private sector growth by achieving the following results: 1) a clear set of policies, laws and regulations in targeted sectors, that will improve the business climate, stimulate investment and income; 2) an improved capacity of GOR, NGOs, and BSOs entities to enforce critical legislation; 3) a competitive private sector with increased international markets, increased commercial operations and increased international investment and; 4) an increased amount of state-owned assets transferred to private ownership.

For the \$80.8 million investment, over the 5-year strategy period, the specific achievements that will support acceleration of private sector growth will include: existence of specific policy, legal and regulatory frameworks needed for acceleration of private sector growth and sustainability of 50 percent of assisted GOR, NGO and BSO entities that will actively participate in legislative process dealing with business environment. At the same time, public/private partnerships will be in place and will support achievements in accelerating private sector growth. It is envisaged that such partnerships will continue long after the elapse of this five-year strategy.

USAID estimates that in 2006 more than 70 percent of the GDP will be generated by the private sector, compared to 65 percent in 2001, and at least 45 percent of total productive assets will be privatized, compared to 35 percent in 2001 (with nearly 100 percent of agricultural land in private ownership). Improved competition will be supported, while achieving a 15 percent increase in exports in targeted areas. At the same time, USAID envisages the increase of the average operating farm size from 2.33 to 15 ha within 5 years.

“The creation of an enabling business environment is based on a coherent and stable legal framework that ensures the development of the market competition, the reduction of transaction costs and the diminishing of the tax burden.”

Center for Economic Development, 2001²

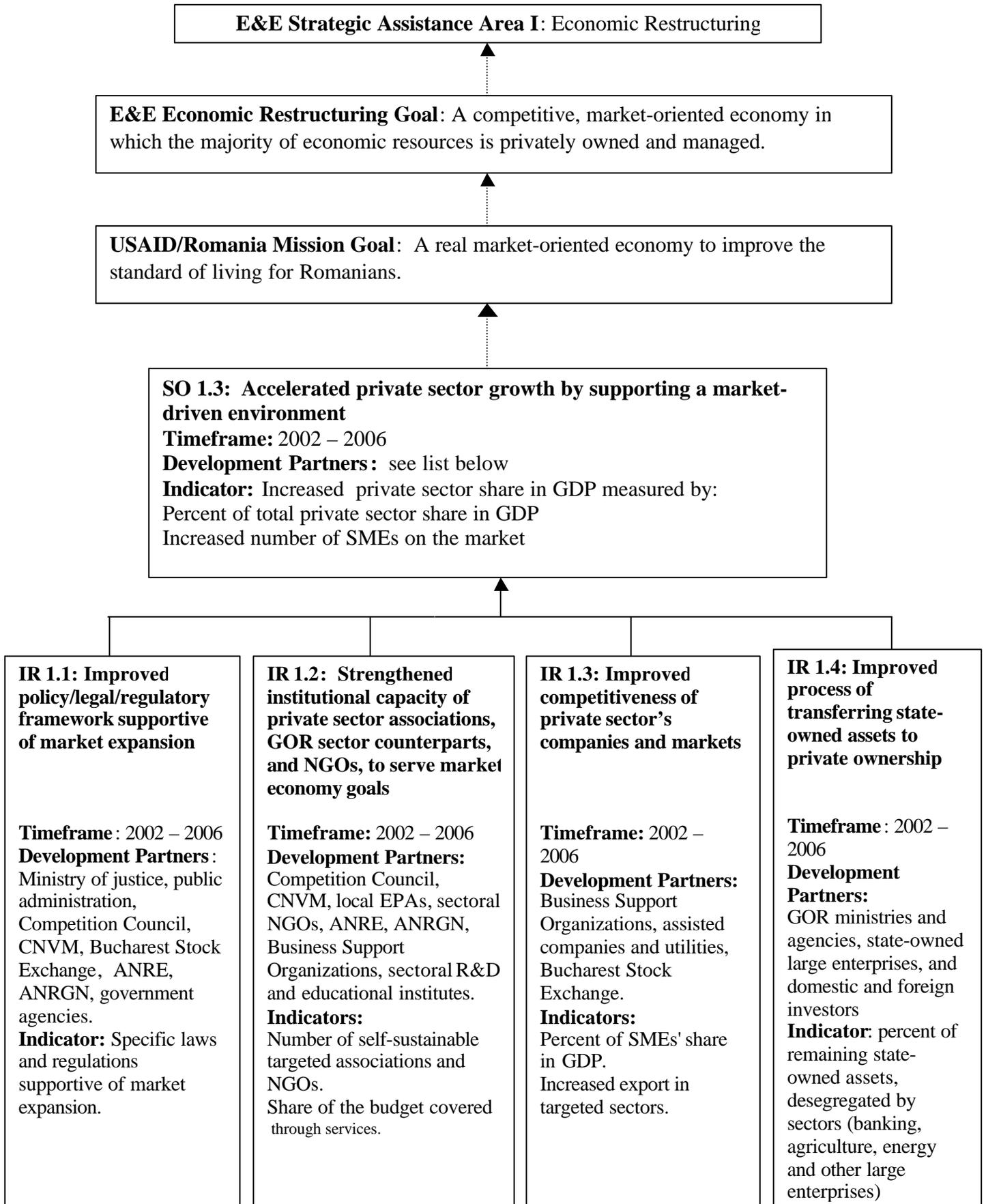
4. Sustainability

Sustainability was one of the goals of USAID/Romania previous strategy and continues to remain a priority for future assistance. A key element of this strategy is the “*Romanianization*” of USAID management and implementing entities.

Development of a sound legal framework, support for institutional development, assistance in increasing competitiveness, and privatization efforts will allow enterprises to grow through competition and to attract foreign investment, leading to sustainable and efficient private sector-led growth.

The transfer of knowledge and development skills will continue to create the basis for program replication in other geographical areas and sectors. This will allow continuity after the USAID assistance ends. In this context, certain Romanian entities that benefit from USAID support represent valuable local resources and should become partners in implementing future activities in Romania.

Clear sets of policies, laws and regulations will sustain private sector-led growth.



PART II: STRATEGIC OBJECTIVES AND PROGRAM PLANS

Strategic Objective 2.3: Improved Democratic Governance at the Local Level

A. STATEMENT OF STRATEGIC OBJECTIVE

The Mission's new Strategic Objective 2.3: *"Improved Democratic Governance at the Local Level"* consolidates past gains by concentrating efforts to take advantage of USAID's comparative advantage.

In USAID/Romania's last strategy (1997-2000), separate Strategic Objectives addressed national and local level issues. SO 2.1 addressed parliamentary strengthening, assistance to executive offices and line ministries, media support, and civil society development, while local government assistance was an effort under SO 2.3, addressing the fiscal and administrative decentralization framework and local public administration capacity-building. The shift to governance at the local level is an opportunity to strengthen democratic institutions and mechanisms for accountability. The Mission's proposed SO 2.3 will strengthen the administrative, financial and political dimensions of the national enabling environment, will improve democratic local governance and will increase local government capacity.³ Results in the new SO will directly impact the other two Strategic Objectives. Less bureaucracy, less rent-seeking by public officials, lower transaction costs, freer flows of information, greater efficiency and public support will improve the environment for the private sector and for social service delivery.

While USAID/Romania proposes to focus on local governance, attention will still be paid to critical national processes, such as the annual national budget formulation, which have direct impact on local resources. The relationship between national political party entities and their local branches is another area in which central-level interventions may be critically relevant to achieving proposed results. Judicial reform is another area requiring a comprehensive national commitment and large donor support to achieve results. Rather than engaging national judicial reform programs, USAID/Romania will seek to leverage World Bank, EU and other donor programs with targeted interventions to promote judicial improvements at the local level. Local access to conflict mediation can relieve pressure on the courts.

B. PROBLEM ANALYSIS

In December 2000, Romania made its second peaceful transfer of national power. The June 2000 local elections also provided evidence that democratic institutions are solidly established in Romania. Both elections were considered free and transparent by independent observers such as Asociația Pro-Democratia (APD)⁴. Voting patterns demonstrated strategic voting by citizens who maneuvered to defeat a presidential run-off candidate who was

*"Good governance is not a luxury. It is a right which all citizens should enjoy. But it is also an obligation which all governments should honor. It is what a country can and should do for its citizens."*¹⁷

Mircea Geoana
Romanian Foreign Minister
May 2001

*"Continue to invest in areas where results are likely to be achieved at the local level, but also complement these "safe" investments with interventions at national levels to promote more far-reaching reform regarding the more systemic obstacles."*¹⁸

Romania DG Assessment
2001

widely perceived to represent dangerous nationalistic tendencies. Print and electronic media represent a full political spectrum, covering debates on public policy, political trends, and problems such as corruption. CSOs continue to grow, diversifying and specializing areas of activity. The EU most recent *Regular Report on Romania's Progress Towards Accession*⁵ also concludes that Romania has achieved the requisite stability of institutions guaranteeing democracy.

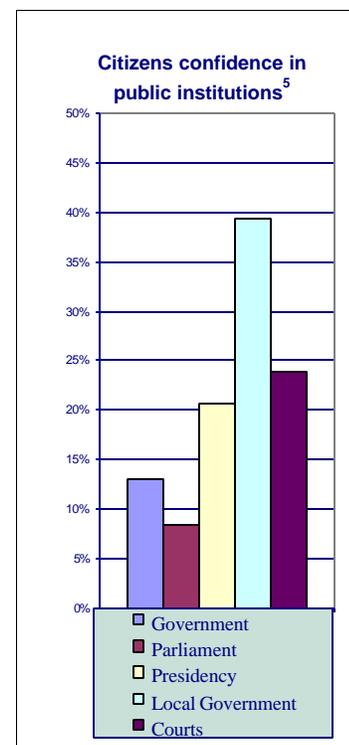
In terms of democratic governance, however, the Romanian political transition remains unaccomplished. These deficits are not theoretical. The lack of effective and responsive governance undermines popular support for public institutions and inhibits the progress of reforms essential for economic growth. A recent survey⁶ found that a staggering 82 percent agree with the statement, "laws are neither applied nor complied with". Three quarters of those polled think political parties are not trustworthy. In a similar survey last year, nearly 87 percent of respondents said neither Parliament nor the judiciary act in the public interest.⁵ These figures suggest that periodic free elections are not sufficient to provide the foundations for democratic governance.

Romanian politics seem to be in a parallel universe: political parties are too occupied with internal and inter-party rivalries to spend much time reviewing legislative initiatives, weighing policy options, or helping constituents understand the harsh transformation they are living through. The new ruling party, the PSD⁷ emphasizes its commitment to stronger management in public administration, but while its ability to coordinate levers of power is superior to the former ruling coalition, greater attention is still paid to consolidating authority than to efficiency or accountability.

While CSOs continue to multiply, they are still not effective in mediating citizens interests vis-à-vis government. Nor have they secured a niche in public service delivery. State institutions have little trust in the ability of CSOs to be effective partners. Yet, in sectors such as child welfare and health care, reform can not succeed unless the state encourages community-based alternatives provided by CSOs.

The Romanian judiciary is not a reliable guarantor of rights or justice. Law enforcement is inconsistent, courts are slow, delays are common. Even when a good law is on the books, the lack of procedural norms and the lack of shared information resources means that magistrates vary widely in their interpretations and applications of the law. The judicial system shares a weakness with other public institutions that seriously affects democratic governance: lack of transparency in procedures and decision-making, and lack of accountability in the face of the public.

A DG assessment⁸ confirmed that the combined effect of Romania's undeveloped public accountability and weak representation profoundly undermines democracy. The assessment identified two highly related DG problems: 1) officials are more accountable to relatively undemocratic political party structures than to constituents and oversight bodies; and 2)



Source: Freedom House

“A general lack of accountability has led to an ingrained corruption.”¹⁹

Romania DG Assessment, 2001

“Local participation tends to be higher than national participation, which reflects the spark of dynamism that has emerged at the local level.”²⁰

Romania DG Assessment 2001

although internal pressures for change are mounting as a result of persistent economic hardship and frustration with the material benefits of democratic governance, there are few channels for popular pressures to bear influence.

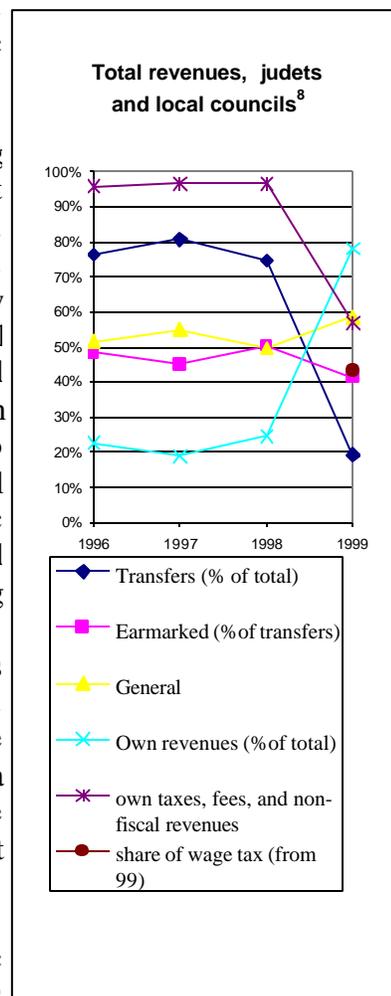
USAID's resources and manageable interest argue against a far-flung portfolio. However, the DG Assessment confirmed Mission's perception that we are gaining the most traction in focusing programming at the local level. USAID invested heavily in local government under the last strategy, and succeeded in achieving key goals related to decentralization. The new Law on Local Public Finance (1998) and improvements in the Law on Local Taxes and Fees (1997) provided local governments with increased fiscal authority. Among its many provisions, the local public finance legislation established the percentage allocations of the wage tax to be shared: 40% to local governments, 10% to county governments, and 50% to the central government. While these percentages were fixed in the Law on Public Finance, in practice the Government has used provisions of the Annual Budget Law to change those percentage allocations, thereby creating problems of revenue predictability for local governments. Additionally, the new legal framework established the authority for local borrowing, thus allowing local governments to incur debt. Nevertheless, the municipal credit market is in its nascent stage. Finally, the discretion accompanying the earmarking process was, to a certain extent, diminished, by the issuance of a set of criteria for allocating equalization grants⁹. Involving residents more routinely in local decision making also requires innovation not yet occurring in most Romanian municipalities and towns.

The PSD government's program calls for acceleration of public administration reforms and decentralization—areas in which USAID has gained comparative advantage based on previous and current work. At the same time, political dynamics at the local level are a promising target of opportunity because, excepting the country's president, mayors are the only Romanian officials directly elected by constituents (rather than based on party lists). Thus they are more responsive to public appeals and civil society voices.

C. PROGRESS TO DATE

Past USAID programming included activities designed to push forward achievement of the five recognized democratic governance attributes of: 1) legal sustainability and policy framework, 2) democratic processes, 3) financial resources, 4) municipal services and assets, and 5) institutional support systems.¹⁰

At the central level USAID-funded activities under SO 2.3 contributed significantly to the adoption of decentralization legislation. The new legal framework fundamentally changed local public administration by expanding authority to establish expenditure priorities, approve investments, execute long-term budgeting, gain access to credit from internal and external markets, and, most important, assess and collect revenues from local taxes and fees. As a result, the value of local taxes and fees increased between



Source: World Bank

“The Law on Local Public Finance put local finances and the local budget process on an equal legislative basis with those of the national government.”²¹

World Bank
June, 2001

Local political dynamics represent an opportunity because mayors are directly elected by constituents.

1998 and 1999 by over 70 percent in real terms. This source now represents over 50% of total local revenues, one of the highest percentages in the region.¹⁰ However, some major constraints still need to be addressed: 1) the inability of Romanian local government units to establish their own commercial bank accounts; 2) projections of revenue by local governments still lack a significant degree of predictability; 3) unfunded mandates associated with decentralized functions and services.

At the local level activities included training and limited technical assistance to local officials in executing the new responsibilities. A major achievement of USAID local government assistance is the creation of the Romanian Federation of Local Authorities and several professional associations of local officials. This combination of training and association building strengthened local officials' capacity to deal with the specific needs expressed by the communities. However, the associations need additional assistance to become sustainable. Too little attention has been devoted to the efficient use of local revenue and the need to establish community-wide priorities for the use of that local revenue. Issues relating to unfunded mandates, central government transfers and equalization grant formulas, for the most part, have not been addressed.

In the area of citizen participation, under SO 2.1, USAID sought to build civil society counterweights to government. Civic NGOs challenged government institutions by demanding greater transparency, openness and a role for citizens in decision making. After the 1996 elections, many NGOs attempted partnerships with the new government. These partnerships achieved some reforms, but overall, the government failed to deliver good governance, and most NGO advocacy initiatives, which focused on government institutions at the central level, proved ineffective. Most NGOs did not develop citizen constituencies, and poor citizen representation stymied NGO advocacy efforts. The weak links of NGOs to local communities, along with the failure of elected officials to develop their local representative function, perpetuated a sense of hopelessness and cynicism that paralyzed citizen participation.

However, increasing numbers of USAID-assisted NGOs, especially local associations representing businesses, professionals, or users of public services, developed local and regional constituencies (mostly outside SO 2.1). These groups, along with civic NGOs that have made transitions from focusing on advocacy at the central level to local service delivery, provide a platform for citizens' voices to organize and impact decision making at both the local and central level. As a result of USAID rule of law and labor unions assistance, local NGOs in the Moldova region are now positioned to advocate that local authorities responsible for mediating labor disputes engage NGO-provided mediators in the process. Once fully adopted in practice, this model of NGO service delivery can be replicated in other targeted local areas of the country.

“Civic NGOs took the community for granted, or if they didn't, they lacked the resources and training for what needed to be done: work with citizens.”²²

Carnegie Endowment for
Int'l Peace, 2000

“Community grassroots organizations are beginning to develop a more positive reputation as their actions are reaping dividends in terms of improved services at the local level.”²³

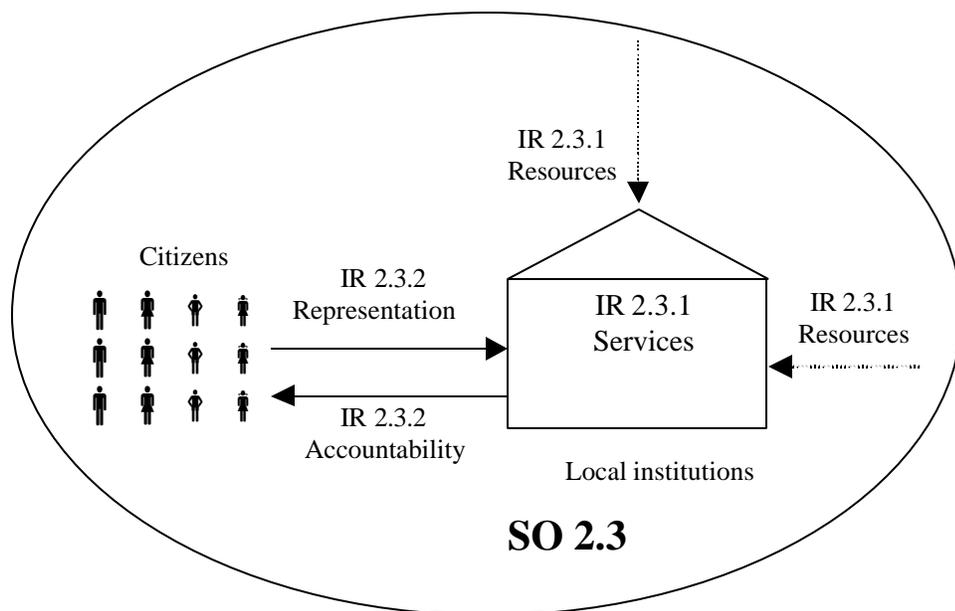
Romania DG Assessment
2001

D. RESULTS FRAMEWORK

1. Causal Linkages

Two intermediate results contribute to improving democratic governance at the local level: (1) adequately funded service-oriented local government units; and (2) improved interaction between citizens and local public institutions.

The Mission’s proposed Results Framework captures both the supply and demand sides of improving local democratic governance as described in the “democracy egg” diagram (fig. 1). Improved services and improved access to and management of financial resources (IR 2.3.1) constitute the supply side. Increasing citizen participation and representation, through CSOs including local political parties and business associations builds demand for better governance. Accountability for decision-making and performance allows the public to judge whether their needs are being addressed, driving a feedback loop through which local governments should adjust their actions to respond to citizen interests (IR 2.3.2). The results framework also captures both horizontal accountability in the relationship between citizens and government as well as vertical accountability—internal checks on resource management.



Prior strategies have addressed anti-corruption as rule of law programs. Consistent with the MPP, the new strategy treats corruption thematically where it occurs, in all three SOs. In SO 2.3 both IRs contribute—by increasing citizen input; by providing more coherent, understandable government structures; by matching local government funding and expenditures; and by rule of law and increased access to government information.

The strategy also addresses the growing problem of trafficking in human beings, which has many dimensions, one being civil society. As a civil society issue, USAID may consider undertaking activities to prevent

“Working both on the demand and supply side of the local governance equation has promise.”²⁴

Romania DG Assessment, 2001

“Democratic local governance is local governance carried out in a responsive, participatory, accountable, and increasingly effective fashion.”²⁵

USAID Center for DG, May 2000

“Government, the private sector and civil society have to be involved for the fight against corruption to be legitimate as well as effective and sustainable.”²⁶

Int’l Anti-Corruption Conference 1999

trafficking, to build community awareness, to assist in the development of witness protection and victim rehabilitation programs, and to provide indirect support to local law enforcement, when such activities help to achieve targets for the SO 2.3 results framework.

IR 2.3.1 Adequately funded service-oriented local government units

In large part, local units of government exist to provide citizens with goods and services that contribute to their quality of life, services they are not otherwise able to provide themselves. Delivery depends on effective local government administration driven by citizen supported policies and implementing administrative procedures. Policy formulation is the responsibility of locally-elected councils. Adoption of implementing administrative procedures is the responsibility of the locally-elected Mayor.

USAID will work with both entities to improve the effectiveness and efficiency of their policy-making process and will program activities to broaden the principles of decentralization and empowerment.

IR 2.3.2 Improved interaction between citizens and local public institutions

Improved democratic governance at the local level requires better representation of citizens in decision making and more accountable government. Citizens must demand representation while elected leaders and public servants must respond by opening channels for citizen input. There must also be mechanisms by which citizens assure that government is responsive to their input and that the services are responsive to their expressed needs. USAID will empower citizens to advise government of their wants and to hold government and fellow citizens responsible for delivery by addressing citizen input mechanisms, dispute resolution processes, the public's attitudes to rule of law, and public access to information.

The two IRs are strongly interconnected. Because of the machinery of the elected party list system, many citizens feel disconnected from local authorities. Local councils are more responsive to the hierarchical dictates of the party than to disorganized constituencies. Activities under IR 2.3.2 aim to open local governance to greater participation and stakeholder input. To advance the democratic functionality of local institutions, program activities under IR 2.3.1 will also work to improve communication, information flows, and the ability of local councils to judge the impact of public policy options. The lack of policy planning and budgeting in the areas of local economic development, urban planning and service delivery has been a constraint on citizen satisfaction and economic growth. IR 2.3.2 will drive citizen demand for more inclusion in the debate and for more responsive and accountable local authorities. IR 2.3.1 will improve local governments' ability to respond to those demands.

2. Critical Assumptions

GOR and Romanian citizens aspire to EU membership;
GOR will be committed to implementing decentralization;

“Services are increasingly provided in response to citizen demand and priorities.”²⁷

USAID Center for DG
May 2000

“Citizens participate in decisions that affect their quality of life.”²⁷

USAID Center for DG
May 2000

The two IRs are strongly interconnected.

Romanian local governments will be committed to establishing effective partnerships with CSOs in order to solve community problems; Leading civic organizations and political parties that have advocated reform will strengthen their advocacy for change in the political representation system; Romania's economic situation will not undermine the replication and/or sustainability of successful governance reforms.

3. Other Donor Support

Improved coordination and leveraging between our program activities and those of other donors will maximize impact and results. Coordinated projects can take advantage of synergies and the comparative advantage of each party. Specifics follow, by IR:

IR 2.3.1 Adequately funded service-oriented local government units

Activities supporting policy reforms to further fiscal decentralization and democratic local governance will be closely coordinated with other donors which have substantial interest in this area, including the World Bank, EBRD, and EU. Given USAID's ability to provide technical assistance rather than funds, our local government assistance will help cities take advantage of the EBRD municipal loan program for infrastructure improvements, the World Bank Rural Development Program to develop local government capacity and access to infrastructure services, and EU's ISPA¹¹ and regional development programs. To further promote reform initiatives, when advisable, USAID will recommend matters for inclusion in other donors' Conditionality Agreements. Finally, USAID's participant training program will provide resources for local Romanian decision-makers to participate in other donor supported training and conferences.

IR 2.3.2 Improved interaction between citizens and local public institutions

EU funding, like USAID's, will support the development of sustainable partnerships between NGOs and local administration to solve local problems. USAID will also work closely with Great Britain's Department for International Development (DFID) and the World Bank-funded Romanian Social Development Fund to spearhead community-based democracy development and delivery of local services.

USAID assessments have concluded that the budget available is not sufficient to impact on broad issues of judicial or court reform. However, as targets of opportunity emerge, we will continue to work cooperatively with other donors and agencies to improve local delivery of better and more accountable legal and administrative services. The World Bank is proposing to undertake judicial reform either as a separate loan or as part of a larger public administration loan projected to begin in 2002. The European Union will also be addressing public administration, and it will have twinning efforts addressed to the prosecutor's offices. We will monitor the World Bank and EU efforts and will offer technical assistance to support those efforts if suitable target of opportunity emerge. The EU focus on "subsidiarity"¹² correlates with the USAID goals for local decision-making.

Improved coordination and leveraging between our program activities and those of other donors will maximize impact and results.

"The need for fundamental reform in the rule of law area is pressing and of great importance. But the challenges are also monumental and not easily tackled without significant resources."²⁸

Romania DG Assessment,
2001

USAID will give special support to information disclosure activities because, although EU consultants agree that freedom of information is critical to governmental transparency, the EU is unable to directly address FOI issues due to limitations of the *acquis communautaire*¹³.

E. PROGRAM APPROACHES

Program approaches include technical assistance and in-country training for local government units and civil society groups, as detailed below. Participant training will be used for third-country and U.S. training for key officials, in areas like local finance, municipal management and intergovernmental fiscal relations. Regionalism and cross-boarder linkages will play an important role in designing and implementing activities to improve local democratic governance in Romania. We will draw on cost-effective approaches and techniques developed in countries ahead of Romania on the learning curve. Romanians will share with colleagues in the region experiences related to decentralization and local development.

The most effective USAID local programs target service delivery capacity and responsive and participatory governance.²⁹

USAID Center for DG,
May 2000

1. Proposed Program

Our proposed program will contribute to enhancement of democratic governance at the local level through activities designed to advance the five democratic governance attributes mentioned in sub-section 3. In a recent review of the current local government assistance program in Romania¹⁴, the authors identified the following strategic areas requiring further attention: 1) ongoing advice and assistance to national government on issues of decentralization and policies that affect local governments; 2) technical assistance to local government focusing on the attainment of clear and direct results with measurable benefit; 3) coordination within local government programs and with other relevant USAID activities; 4) improved coordination and leveraging between local government program activities and those of other donors to maximize impact and results; and 5) progressive increase in use of Romanian consultants and training institutions as expert resources for local governments. These strategic recommendations will guide Mission's implementation of activities under this SO.

IR 2.3.1 Adequately funded service-oriented local government units

The responsiveness of local governments to citizen demands for improved delivery of local services requires efficient use of current local revenue resources and predictable central government transfers to fund the devolution, from the central level, of mandated local services. *Policy changes are needed to provide a coherent system at the national and the local level that matches the devolution of responsibilities with means to finance them.*

“Service is at the heart of local government performance and, if it meets the expectations of citizens, builds a sense of ownership that underlies democratic governance.”³⁰

USAID Center for DG,
2000

USAID will assist in consolidating and improving the reforms that have already taken place but need fine-tuning or completion. Under this IR, activities will be designed to take into account the entire picture of decentralization including municipal services, social services, credit reform, and tax reform. Among the issues that must be addressed are matching authority and responsibility at the local level, completion of the framework

for municipal credit, equalization grants, improvement of the local budgeting process, and development of more effective transfer and tax systems. Issues associated with unfunded mandates will be addressed through assistance in developing a fiscal analysis capacity, capable of advising the government, parliament, and the Federation of Romanian Local Authorities on the fiscal impacts of decentralization legislation.

Local council members need to understand their role in the policy formulation arena, so activities will be designed to develop their capacity in policy development, responsive to citizen needs and input. Implementation of local council policies is the responsibility of the locally-elected Mayor. While local governments have received additional responsibilities from the central government, the authority to respond to those responsibilities generally stops with the mayor. Mayors need to understand their role in an effective, service-oriented organization and to delegate duties and responsibilities to division and department managers. Activities will be designed to provide mayors with senior appointed local officials with leadership training.

IR 2.3.2 Improved interaction between citizens and local public institutions

This IR addresses civil society, political process, and rule of law. In responsive and accountable systems, people expect the system to accept and respond to their input and to fairly redress their grievances. They expect that both they, and their opponents, will address the system publicly and openly. They do not offer bribes; they do not make backroom deals. They use the system to get to final outcomes and they accept those outcomes as final. "Rule of law" is playing by the rules. If the public believes that the rules are fair and evenly applied, 85 percent to 90 percent play by the rules. If the public believes that the rules are not fair and evenly applied, the number drops to less than 15 percent.

Civil society assistance will help citizens to organize and act in groups and demand better representation by elected leaders and other public servants, supporting the development of public interest coalitions involving NGOs, business associations and other groups acting on local community needs and economic interests. Through capacity building activities, USAID will help civil society groups strengthen local constituencies and will increase the ability of these groups to deliver services. USAID will also assist underrepresented societal groups, such as the Roma ethnic minority, to develop the leadership and organizational skills needed to strengthen their representation and participation in public life.

USAID will assist local political party organizations to become more responsive to citizens' interests. Political party strengthening at the local level, targeting greater transparency of internal party procedures and responsiveness to local interests, should also increase demand for reform at the national party level. Candidate selection procedures, constituent services, party platforms responsive to local needs, constituency outreach strategies, and programs for marginalized social groups (such as Roma) are targets of

Issues associated with unfunded mandates will be addressed.

“Human development and good governance require partnerships among different actors and levels of government.”³¹

UNDP Romania, 2000

“Public engagement programs can help people understand how corruption impoverishes and demeans them, and how they might begin refusing to collaborate with it without suffering adverse consequences.”³²

USAID/E&E, January 2001

opportunity.

Rule of law assistance will engage the “systems for redress of grievances”¹⁵ represented at the local level, building on local strengths to reshape the weaker systems—for example, by developing mediation services to relieve pressures on the courts in conflict resolution. Targets include commercial, labor, and community disputes, such as domestic violence or ethnic conflict, and might also address the need for greater efficiency and transparency in local court administration. USAID may also support efforts by the Ministries of Interior, Justice and Education to engage local business, religious, community and education leaders to reinforce rule of law in the everyday lives of the citizens. Anti-corruption, a cross-cutting focus under the activities of both IRs (and impacting the other SOs), is addressed in this IR by building social capital to encourage public trust in the systems of citizen representation, redress and accountability and in fellow citizens.

USAID will develop access to public information to promote accountability. Mission will continue to monitor a Freedom of Information (FOI) statute working its way through the parliamentary process and implementation, and work with local government to implement information sharing systems, including but not limited to IT systems, and work with civil society organizations to obtain and use public information.

2. Performance Measurements¹⁶

Improved democratic governance at the local level will be measured by the number of local government units that have significantly increased the percent of their program budget spent on services identified by citizens. To determine what percent represents a significant increase, during the first year the implementor will establish baselines and targets for all the 183 USAID-assisted LGUs. Adequately funded, service-oriented local government units will be measured by: 1) the increase in locally available revenues; 2) the decrease of unit cost for specific services; and 3) the number of local government units that have created at least one new, sustainable community service through a defined participatory approach. Improved interaction between citizens and local public institutions will be measured by: 1) the number of sustainable CSOs effectively involved in strategic planning, implementation and oversight activities; and 2) the number of new, sustainable LGU/CSO initiated programs that directly address the needs of women, youth and marginalized groups. Baseline statistics will be developed in year one and monitored over the five years, for the local governments receiving USAID assistance. Data will be reported by the USAID implementors.

3. Expected Results

For the \$43.75 million investment over the 5-year strategy period, local government structures will improve service delivery, internal procedures, and policy analysis capabilities in response to citizens' increased demand for better governance. Overall Romania will accomplish many of the EU accession requirements related to improved public administration. More specifically, our assistance will impact 183 LGUs representing all eight

“Adopting Freedom of Information-type legislation and practices must stand at the forefront of USAID advice and practice.”³³

USAID E&E, January 2001

Local governmental structures will improve service delivery, internal procedures, and policy analysis capabilities in response to citizens' increased demand for better governance.

development regions. By 2006 all these LGUs will significantly increase the percent of their program budget spent on services prioritized by citizens.

Efforts under IR 2.3.1 will help local councils formulate and adopt citizen driven policies relating to delivery of local services, economic development and urban planning. Targeted local governments will improve administrative structure and procedures contributing to transparent procurement and financial management practices and thus reducing the opportunities for corruption. Improved performance of USAID-assisted LGUs will lead to an increase by an average of 10 percent in real terms of their revenues generated and retained locally. Specific services that support the other two SOs will be delivered more cost-effectively through competitive outsourcing or by moving from government institutions to community-based social services, while maintaining or improving quality. We expect a 10 percent average decrease of unit costs by 2006. These cost savings and increased revenues will allow 110 LGUs to create at least one new, sustainable community service based on input received from citizens through community meetings, surveys, and other venues for citizen participation.

These critical results will be supported by comparable achievements under IR 2.3.2. Local political party organizations will adopt democratic practices that enhance representation, including more participatory candidate selection procedures and better mechanisms for citizens' input. Constituency-based CSOs—associations representing businesses, home-owners and water-users, for example—will develop a more effective voice in local democracy. Civil society organizations will become a better resource to address communities' unmet needs, by demand of CSOs own local constituencies or by request of local authorities. By the end of the strategy, we expect that 366 sustainable CSOs will be effectively involved in strategic planning, implementation and oversight activities in the USAID-assisted LGUs. 366 new sustainable LGU/CSO—initiated programs will address the needs of women, youth and marginalized groups, enhancing their participation in decision-making, creating new employment opportunities, and increasing their access to health, education and other social services.

4. Sustainability

Our efforts to strengthen the local government associations will enable them to become resources for training and technical assistance for local governments and serve as effective representatives of local government at the central level. USAID will train, mentor, and certify a cadre of Romanian consultants with expertise in municipal credit and finance, budgeting, public management, and information technology. By 2006, these consultants will provide technical assistance to local authorities in the above-mentioned areas, successfully replacing, to a major extent, the U.S. consultants.

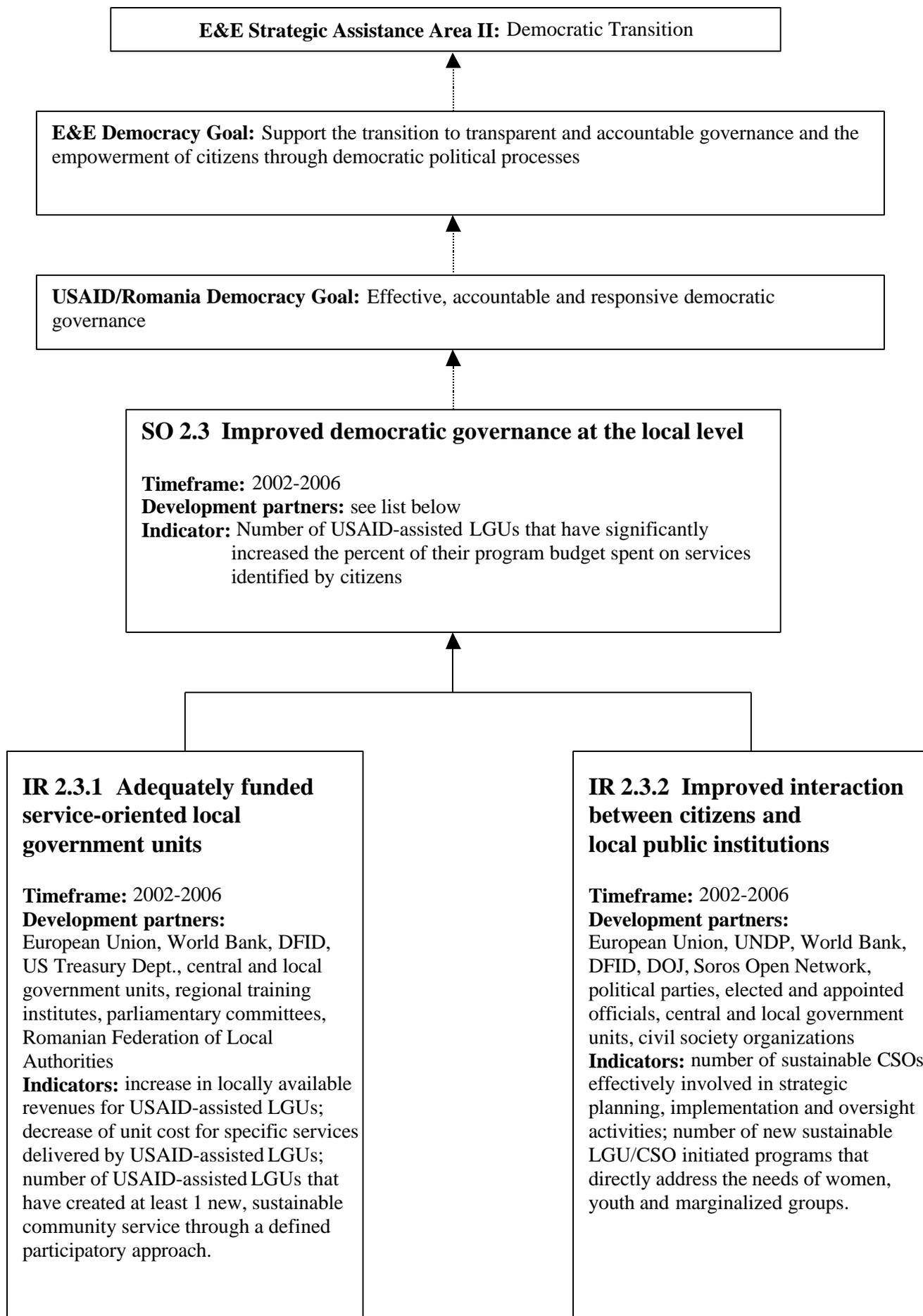
Assistance to civil society groups will promote sustainability by linking community needs with economic interests and by supporting regional and local associations and NGO coalitions advocating the out-sourcing of local services and promoting greater coordination of local reform efforts. Coordination across targeted local areas will strengthen advocacy for reform

Local political party organizations will adopt democratic practices that enhance representation.

NGOs will become a better resource to address communities' unmet needs.

Romanian consultants will provide technical assistance to local authorities, successfully replacing the US consultants.

of LGUs (and central government policy where required), promote replication, and increase the ultimate prospects for sustaining increased local service delivery by NGOs. By 2006, NGOs will deliver services at the local level in two ways: 1) by contract with local authorities; and 2) by meeting needs of local constituencies—via fees for services, for example—in ways that reduce the strain placed on local government services in fulfilling community needs. Furthermore, public-private partnerships will represent an additional way to provide citizens with the services they need and to improve the effectiveness of local governments.



PART II: STRATEGIC OBJECTIVES AND PROGRAM PLANS

Strategic Objective 3.4 Increased Effectiveness of Selected Social and Primary Health Care Services for Targeted Vulnerable Populations

A. STATEMENT OF STRATEGIC OBJECTIVE

SO 3.4: “Increased Effectiveness of Selected Social and Primary Health Care Services for Targeted Vulnerable Populations” compliments and reinforces the Mission’s other strategic objectives by its strong local level focus. This SO will contribute to the E&E Bureau’s Social Transition Goal: *Enhanced ability of all persons to enjoy a better quality of life within market economies and democratic societies.* More specifically, this hybrid SO will impact on the E&E SO 3.2 *Increased promotion of good health and access to quality health care* and SO 3.4 *Mitigation of adverse social impacts of the transition to market-based democracies.*

The human costs of the communist legacy and transition are particularly acute in the social sector.

B. PROBLEM ANALYSIS

The human costs of the communist legacy and transition are particularly acute in the social sector. Romania’s transition to a more market-driven, democratic society has placed a heavy toll on the health and welfare of the country’s population. This is especially true of vulnerable groups such as children, women, the rural poor, and the Roma population. The very visible problem of institutionalized children continues as a sobering indicator that communism and poverty have had a dramatic impact on quality of life. During the Ceausescu regime, pro-natalist policies prohibited family planning and emphasized population growth. Women resorted to unsafe abortion. Many children born to families in crisis were placed in institutions, with the State providing custodial care. Social services for parents were not adequate, and thus it was oftentimes a fact that the state could provide better food, shelter, and housing than the families. Years of this practice developed deeply rooted attitudes that have hindered significant movement nationwide toward the creation of an environment that is family and community-based, focusing on the welfare and rights of children. Though the ability of the state to care for institutionalized children has nearly collapsed, the practice of institutionalizing children continues.

Though the ability of the state to care for institutionalized children has nearly collapsed, the practice of institutionalizing children continues.

The GOR has attempted to respond to these needs, but results have been disappointing due to protracted economic recession, frequent turnover among key policy makers, weak technical and managerial capacity, and inappropriate policies that have sustained systems characterized by waste, inefficiency, and corruption. This corruption, in fact, is a major barrier to effective reforms in the social sector.

Over the past decade, the quality of care for children needing assistance has improved, but it is still sub-optimal. Though the number of institutionalized children has declined from the 170,000 reported in 1990,

there continue to be more than 77,000 children living in institutions.³⁴ Child welfare services have been decentralized to the county level, but still require significant strengthening and decentralization to the municipal, village level. Underlying structural reform has been slow and incomplete, especially due to inadequate funding, local government mentalities that favor institutionalization over alternative arrangements, crises that derail sustainable reform, corruption in inter-country adoption, and conflicting financial incentives in the system.

Significant barriers to an effective system abound. When responsibility and authority for institutionalized children transferred to county government, adequate funds did not flow with the authority and responsibility.³⁵ In addition, the institutional existence is reinforced by the inter-country adoption system, which generates considerable income and significant employment opportunities to local institutions. The institutions end up a “cash cow” for local economies and political cronies. Finally, budgetary lines for institutionalized children do not follow children who are discharged into community-based services. With this misalignment of resources, there is no incentive to close institutions and help children remain with their families.

No clear infrastructure for integrated children's and family services exists. Child welfare legislation is inconsistent, incomplete, poorly understood, and indifferently enforced. The system lacks: 1) a legislative framework to support the needs of families and provide targeted social assistance; 2) an implementation plan to orchestrate a transition from a system that supports institutionalization to one that promotes the importance of the family; and 3) specific targets for achieving that goal, with well-conceived incentives for achievement.

Public awareness of citizens' responsibilities is lacking. The mentality that modern contraception is dangerous still prevails. Many families, especially in rural areas, continue to believe that the state can raise their children better than they can. There have been no programs to better inform the public about new services, existing legislation, and the devastating effects of institutionalization. Workers in child protection institutions may not understand or support the Government of Romania's (GOR) National Strategy on Child Protection, and are more concerned with their own displacement than the well being of children. Better information could help their move to employment in alternative services.

There is presently no comprehensive tracking system that quantifies the true magnitude of the problem, that monitors what services families/children are receiving, or that permits a meaningful assessment of needs for intervention on the short, medium, and long-term. A tracking system that targets specific needs can help to focus priorities for social assistance so that there is greatest yield for expenditures. The best protection against corruption and the surest way to provide transparency is through a monitoring and tracking system in which each protected child is followed, and where provision of services and financial

“Corruption in the adoption process complicates the ability to stem additional inflow of children to the system.”

Pam Awtry
Bethany Christian Services

Workers in child protection institutions are more concerned with their own displacement than the well being of children.

contributions are recorded.

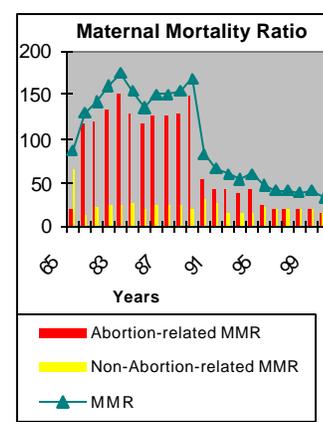
Additional remnants of the communist system are reflected in health status, especially high morbidity and mortality attributable to lifestyles (tobacco consumption, alcohol abuse, poor dietary habits, and accidents and injuries). Life expectancy is low relative to other countries in the region. Extreme poverty and institutionalization contribute heavily to the poor health status, especially in rural areas and among the elderly and disabled. Major contributors to disability-adjusted life years lost are cardio-vascular diseases, ischemic heart disease, hypertension, alcohol-related disorders, tumors, and respiratory/pulmonary disorders.³⁶

Particular problems in Romania are associated with the previous pronatalist policy that banned family planning, resulting in one of the highest maternal mortality rates in the world, most of which was associated with unsafe abortion to terminate unwanted pregnancy. Though maternal mortality has reduced dramatically, it remains high relative to other countries in the region. From 1993 to 1999, abortion rates declined from 3.4 to 2.2 per woman, and modern contraceptive use doubled from 14.5 percent to 29.5 percent.³⁷ In spite of those positive changes, tremendous unmet need remains.³⁸ There are 1.6 abortions for each live birth. Though the official abortion rate is 54 per 1000 live births, an adjustment for private services brings the total to approximately 77.6/1000.³⁹ Due to lack of attention to reproductive health needs and inadequate political will, there is also a high infant mortality rate, high risk from obstetric complications, and high mortality from cervical and breast cancer. More than half of women dying from obstetrical causes had no prenatal care.

HIV/AIDS is a concern in Romania because of the pediatric AIDS cases from the early 1990s, and due to the changing character of the HIV situation. During the last four years, the number of adult infections has tripled, although the actual number of new cases is stable at about 100 reported each year. Though data is reportedly incomplete, a significant growth in syphilis since 1990 indicates the potential risk for spread of HIV/AIDS. Incidence of Hepatitis B is down significantly, largely due to USAID/UNICEF efforts to establish a cold chain, an immunization program, and infection control procedures. The resurgence of tuberculosis is a grave concern, as Romania has the highest prevalence rate in the region, with 117 cases per 100,000, and a new case rate higher than any other country in Europe and the former Soviet Union.⁴⁰ The appearance of multi-drug resistant strains of Tb has increased dramatically. These cases are both difficult and very expensive to treat.

As in many former socialist economies, health care services in Romania are not well matched with the needs of the population. Romania is enmeshed in significant reform from a centrally controlled to a market-driven health system. The health system remains extremely under-funded and highly inefficient. When health reform was launched in 1999, the public expenditure for health services was 3.2 percent of GDP, approximately \$54 per capita. In 2001, the figure will grow to

Particular problems in Romania are associated with the previous pronatalist policy that banned family planning.



SOURCE: Romanian National Center for Health Statistics, 2001

A significant growth in syphilis since 1990 indicates the potential risk for spread of HIV/AIDS.

approximately \$71 per capita.⁴¹ Private expenses, mostly in the form of illegal payments, amount to about 25 percent of total health expenditures,⁴² putting the total expenditure closer to \$100 per capita. This amount is less than half of the expenditure for health in Hungary and less than one fourth of Poland.⁴³

Initial efforts to reform the health system have been hampered by poorly planned implementation. Under the reformed system, general practitioners (GPs) and nurses serve as “gatekeepers” in the primary care setting, and should provide front-line services for the many basic health needs of the population. The general idea is to move from a highly medicalized health system with an over-emphasis on inpatient care and specialized services to one where basic health services are provided in the least costly environment: the primary care setting. Unfortunately, the right incentives/controls to achieve this shift were not put in place. In addition, GPs lack training in very basic competencies, especially reproductive health.

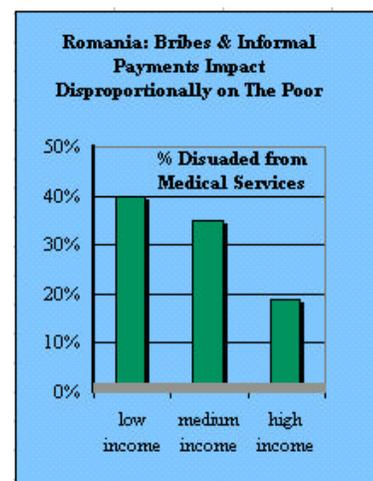
National vertical programs, such as family planning, HIV/AIDS, immunization, etc. are at risk because of major funding shortfalls. Preventive services are largely unavailable because of continually diminishing primary care funding. Hospitals, though drastically underfunded, consume a growing proportion of health resources. Presently hospitals receive more than 70 percent, at the expense of primary care and preventive services. The Minister of Health aims to reduce that proportion to 50 percent, more in line with other countries in Europe. Waste, mismanagement, and corruption burden the archaic health system. No national drug formulary⁴⁴ has been developed for rational consumption of pharmaceuticals, leaving the door wide open to “heavy marketing practices” that promote the most expensive drugs. The Ministry of Finance has made clear that spending must be controlled, and reminded health leaders that this debt will negatively impact EU accession.

There does not appear to be a systematic approach to ensuring cost-effective health services. Access to services is limited to those with formal employment and who have enrolled in the health insurance system. Many rural poor do not qualify for health insurance, and thus fall through any intended social safety net. Poor communication about reform and required “informal payments” for so-called free services have exacerbated access problems. Far too few resources are allocated to outpatient, nursing home, home care, and other ambulatory services that could be alternatives to costly hospitalization. Family planning services are only available in a few locations in each country, and other reproductive health (RH) services, such as mammography, pap smears, etc. are not generally available. Related laboratory/radiology services are very poor.

Adding to the considerable challenges in the social sector are the problems of trafficking and domestic violence. Romania is only

Initial efforts to reform the health system have been hampered by poorly planned implementation.

Waste, mismanagement, and corruption burden the archaic health system.



Source: World Bank⁴⁶

beginning to acknowledge these serious problems.⁴⁵ Many victims of trafficking are youth who are runaways from abusive environments or institutions. The weak social service structure in Romania has provided virtually no social safety nets to assist these victims.

C. Progress to Date

The gravity of the situation has finally been recognized. Leaders have embraced the need for a coordinated strategy to implement a more effective system for child welfare, adoption, and reform of the health system. The child welfare issue is a formidable barrier to EU accession, which has brought new importance to the problem. Legislation concerning adoption and a children's act are presently being drafted. The Ministry of Health and the National Health Insurance House have approval from the Prime Minister's office to revamp health financing based on case-based reimbursement, which will also bring transparency and reduce opportunities for corruption. A national strategy to expand access to broader RH services at the primary care level is about to be approved. The window of opportunity is presently wide open.

USAID/Romania's social sector programs and policy dialogue to date have contributed significantly to improving the delivery of health and welfare services. USAID has piloted many essential components of a comprehensive system for reform in both child welfare and health, which will help to close out USAID/Romania's efforts in RH and child welfare over the next five years. In RH, especially, there are many lessons learned through best practices in the region and USAID worldwide.

The gravity of the situation has finally been recognized. The window of opportunity is presently wide open.

Training curricula to develop the social work profession, and to enhance the capacity of GPs and nurses, have been developed and piloted. At this point, Romanian social workers are a recognized profession, with a modern code of ethics developed and legislated. GPs' and nurses' associations embrace their new role in RH, and it is helping to unlock the complexity of their becoming the new "gatekeepers" for health services that will contribute to overall reform. Local, county and national-level child welfare administrators have been trained to deal with this first decentralized system, and local health officials have also participated in training study tours to help conceptualize effective RH service delivery.

Model community-based programs such as day care centers, maternal shelters, emergency funds, life-skills programs, foster care, and specialized support services for children with HIV/AIDS, have been piloted for lessons learned. Healthy Communities programs focused on domestic violence and sexually transmitted diseases, a model Women's Wellness Center, models for medical group practice, networks of rural physicians in a "group practice without walls," and networks of rural social workers are also templates of important pieces of the new strategy.

Standards of care for foster care, home care, and for GPs providing RH services have been developed and disseminated for use throughout

Romania. Pilot systems for information management, supply distribution, and local promotion of services have been developed. Also, communications and outreach programs have been useful in identifying key messages and approaches, especially for hard-to-reach populations.

Financial shortfalls in the funding of vertical programs such as family planning, maternal/child care, HIV/AIDS and other infectious diseases have highlighted the importance of focusing on the allocation of health sector resources. To reduce waste, inefficiency, and corrupt practices in hospitals, template projects have piloted a more transparent patient classification and financing system. The success of this pilot lays the groundwork for national implementation, and changes in the policy, legal, and regulatory system that will revamp service delivery in the future.

D. RESULTS FRAMEWORK

1. Causal Linkages

Though issues relating to health and child welfare manifest themselves as different problems, the root causes of the problems and the nature of the solutions appear to be very similar. SO 3.4, "Increased Effectiveness of Selected Social and Primary Health Care Services for Targeted Vulnerable Groups" focuses on the health and social sector as a whole. The problems of: 1) lack of attention to a policy, legislative, and regulatory framework are consistent through the various health and social service areas; 2) poorly used resources where misguided incentives drive ineffectual behaviors; 3) services that are disjointed, inappropriate, or totally lacking; and 4) poor public information about what resources can make the system more effective, prevent social ills, and improve overall quality of life. The need for similar solutions call for Intermediate Results (IRs) focusing on function, rather than sector. Achievement of SO 3.4 will require the following four IRs.

IR 3.4.1 Improved legal, regulatory, and policy framework

The legal and regulatory framework stemming from the communist era has been a barrier to the development of integrated social systems. Therefore the legislative, regulatory and policy framework for health and child welfare must be strengthened. Harmonizing the new and former legislation, and filling the gaps and developing new legislation that fosters development of integrated social systems, are essential. Critical aspects of the legislative change are *implementation* and *enforcement*.

IR 3.4.2 Improved mobilization, allocation, and use of social sector resources

Resources for the health and social welfare system are very limited, yet are not efficiently used due to inappropriate funding policies, poor management, corruption, and waste. New incentives must direct both the reduction of funding of inefficient services and an increase in use of funds for preventive, quality and family-oriented services. More transparent systems are required to stem corrupt practices.

Financial shortfalls in the funding of vertical programs such as family planning and HIV/AIDS have highlighted the importance of focusing on the allocation of health sector resources.

"The protection children must enjoy in a democratic state is an element the country's future is built upon."

Brandusa Predescu
Secretary of State
National Authority for Child
Protection and Adoption

The legal and regulatory framework stemming from the communist era has been a barrier to the development of integrated social systems.

IR 3.4.3 Increased access to quality integrated services

Coordinated quality services must be developed, geographically accessible, affordable, and delivered by competent professionals. Primary care and community-based services should be the front-line of support. Quality standards of care, evidenced-based clinical protocols, and continuous quality monitoring/improvement systems will help ensure appropriate care. Professionals trained through quality educational programs are vital.

IR 3.4.4 Citizens better informed about social services, rights, and responsibilities

Public awareness campaigns designed to better inform citizens are critical to healthy behaviors and to make effective use of social service alternatives that keep children in safe and stable living environments. Citizens need accurate information to make wise decisions about actions affecting their and their children's lives, such as whether to have children and whether to abandon those children. Citizen information can also help to minimize corrupt practices. Such national campaigns have been absent in Romania.

“A democratic society depends upon an informed and educated citizenry.”

Thomas Jefferson

2. Critical Assumptions

- The GOR will remain committed to social welfare reform, and particularly, the window of opportunity for aggressive reform in both child welfare and health will remain open.
- Other donors will maintain or expand their present level of involvement in the reform of health and social welfare.
- The GOR will remain committed to EU accession.

3. Other Donor Support

Coordination with other donors is critical to achieving the results laid out in the social sector strategy, and USAID has taken a leadership role in focusing donors on common goals on several fronts. This is especially true in child welfare, where the donors' joint efforts forced the accelerated reform agenda. Major donors and IFIs are unified in their approach toward achieving the government strategy. Flexibility and coordination will be strongly emphasized in the new activities. Specifics follow, by IR:

USAID has taken a leadership role in focusing donors on common goals.

IR 3.4.1 Improved legal, regulatory, and policy framework

Donor focus is on developing: 1) appropriate legislation, 2) standards and procedures, and 3) systems for transparent tracking of children in need of social services, delivery of health care services, accountability in health care expenditures, and tracking of infectious disease.

All donors agree that sustainable reform of the child welfare sector can reduce the incidence of abandonment and the need for Romania to put up its children for inter-country adoption. The lead donors in this sector are the EU, UNICEF, World Bank, USAID and DFID. USAID works with DFID, UNICEF, and the EU to spearhead crucial legislative changes.

While DFID is contributing to standards development and licensing for NGOs, USAID and UNICEF collaborate on service standards. The balance of the 1998 \$5 million World Bank loan for child welfare will possibly be earmarked for a tracking system.

A recent World Bank loan (\$60 million) will cover several critical infrastructure needs, including planning and regulation of the health care delivery system. Policy, legal, and regulatory components of USAID health projects have the active participation of other donors. UNFPA and USAID work in unison on RH policy/legal/regulatory fronts.

IR 3.4.2 Improved mobilization, allocation, and use of resources

EU and USAID will collaborate to close large traditional institutions for children, and encourage public-private partnerships to create alternative services so funds are used more effectively. The World Bank and Soros, especially, collaborate with USAID on mechanisms to shift resources to primary care, though their activities are limited both geographically and programmatically. The USAID health financing reform work will be enhanced by World Bank loan upgrading of facilities with new technologies that can facilitate shorter hospital lengths of stay and greater efficiency. The EU will soon begin a training program for health insurance houses to develop financial capacity using USAID training materials for hospitals so that both provider and payor understand the new financing system to be introduced during the strategy period. EU-Phare will also likely pilot the introduction of international accounting standards in hospitals to reduce the potential for waste and corruption.

IR 3.4.3 Improved access to integrated, quality services

The EU and USAID are funding child welfare activities at the local level. Standards developed with UNICEF and DFID will guide the quality assessment of services.

USAID, Soros, DFID, EU, and WHO will coordinate with the World Bank loan programs (upgrading of hospitals, primary care, emergency medical services, public health, and infectious disease control) to maximize synergy. For example, the integration of RH into primary care will complement other donor efforts in primary care. The USAID regional infectious disease program will coordinate with World Bank, EU, and WHO initiatives. In RH, USAID and UNFPA work collaboratively to develop a network of quality services. Though their funding is very limited, UNFPA's philosophy, approach, materials, and trainers are the same as USAID's.

IR 3.4.4 Citizens better informed about social services, rights, and responsibilities

The area of public awareness is one that all donors/IFIs and the GOR have determined to be crucial. The major public awareness campaign effort for child welfare will be funded by UNICEF and the EU. World Bank health prevention campaigns will be directed toward causes of

“The close partnership that includes USAID, UNFPA, and the Ministry of Health and Family greatly enhances our ability to effect broad systematic change in RH, in spite of limited funds.”

Dr. Mihai Horga
Director,
Dept. of Family and Social
Care, Ministry of Health
and Family

morbidity and mortality (e.g., tobacco use). Campaigns will be accomplished using technical people trained through USAID-funded programs.

E. PROGRAM APPROACHES

New social sector initiatives will put strong emphasis on partnerships with government counterparts and organizations that can provide innovative approaches to address the formidable challenges ahead. Activities will implement recently approved national strategies for achieving a transformed system that improves access to services and minimizes undesirable outcomes.

USAID/Romania will also leverage regional experience as much as possible. The problems of the former Soviet-style medical system are very similar throughout the region, and Romania will continue to benefit from successes in countries ahead of Romania on the learning curve, and share experiences with other countries. DHHS and the E&E Bureau are important links on this leveraging in the areas of health financing, primary care, HIV/AIDS, and reproductive health. Countries with similar child welfare problems could benefit from Romania's experience. Trafficking of human beings must be approached from a regional perspective, especially regarding law enforcement and economic issues.

1. Proposed Program

The new strategic objective, *Increased effectiveness of selected social and primary health care services for targeted vulnerable populations*, consolidates earlier objectives and builds upon USAID competitive advantages and successes. Previous efforts reduced the population living in large state institutions, created a continuum of community services as alternatives to institutionalization, and promoted access to and use of modern contraception and other quality RH services. New programs will focus on systemic reform and increased *effectiveness* of services. Initiatives will achieve greater broad-based potential for improved welfare of children and health status of women, especially the poor, rural, and Roma populations. The initiatives will focus on sustainability, with significant attention to areas fraught with corruption.

IR 3.4.1 Improved legal, regulatory, and policy framework

USAID/Romania will pursue policy reform at the macro, sectoral, and local level to ensure sustainable reform of social programs. USAID will lay the groundwork for key policy reform on *horizontal* systems (financing, information systems, quality monitoring) to ensure the sustainability of *vertical* services (such as RH and children in improved environments) and to combat corruption. Policy reform will include all activities required to establish an enabling environment. This includes drafting and passing legislation to deter corruption, harmonizing laws, removing old laws from the books, incorporating citizen feedback into revisions of laws, developing regulations related to new laws, establishing mechanisms for implementation, and putting in place the

The health reform issues throughout the region are very similar, and Romania will continue to benefit from experiences in countries ahead on the learning curve, and share successes with other countries.

The new programs will focus on systemic reform and increased effectiveness of services.

“It is the first time that the Minister of Health has the Government political support to apply unpopular measures for reform.”

Adevarul newspaper
June 20, 2001

structures, financing, processes, and systems needed for implementation and enforcement of new laws.

Other donors are critical to this reform, so USAID will not be solely accountable for accomplishing all aspects of this broad IR. However, USAID *is* an influential player at the table and can assist the GOR in taking the dramatic steps that are required to improve health and social services in Romania. Child welfare goals to prevent child abandonment and keep children in community alternatives were unable to compete with the financial incentives provided by corrupt inter-country adoption practices. Restructuring the inter-country adoption process and legislation has become critical to maintaining adoption as an option for children, ensuring that decisions are made in the best interest of children, and curbing massive corruption.

In addition, new child welfare activities will improve the legislative framework to ensure permanency planning and shorter timeframes for children in institutions, as well as high quality, community-based services for children and families. Health activities will build on recent changes in regulations, quickly integrating new RH services and patient-centered care at the primary care level. Each success will be used to broker additional changes in legislation, policy, and regulations.

IR 3.4.2 Improved mobilization, allocation, and use of social sector resources.

In any system where resources are extremely limited and needs are great, resources must be used effectively. Efforts in the health and social services described above will help transform the system to one that is more efficient, accountable, and transparent; more directed toward prevention; and which more closely links needs with resource flows. Targets will be set to ensure that, over time, resources will follow the patient in health and the child/family in child welfare. Resources will be focused on preventive actions and community-based services to prevent costly and tragic crises. This transformation is ambitious and takes careful planning and comprehensive programming, so that existing resources can be better targeted to the population that most needs them.

USAID efforts will focus on limiting the resources drawn into costly institutions and hospitals, and help redirect those resources to alternative community services. Hospital cost containment systems will improve stewardship over health care resources, and reduce the potential for corruption. Adequate disincentives (e.g., co-payments) established through health insurance policy will ensure that it makes more economic sense for patients to seek care in less costly environments than hospitals (i.e., primary and ambulatory care). If funds are available, USAID/Romania will consider a rational pharmaceutical program to limit misdirected pharmaceutical expenditures, an area where USAID has comparative advantage.

IR 3.4.3 Improved access to integrated quality services

“ Starting next year, we plan to allocate hospital funds according to DRG, and give up the historical criteria. The aim is to eliminate useless expenses.”

Eugen Turlea
President, National Health
Insurance House
October, 2001

New activities will focus on more accessible quality, integrated services. Emphasis will be on skill building of professionals, quality enhancement, expansion of services, and outreach to targeted vulnerable groups. The timing of setting quality standards in place is critical, as promoting care out of hospitals or institutions is *not sound* without quality measures and safeguards in place. Standards to ensure that children are well cared for in community placement or in their families will be developed as a necessary step in protecting children. New standards of service and more accurate and transparent monitoring and evaluation systems will be developed to track children entering, living in, and discharged from institutions and those using community-based services. The profession of social workers will be enhanced to identify families at risk and target solutions to their needs.

Expanded services are also needed to provide an array of options to institutionalization. Innovative models of care (e.g. for disabled children, for abused children, etc.) will be expanded to additional counties to increase access to needed alternative quality services for a much larger portion of the country's population. Life skills/independent living programs can greatly assist the more than 20,000 teenage youth in institutions. Teaching young people skills for living in the community and attitudes and practices for successful employment are instrumental in preventing young people from becoming "street children," or victims of physical harm, prostitution and trafficking. Young people released from institutions with no marketable skills are easily forced into unacceptable alternatives.

The centerpiece activity for USAID/Romania's primary care work will be RH, since resources are insufficient to address *all* areas of primary care in the more than 4,000 clinics employing approximately 15,000 GPs. In the new RH Initiative, the primary care network (less than 5 percent of which offer expanded RH services) will answer the need for more accessible RH services. Evidence-based standards of care, clinical and management training, and technical assistance will help ensure quality, better access, and patient-centered care. Successful USAID-funded pilots that are now part of the GOR RH Strategy will be rolled out gradually throughout the country. Services will include special outreach to hard-to-reach and high-risk populations.

IR 3.4.4 Citizens better informed about social services, rights, and responsibilities

Transformation of the social system requires changed attitudes from the communist-era legacy when the patient was the passive recipient of health services and families were overly-dependent on the state to raise their children. Public awareness campaigns in the health initiative will increase public awareness of health services that will reduce morbidity and mortality, especially related to RH, and that will make clear the patient's rights to services without "under-the-table" payments. USAID interventions in the health and social service sectors will inform the public about reform and available services, provide information to help

The timing of setting quality standards in place is critical, as promoting care out of hospitals or institutions is not sound without quality measures and safeguards in place.

make prevention of disease and child abandonment a priority, and ensure that citizens are equipped to make responsible decisions that affect their quality of life. There will be public focus on the rights of the child, such as the right to be free from abuse and violence. Trafficking will also be addressed through public awareness of prevention, reintegration and rehabilitation.

2. Expected Results

Romania is poised for rapid accomplishment of the objectives laid out in this strategy. By the end of 2006, the face of child welfare and reproductive health in Romania will change.

For the \$33.8 million investment over the 5-year strategy period, the improved system will provide: 1) means to prevent unintended pregnancy, 2) alternative community services for families and children in need, 3) resources directed toward more appropriate services, 4) an appropriate legal and regulatory environment, and 5) heightened public awareness of services and the harm incurred by life in institutions. The transformation will accomplish several USAID SO 3.2 graduation criteria.

Specifically, a 50 percent reduction in the number of children in institutions will revamp the Romanian child welfare system. A 30 percent reduction in the number of traditional state-run institutions will ensure that never again will the system be a network of “child warehouses” where children’s needs are so poorly met. The development and legislation of standards, together with a monitoring and tracking system, will ensure higher quality and less corruption. Restructured financial incentives will help sustain these services.

These critical results will be supported with the availability of RH services where they are most needed—at the community level. A national rollout effort will provide capacity, through training and technical assistance, to at least 40 percent of over 4,000 primary care facilities, where presently only a handful of pilot locations have this capacity. At least 60 percent of these facilities will be rural. Easier access to modern contraception should increase its use from 29.5 percent to 50 percent, and reduce child abandonment, high abortion rates, and maternal mortality from abortion. Community-based primary care services that include RH will also reduce the high rates of breast and cervical cancer, and sexually transmitted diseases (including HIV/AIDS). The percent of women using broader RH services will increase by at least 25 percent.

Health care resources will be more appropriately allocated, with a strong shift toward primary care. Romanian hospitals will convert to a more transparent, market-oriented, case-based reimbursement system with reduced opportunity for corruption. Through policy, regulatory and legislative change, patients will be directed to less intensive and costly environments.

Romania is poised for rapid accomplishment of the objectives laid out in this strategy.

A 50 percent reduction in the number of children in institutions will revamp the Romanian child welfare system.

“In five years’ time, 15-20 percent of the Romanian population will have private health insurance and treatment in private health facilities.”

Dr. Daniela Bartos
Minister of Health and
Family

3. Performance Measurements

(See Appendix A for a complete listing of indicators)

New initiatives in the social sector will be complex, with very ambitious targets, in order to bring closure to USAID's focus on RH and child welfare by the end of the strategy period. At the *SO level*, use of modern contraception, abortion rates, and the number of children using quality alternative child welfare services will be monitored using national data, verified by limited sample data.

For the legal and regulatory and policy reform, specific reforms will be identified as critical achievements. Improved mobilization, allocation, and use of social sector resources in health will be measured in the long term by resources reallocated to primary care, but in the short term by the proportion of hospital resources paid using case-based reimbursement. In child welfare, the number of children living in state-run institutions per 100,000 population will indicate where resources are being directed. These figures will be GOR reported statistics. Improved access to quality integrated services will be measured by percent of primary care centers providing integrated RH services, the number of clinicians with improved diagnostic and treatment skills, and the number of children entering state-run institutions per 100,000 population. Both figures will be reported by the activity implementers. Citizens better informed about social services, rights, and responsibilities will be measured by survey data identifying the percent of the population with knowledge of basic RH services/practices, about the deleterious effects of institutionalization, and availability of alternative child welfare services.

New initiatives in the social sector will be complex and have very ambitious targets in order to bring closure to USAID's focus on RH and child welfare.

4. Sustainability

Romanian NGOs will implement the USAID rollout of the new RH strategy, with only minor U.S. oversight. Governmental and non-governmental social sector partnerships will build capacity to provide effective health and child welfare services after USAID phases out its program. The health financing reform will continue to be staffed primarily by Romanian specialists. In all health activities, USAID's involvement has been only in strategic areas of implementation. In the next stage, services will either be sustainable through revenue generation or responsibility for them will be absorbed by the government. There has been some success in child welfare models that were developed with USAID grants in collaboration with county Divisions for Child Protection. As the funding for pilot programs drew to a close, the counties assumed responsibility. In the health reform pilot, transition of responsibility for the new system in the pilot hospitals is already underway. More importantly, health financing reform lays the groundwork for more sustainable funding for vertical programs that are critical to the needs of the population.

