

**USAID/Romania**

**Annual Report**

**FY 2005**

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## Romania

### Performance:

Romania, the largest country in Southeast Europe, with its large, well-educated population and substantial natural resources, is at the heart of America's foreign policy goals in Central and Eastern Europe. It has the potential to become a political and economic model in this troubled region. The U.S. was Romania's fourth largest foreign investor in FY2004. Romania has welcomed USAID assistance in developing its economy and strengthening its democracy and the rule of law -- goals as important for the Romanian people as they are for the country's aspirations to join the EU. Unfortunately, while the pace of economic reform has been commendable in the past five years, almost a decade was lost after the 1989 revolution, as political elites pursued an unsure and stop-and-go reform process. Progress in democratic reforms have stalled since 1997, after an encouraging start in the early nineties, and there has been some alarming back tracking during 2004. And while there has been substantial progress in the reform of the child welfare system, there has been little significant reform in education and health. Overall, Romania is well behind many of its neighbors in its transition to market based productive democracy.

### Challenges and Achievements in Romania's Democratic Transition:

Although Romania's elections have been deemed free and fair since 1990, and despite progress on some fronts, significant challenges remain in establishing a vibrant democracy. Confidence in democracy is eroded by endemic corruption, continuing high levels of poverty, and a lack of accountability of public office holders. Judicial independence and integrity remain problematic, fueling public cynicism toward democratic institutions and discouraging investors. Civil society remains weak, with limited influence on public policy or opinion. Partially as a legacy of communism, the concept of citizenship -- including the practice of constituent involvement -- has yet to take root among much of the population. This is exacerbated by a "party list" system for parliamentary elections, eliminating any real tie between national-level office holders and their constituents. Although the recently approved strategy for public administration reform includes a roadmap for decentralization, the GOR has failed to adequately assess decentralization's financial impact on local governments. Too little attention has been given to the efficient mobilization and use of local resources, the need for citizens to establish community priorities, and the means to enhance local service delivery.

To address these issues, USAID builds on successful projects in decentralization, social service delivery, advocacy and citizen participation, civic education, alternative dispute resolution, judicial reform, media education and political party strengthening. All of these activities increase citizen participation in local decisions and improve the delivery, effectiveness, and accountability of public services. Expanding the give-and-take between NGOs and local branches of political parties helps local politicians to develop platforms responding to citizen concerns.

Our assistance, in 2004, contributed to better democratic governance. U.S.-assisted NGOs successfully lobbied for local government reforms that address citizen concerns, such as the lack of services for domestic violence and trafficking victims, the absence of medical services in villages, the need for home care for the elderly, and the need for transparent local budgeting. Six civil society organizations organized local budget hearings and encouraged citizen participation. As a direct result of these hearings, nineteen new services have been created in small communities. With our assistance, 13 local governments have completed their first-ever capital improvement plans that include all operations and maintenance costs. These plans are an essential step in obtaining a credit rating so that the local government can issue bonds to finance badly needed infrastructure construction and rehabilitation. The GOR is now replicating the emergency medical services model, piloted with USAID support in 2003,

throughout the entire country.

USAID advisors helped draft legislation to reform public administration that was approved by the GOR in May 2004. Using models created by Romanian-American partnerships, NGOs promoted civic activism, philanthropy, and volunteerism, as well as inclusion of vulnerable groups, especially Roma. In support of the June 2004 local elections, our assistance helped to increase the dialogue between civic groups and local political parties, trained campaign managers, identified the needs and concerns of constituents, and informed voters in selected counties about candidates and their political platforms. In the local elections the center right opposition coalition made some significant, and unexpected, gains in urban areas. Our support for development of a free, independent and responsible media has been instrumental to NGOs as we worked along side them to counter government moves to buy up and control, or silence journalists, editors, and media owners via veiled or overt threats and acts of intimidation.

USAID's Rule of Law program has assisted in creating new legislation concerning the professional standing and activities of judges and prosecutors in Romania. The program supports the implementation of codes of ethics for judges and court staff, and strengthens the independence of the judiciary. In June 2004, the Parliament passed judicial reforms, which included laws on the Statute of Magistrates, on Judicial Organization, and on the Superior Council of Magistrates. These laws address some of the key problems, such as the lack of judicial independence and interference in judicial matters by the executive branch.

#### Challenges and Achievements in Romania's Economic Transition:

Since mid-2000, Romania has made key fiscal and monetary policy reforms that have had significant impact in improving its macroeconomic stability. Key indicators include:

- \* The economy has completed five years of solid growth, with eight percent growth expected this year;
- \* Annual inflation rates have decreased from a high of 40.7 percent in 2000 to an anticipated 10 percent for 2004;
- \* Official currency reserves at the National Bank continue to increase and stood at \$11.9 billion at the end of September, 2004; and,
- \* Privatization of major portions of the petroleum and energy industries took place in 2004.

Improvements in macroeconomic performance and growth over the past four years have contributed to a decline in the poverty rates. In 2003, however, one in four Romanians still lived in poverty. Poverty in rural regions, however, remains significantly higher, with four persons in ten living in poverty. Approximately 45 percent of the population is engaged in agriculture, most in small plot subsistence farming. Per capita GDP reached only \$2,600 in 2003, and Romania remains one of the poorest EU applicants.

The share of GDP generated by private businesses is still relatively low, at 69 percent of GDP at the end of 2003, compared with an average of 76 percent of GDP for other countries in the region. Economic restructuring, including the privatization of the remaining large state owned industries, remains a major challenge to Romania if it is to maintain macroeconomic stability, and expand its market-based economy to provide meaningful jobs and decrease poverty.

Corruption, red tape, and a rocky playing field limit both domestic and international investment. By September 2003, Romania had attracted \$10 billion in Foreign Direct Investment since 1990. However, at \$400 per person foreign investment is low when compared with \$587 in Bulgaria and \$2,400 in Hungary. This low level of investment places Romania at a disadvantage in terms of its future development. The U.S. is pressing the GOR to improve the business climate in order to attract more investors. Necessary reforms include elimination of burdensome license and permit requirements; shortening the time to obtain licenses; reform of the labor code; lower taxes for small businesses; improved protection of intellectual property; and a range of sincere measures to counter corruption.

USAID provides assistance in four key economic areas: reform of the legal and regulatory environment

for business; backing for organizations and government agencies that support business; increasing the competitiveness for private enterprises; and privatization of state-owned companies.

USAID advisors continued to address key legal constraints to business development. A new Fiscal Code, which was drafted with USAID assistance and included input from the business community, was adopted in January, 2004. It is expected that the new code will save businesses over \$10 million per year. Our advisors finalized and submitted to the GOR for review the "Mortgage Legislative Package", which amends the existing mortgage and cadastre laws, as well as new drafts of the mortgage bond and securitization laws. In conjunction with the microfinance coalition, USAID advisors drafted legislation that will increase lending to micro and small enterprises through non-bank financial institutions. The advisors helped draft a new commercial code that will further liberalize the electricity market and facilitate its integration with the European market.

Our programs implemented the telecenter concept, which allows the GOR to comply with the EU's Universal Service Law by providing communication services to poor, rural people while avoiding an estimated \$520 million investment in fixed telephones for individual subscribers. Local and U.S. private companies contributed \$280,000 in setting up four pilot centers. A new \$32 million, World Bank project will replicate the telecenters in rural areas around the country.

USAID assistance continued to enhance the GOR's ability to manage its water resources. Our programs leveraged 40 million euros to fund the rehabilitation of the water and waste water plant in Cluj, and complemented a \$14 million World Bank grant that reduces the environmental impact of agriculture. Our advisors conducted a feasibility study that the GOR will use to justify a potential \$100 million investment that will ameliorate the impact of floods and droughts, and improve the response to accidental pollution spills. At five companies in north-east Romania, our advisors implemented environmental procedures that reduced operational costs by \$275,000 and decreased some pollutants, such as cyanide, by as much as 90 percent.

With USAID assistance, the GOR restructured the National Irrigation Authority, which regulates the country's irrigation systems and monitors the Water Users Associations (WUAs). By providing training to 174 WUAs that manage over 600,000 hectares of farmland, we assisted in the privatization of the state-owned irrigation system and prepared the necessary conditions for an \$80 million World Bank loan for rehabilitation of the irrigation infrastructure. Our advisors helped set up the first certification organization for organic products that complies with EU legislation and enables the export of organic goods to Europe.

We expanded our small business lending program, which now covers 23 of Romania's 41 counties. The program has provided \$4.3 million in loans, of which \$2.6 million was leveraged from the GOR and the World Bank. USAID expertise facilitated access to the EU's pre-accession funds for agriculture and rural development by developing a streamlined application procedure and assisting agribusinesses to prepare financial proposals that matched the required 50% contribution. The total funding disbursed with USAID assistance was \$3.5 million this year.

USAID programs have played an important role in improving the legal and regulatory environment that facilitated the privatization of two large electrical and two major natural gas distribution companies that raised \$727 million in foreign investment. A new system for electricity and gas tariffs was designed that takes real costs and future infrastructure requirements into account.

Our public relations programs about economic reform are largely educative for NGOs, the press, and the GOR, so they better understand what needs to be done to bring foreign - especially American - investment to Romania. We have also undertaken special outreach activities to educate people about the benefits of genetically modified products (GMOs) and counter negative stories on them in the press. We have been particularly concerned about intellectual property rights and corruption and have worked to shape our message to reflect this concern.

Challenges and Achievements in Romania's Social Transition:

The health and child welfare situation in Romania remains fragile. Life expectancy at birth is 71 years. The infant mortality, under-five mortality, and maternal mortality rate are among the highest in Europe. Infant mortality is 25 percent higher than the Eastern European average, and five times the Western European average. More than 26,000 children still live in state-run "homes". Child abandonment remains high, with about 5,000 children abandoned each year, though 2,500 are now being reunified with their families. Romania's nascent community services, which care for almost 80,000 children, continue to require assistance to mature into an effective, sustainable system. In the early 1990s, Romania had the largest number of pediatric AIDS cases in Europe. Over 8,000 of them are now adolescents living with HIV/AIDS. The prevalence of HIV/AIDS continues to rise, and without a sustained prevention program, the rate will accelerate as children with pediatric AIDS become sexually active. Romanian legislation on health financing is still weak and conducive to waste and inefficiency, leaving the health system underfunded and overburdened. The system needs to switch from an over-emphasis on hospital care and specialized services to one in which basic health services are provided in least-cost primary care clinics.

During this past year, USAID assistance helped to reduce the number of children in institutional care by 4,750 (15 percent). We supported over 130 alternative community services, provided by NGOs. The number of institutions housing over 50 children also dropped from 253 to 193. Our advisors helped to draft legislation incorporating standards for all the new child welfare services -- including adoption, life skills training for youth, child abuse and neglect. This legislation is the backbone of a high quality system of children's care. Our consultants have helped the GOR to implement a national reproductive health system. The number of trained primary health care staff offering reproductive and maternal health services has expanded from 43 in 2000 to more than 3000 in 2004. Strong leadership by the GOR has resulted in new protocols and standards of service as well as a significant government commitment to ensuring an adequate supply of contraceptives. National campaigns about unwanted pregnancy, reproductive health services, early detection of breast cancer, prevention of HIV/AIDS, sexually transmitted infections, and the fight against stigma and discrimination were held. With our encouragement, United Way Romania was born and private businesses have partnered with NGOs to provide skills training to almost 1000 young people graduating from "children's homes" during the past year. USAID has helped to develop an efficient national child tracking system to provide dependable information on which to base decisions affecting children needs and care. Romania received a \$38 million grant from the Global Fund to Fight AIDS, Tuberculosis, and Malaria. We are a member of the Country Coordinating Committee overseeing the program.

During 2004, the Anti-trafficking "Best Practice" Manual, produced with USAID assistance, was used to train 100 police officers, 42 of whom are women. This manual is used in 13 countries in the region to train border police, specialized police units and prosecutors on best investigative techniques and tactics to reduce trafficking while protecting victims. We are also giving grants to NGO-police partnerships for anti-trafficking awareness campaigns, and to NGOs that rehabilitate victims of trafficking.

#### Humanitarian Assistance

USAID sent excess property (food, furniture and clothing) worth \$1.76 million to Romania for distribution by two NGOs to the needy. USAID also provided \$50,000 in emergency disaster assistance for victims located in counties affected by the severe wind- and rainstorms that occurred in August 2004. The funding was used to purchase emergency food supplies, repair some of the destroyed homes, and distribute some of the excess property that could meet the immediate needs of the victims.

## Results Framework

### **186-0130 Accelerated Private Sector Growth by Supporting a Market-Driven Environment**

#### **SO Level Indicator(s):**

Number of Micro, Small and Medium size Enterprises acting in the formal market

Percent of GDP generated by the private sector

**1.3.1** Improved policy, legal and regulatory framework supportive of market expansion

**1.3.2** Strengthened institutional capacity of private sector associations, GOR counterparts, and Business Support Organizations to serve market economy goals

**1.3.3** Improved competitiveness of private sector's companies and markets

**1.3.4** Improved process of transferring state-owned assets to private ownership

### **186-0140 A More Competitive and Market-Responsive Financial Sector**

### **186-0150 A More Economically Sustainable and Environmentally Sound Energy Sector**

### **186-0160 Increased Environmental Management Capacity to Promote Sustainable Economic Growth**

### **186-0210 Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making**

### **186-0230 Improved Democratic Governance at Local Level**

#### **SO Level Indicator(s):**

Number of USAID-assisted local government units that have significantly increased the percent of their program budget spent on services identified by citizens

**2.3.1** Adequately funded, service oriented local government units

**2.3.2** Improved interaction between citizens and local public institutions

### **186-0320 Improve the Welfare of Children and Women in Romania**

### **186-0340 Improved Effectiveness of Selected Social and Primary Health Care Services for Targeted Vulnerable Groups**

#### **SO Level Indicator(s):**

Child Institutionalization Rate

Contraceptive Prevalence Rate (Abortion Rate is used as proxy indicators in years when CPR is not available)

Proportion of children in state welfare system receiving at least one alternative community service

**3.4.1** Improved legal, regulatory, and policy framework

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

**3.4.3** Increased access to quality integrated services

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

### **186-0420 Cross Cutting Programs**