

# UNITED STATES SEED ACT ASSISTANCE STRATEGY

FOR  
ROMANIA



1993-1995

Submitted by American Embassy Bucharest  
Approved, July 20, 1993

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## **U.S. ASSISTANCE PROGRAM FOR ROMANIA 1993 - 1995**

### **U.S. Assistance in Perspective**

Romania, with 23 million people, is the second largest of the formerly centrally-planned economies in Central and Eastern Europe. Geographically, it is the size of the state of Oregon or the former Yugoslavia. Following 45 years of Communist Party rule, in December of 1989 Romania began its transformation to a market economy and a more open society. The Romanian economy has since experienced a 35% drop in real output levels (including a 50% drop in industrial output) and a 25% compression in real wages since 1989, coupled with estimated inflation of 189% in 1991 and 200% in 1992. The immediate impact on the individual Romanian family has been severe, with the average standard of living plummeting from the already low level of the late-1980s under Ceausescu.

Since the Revolution of December 1989, Romania has made good bilateral relations with the United States a centerpiece of its foreign policy. Following his 1992 election victory, President Iliescu has repeatedly stated that relations with the U.S. are a top priority of the Romanian government.

As Romania's policies have changed, the United States has also moved to improve relations, providing humanitarian, economic and technical assistance to help Romania in

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## **Assistance Strategy**

The U.S. anticipates providing assistance programs in Romania for the next seven to 10 years. U.S. assistance has moved from emergency and humanitarian assistance at the beginning to technical assistance in most sectors currently. In the future the bilateral relationship is expected to be based more on trade, investment and commercial ties rather than traditional assistance activities.

The speed and timing of this evolution will vary as a function of the Romanian capabilities in each area. A mixture of approaches will likely be required within the overall assistance portfolio throughout the 1993-1995 programming period. There will be reliance on regional programs as in the past, but we also anticipate bilateral institution building efforts in some sectors, such as agriculture and democracy.

We anticipate that the main effort will continue to be in the provision of technical assistance, including participant training and exchange programs. Commodities will be provided as necessary, including emergency agricultural assistance which may be required by natural disasters, material help to children's institutions, and technical equipment required as part of environmental, energy and other industrial demonstration projects. A major addition to this program mix will be the initial capitalization of the Romanian-American Enterprise Fund.

## **Building a Country Strategy**

The overall goals of the U.S. assistance program in Romania are to support (1) the development of democratic attitudes and institutions; (2) the creation of free market policies and processes, leading to economic freedom and growth; and (3) improvements in the quality of life of the Romanian people.

In listing these goals, we understand that they are clearly linked and mutually supportive. Progress in the necessary and far-reaching economic reforms is dependent on popular support for the transition process. That support is dependent on public understanding of the short- to mid-term contributions each Romanian will need to make, as well as public perception of real economic improvements as a result of the reforms. The economic improvements which will begin to result from the reform program are essential to avoid divisive conflict over decreasing possibilities for employment and household income—conflict which would undermine the continued development of a

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democratic society. In addition, popular support is dependent on programs which address critical environmental, humanitarian and health services issues.

The direct linkages among different components of the overall program will be actively promoted. For example, these linkages could include environmental liability analyses which impact on investment decisions and industrial restructuring; or civic education concepts and implementation tactics which address political, economic and social objectives in different projects.

It is important to note that relevant policy and structural reforms must be in place to successfully implement the strategy. Therefore, certain proposed activities may need to be deferred or dropped if the proper reforms are not enacted and implemented.

We will aim to consolidate assistance providers in some sectors, namely that of assistance to democracy and to agriculture. We will also continue to assist Romanian private voluntary organizations, especially in the area of assistance to democracy.

### Level of U.S. Assistance

From the initiation of U.S. assistance to Romania in 1990 through December 31, 1992, approximately \$52 million has been allocated to programs which address the three overall goals listed above. This funding has largely supported technical assistance. It has been roughly divided among the three program goals as follows:

- Democratization: \$7.7 million or 15%;
- Economic restructuring: \$24.4 million or 50%; and
- Quality of life: \$19.6 million or 35%.

In addition, approximately \$120 million in food and agricultural commodity assistance and \$50 million in credit guarantees has been provided.

In general terms, we would envision a program funded at about \$75 million over the 1993-95 period. In addition, an estimated \$25 million could be allocated to establish the Romanian-American Enterprise Fund. (This \$25 million would be the first part of the initial capitalization of that fund, expected to total \$50-60 million when completed.) The overall program mix would be roughly divided as follows:

- Democratization: \$15 million or 15%;

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- Economic restructuring (including the enterprise fund): \$60 million or 60%; and
- Quality of life: \$25 million or 25%.

Beyond 1995, we anticipate that certain programs will begin to phase out. Other programs, notably those in civic education, environmental improvements and health sector restructuring, may likely require significant continued support.

### **Relationship With Other Donor Assistance**

Assistance programs financed by the U.S. Government will be coordinated with similar efforts by the international financial institutions and other key donor agencies and governments. When appropriate, mutually beneficial collaborative arrangements will be pursued, using U.S.-provided technical assistance to help the Government of Romania and the international financial institution to design and implement restructuring programs and capital investment loan projects.

We anticipate that the World Bank will be the single most important source of restructuring and development funding throughout the 1993-95 planning period. Between 1974 and 1982, the World Bank extended 26 fixed-currency and 7 currency-pooled loans to Romania, with a combined value of \$2.2 billion. These loans were completely disbursed by (Bank) fiscal year (FY) 1987 and repaid by FY 1989. In 1991 and 1992, the World Bank approved four loans totalling \$830 million for Romania:

- Technical Assistance and Critical Imports Loan, approved June 1991 (\$180 million)
- Health Services Rehabilitation Loan, approved October 1991 (\$150 million)
- Structural Adjustment Loan, approved June 1992 (\$400 million)
- Private Farmer and Enterprise Support Project, approved June 1992 (\$100 million)

For 1993-95, the World Bank's lending program includes anticipated investments in agriculture, energy and industry, finance and trade, infrastructure and human resources.

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In addition, the European Bank for Reconstruction and Development (EBRD) is becoming increasingly active in Romania. Their lending programs have largely paralleled the World Bank, with co-financing arrangements for certain sector loans (e.g., agriculture and infrastructure). In addition, they have recently agreed to provide capital funding to the first investment bank in Romania.

As noted above, technical assistance provided through the U.S. assistance program will be a key element of collaboration with the international financial institutions. Our programs are already providing essential program design and implementation assistance in the agriculture, environment, and energy sectors, all linked with World Bank and EBRD funding. These opportunities for collaboration will continue to be pursued.

Unproductive duplication with other major providers of technical assistance, such as the EC/PHARE program and the British Know-How Fund, will be avoided through regular G-24 consultation. At the same time, we recognize that American experience, organizational practices and economic strategies may differ from, for example, a European perspective. In such cases, Romania may benefit from having a limited number of well-reasoned strategic and tactical approaches from which to craft an appropriate local solution.

### **The U.S. Comparative Advantage**

In identifying key sectors for U.S. assistance, we will focus particularly on areas where the American experience and expertise are most relevant to Romania's needs. These will include the development of effective democratic institutions (political, media, and educational, among others), the restructuring of failing industries and the promotion of small and medium sized businesses, and a variety of specific sectors such as support services for private farmers, private financing alternatives for health care, energy production and distribution, and financial services for private companies.

A key advantage of the U.S. assistance program is its ability to provide valuable technical assistance on a grant basis, which often can be used to leverage significant international financial assistance and policy reforms. In addition, we can focus our assistance on both public and private beneficiaries, through a variety of funding mechanisms. This flexibility allows us to respond to opportunities in ways which maximize the effectiveness of our assistance.

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- legal system reform and development, to expose Romanian legal professionals to the practice and theory of the American legal system and to U.S. mechanisms for guaranteeing respect for human rights and individual liberties;
- development of independent and professional media, through training (including U.S. study tours, the establishment of a media training center in Bucharest, and support to academic journalism programs), advisory services on policy and operational issues, and possible supply of equipment to selected new, private broadcasters and publishers.

**U.S. Goals:** Into the medium term, we will provide assistance in governance and public administration to develop and strengthen responsive and representative institutions, at the local and national levels, which are necessary to support lasting respect for democratic processes.

**Assistance Activities:**

- technical assistance and training for creating the policy and legal framework for representative governance, particularly related to legislative and administrative approaches to decentralization, and the appropriate roles and responsibilities of different levels of government;
- provision of models for effective administrative solutions to the operational problems of municipal and local governments, working with both individual municipalities and through intermediaries such as the Federation of Municipalities. Focus on technical assistance and training for overall municipal management (e.g., personnel management, finance and capital investment planning) and specific issues of service delivery such as housing management and privatization;
- at the national level, technical assistance, training and necessary equipment for parliamentary process and decision-making, strengthening its capacity to draft legislation, research issues and communicate with constituents, thereby helping to build the legislative framework necessary to the transition program;

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- subject to further analysis, assistance may be provided to educational reform, including curriculum reform, education administration, foreign language instruction, teacher training and textbook revision. Specific activities may include technical assistance, training and exchange programs, including support to Romanian institutions to demonstrate U.S. educational methodologies and serve as an objective source of information on the principles of political pluralism and a free market economy;
- public information and education programs on economic issues, providing technical assistance to analyze attitudes and develop communication techniques which lead to broader public awareness of the benefits of economic reforms, and foster more informed national discussion of specific transition strategies.

### Economic Freedom and Growth

One of the most basic assumptions of the U.S. assistance program in Romania, as in the rest of Central and Eastern Europe, is that lasting democratic reforms and stability are dependent in large part on rapid economic reforms. The formerly centrally-planned economies of the region must move to economies that respond to market principles and put the productive assets in the hands of creative and motivated private entrepreneurs. The implications of these goals, both in terms of immediate changes needed in the structure and philosophy of the Romanian economy and with respect to the outside assistance which may be required, are staggering but unavoidable. Extensive restructuring of Romania's production, processing and marketing systems, and the removal of government controls and subsidies, will require massive investment from foreign and domestic sources. The Romanian banking system, in particular, must be restructured. Credit flows are strangled by bad loans and inter-enterprise arrears, as well as the inexperience of bankers in assessing acceptable risk versus potential profit.

Outside assistance to this process, specifically in terms of the types of help the U.S. program can envision, will need to include technical assistance, training, demonstration projects for new technologies, financial advice, help in managing privatization transactions, policy guidance and direct investment funding.

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**U.S. Goals:** Support restructuring and investment throughout the economy through the development of free market financial institutions, to provide the advice and capital needed for an effective transition. Demonstrate market-based alternatives for financial services and instruments. Define the legislative and administrative framework for an appropriate governmental role in monetary policy and the financial sector.

**Assistance Activities:**

- establishment of the Romanian-American Enterprise Fund, to provide essential financing for emerging entrepreneurs, and simultaneous training to Fund and bank staff in market-driven credit management practices. We anticipate that the Fund will be modelled in part on the approach adopted by the Enterprise Credit Corporation in Poland;
- continued and expanded long-term advisory support to the establishment of intermediate financial institutions, including investment banking companies, mutual funds and, within the context of Romanian privatization law, the Private Ownership Funds;
- technical assistance in financial sector and banking reform, including training advice and services for bank employees, policy advice in fiscal restructuring and monetary management, and policy and transactional assistance for bank privatization;
- technical assistance and training in the establishment and operation of capital markets.

**U.S. Goals:** Support the development and expansion of small and medium scale enterprises (SMEs), improve the access of the Romanian people to consumer goods and services, and promote stability by creating a dynamic source of new employment as over-staffed industries and government departments are restructured or closed.

**Assistance Activities:**

- training of business counselors and development of a professional certification system for the planned national network of SME advisory centers;

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- management training and technical assistance for entrepreneurial management and executive development, through in-country volunteer advisors, technical assistance and U.S.-based internships and training;
- professional retraining programs for industrial managers, to provide experienced production managers and engineers with the additional economic, financial and marketing skills they require to function as effective business managers;
- direct investment funding and restructuring, business planning and privatization advice; through the Romanian-American Enterprise Fund and the Private Ownership Funds, as described above.

**U.S. Goals:** In selecting the energy sector for direct restructuring assistance, the U.S. will:

- help to reverse Romania's declining oil and gas production and resource depletion, which threaten economic reform by (a) draining reserves for increasing foreign exchange-financed imports and (b) decreasing industrial activity, output and employment due to fuel shortages;
- assist Romania to better profit from the largest refinery industry in Central and Eastern Europe, particularly by developing its potential for export-oriented processing;
- increase industrial productivity and reduce foreign exchange needs by promoting energy efficiency in the most energy intensive country in the region; and
- have a reforming impact throughout the industrial sector, which depends on electricity as a critical input, by restructuring and "commercializing" the power sector.

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**Assistance Activities:**

- technical assistance for petroleum sector restructuring, in coordination with capital investment funding and policy reform leverage provided by the multilateral development banks;
- energy efficiency training and demonstration projects (equipment and expertise), including development of private sector energy service companies;
- power sector management and reform technical assistance and training for RENEL, the national power and heat utility, and the Ministry of Industry;
- technical assistance and training for the establishment of the proposed Romanian Agency for Mineral Resources management;
- petroleum sector privatization feasibility studies and transaction assistance for one or more companies identified for divestiture by the government.

**U.S. Goals:** Assist private and privatizing agricultural producers and businesses to become efficient and competitive in a new free market agricultural economy. Promote the privatization of land and agribusinesses, the conveying of legal titles to new owners, and the establishment of an open market in which land and other agricultural assets can be freely bought and sold. Foster the creation of new systems and organizational structures for the collection, processing, transport, storage and marketing of agricultural products, and address severe constraints in input supply systems. Address environmental aspects on a case by case basis.

**Assistance Activities:**

- technical assistance, equipment and training in surveying and titling of agricultural land for private owners, and advice on the establishment of land markets;
- advisory services in agricultural organization and management systems, drawing on American experience in maximizing the benefits of cooperation among individual private producers;

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- technical assistance and training for agricultural entrepreneurs, providing both technological and managerial advice and guidance to private agribusinesses;
- technical assistance and training in agricultural financing for agricultural lenders, rural banks, input supply enterprises, processing companies and others; to bring needed expertise on the special requirements of agriculture into the restructuring process of the banking and financial sectors.

**U.S. Goals:** Assist the government to better analyze and understand the interrelationships among macroeconomic reform strategies and sector restructuring programs. Provide senior government policy makers with a clearer and more comprehensive understanding of the economic and social cost and benefit implications of alternative policy reform strategies. Leverage significant policy reform impact, and influence allocation decisions for domestic and foreign assistance resources in a way consistent with U.S. economic reform strategies and priorities. Encourage the creation of a technically competent, non-partisan policy analysis and formulation unit which can serve as a professionally qualified advisory staff for succeeding governments.

**Assistance Activities:**

- technical assistance and training for members of the Council for Economic Strategy, Reform and Coordination, and associated agencies of the government;
- training and advisory services for macroeconomic forecasting to enable the government to base its strategy development process on more reliable projections;
- direct policy analysis advisory services from resident and short-term U.S. advisors, focussing on areas such as investment feasibility analysis and strategic privatization planning, drawing on economic reform programs from the U.S. assistance portfolio and more specific sector analyses by relevant policy and program experts (e.g., commercial law, agricultural pricing, etc.);

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- advisory assistance in defining policy formation processes and procedures, helping to structure the government's approach to policy development in the most effective way.

**U.S. Goals:** Help to overcome the environmental legacy of the Communist period, particularly as it relates to economic restructuring and transition. Remove obstacles to investment decisions which are held in abeyance due to issues of liability for past environmental damage and uncertainties about standards for future controls. Assist the government and private investors to determine appropriate cost sharing for the necessary cleanup of toxic and other dangerous wastes.

**Assistance Activities:**

- environmental policy analysis and investment planning assistance, focussing on the linkages between environmental issues and economic restructuring, and including structural reform in environmental law and regulations;
- environmental management assistance at the national and local levels, to improve the efficiency and effectiveness of public sector investments and services, including particular efforts in water and air quality;
- environment private sector expansion and development, including industrial pollution reduction and prevention programs, business development activities with environmental service, equipment and other companies, and strengthening of involvement by private citizens in environmental policy-making through support to NGOs and municipal authorities;
- agricultural environment management programs, including agricultural chemical use, erosion, deforestation, and feedlot run-off.

**Quality of Life**

The ongoing deterioration of health care delivery systems in Romania, and the long term costs of maintaining the institutional treatment and care system for abandoned

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and handicapped children, raise societal, economic and political issues which are critical to the success of the democratic and economic transition.

In the most basic economic terms, the productivity of every worker in Romania is affected by the current deficiencies in health care and disease prevention, ranging from endemic diseases such as Hepatitis B, to lead poisoning and silicosis among workers in certain industries, to absences caused by parents needing to tend to their sick children. With respect to financing requirements, the existing government budget process is an inadequate and, in many respects, inappropriate solution to the necessary restructuring of the health care system. Alternative models for health promotion and health care financing must be explored, and private sector opportunities pursued in areas where they are most appropriate.

The human tragedy of the Ceausescu-era "social welfare" system lives on in the persons of the abandoned inhabitants of the homes for "irrecoverables". The severe pro-nationalist policies of that time; with forced gynecological exams to detect contraceptive use or abortions, bonuses for large families and a "celibacy tax" for childless couples; were combined with extreme economic constraints on families and a harsh and technically inadequate grading system for young children (which theoretically assessed potential "worker productivity"), to push large numbers of normal and mildly handicapped children into the state-run institutional system. Among the general population, infant and maternal mortality rates remain among the highest in Europe.

Certain of these attitudes and practices continue. In one recent study, fully 75% of infants entering institutional care were either abandoned in a health care facility or brought into the institution by the family. In another study, the majority of children in homes for pre-school children (3-7 years) and older children (up to 18) were either brought in by their parents or grandparents or transferred from another institution. These unwanted children often result from increasingly severe economic conditions within the family and social circumstances such as single parenthood.

Issues of the status of these abandoned or handicapped children and adults; including the directly related questions of adoption processes, family reunification and potential reintegration into society; are near-constant factors in the social and political environment in Romania and in concerned western countries. Fair and effective solutions to the long term care and cost implications of the truly handicapped individuals must be found, or this issue will continue to haunt the overall restructuring processes which are essential to Romania's economic and political transition.

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**U.S. Goals:** To accelerate, support and complement Romanian government and major donor efforts, to improve access to quality health and social care for the most vulnerable and disadvantaged populations: (a) children, especially those abandoned or at risk of institutionalization or illness; and (b) women, especially single mothers, and poor families.

**Assistance Activities:**

- continued technical assistance and training for health care and social workers, focussing on services to special needs children, both within institutions and in the home;
- public health education and technical training in communicable disease prevention and treatment, specifically for HIV/AIDS and Hepatitis B;
- heightened efforts in women's health and family planning programs; focussing on health promotion and sexually-transmitted disease prevention, better child spacing and abortion mitigation; through improvements in private sector contraceptive supply and marketing mechanisms. This will include development of effective distribution networks using U.S.-sourced commodities to develop and supply the market in an initial phase; and
- analysis and implementation of new approaches to health financing and organization, stressing private sector solutions which can reduce requirements for public sector investment and on-budget funding for health care delivery.

**U.S. Goals:** Protect the Romanian people from the ongoing risks to health and safety caused by environmental pollution, toxic substances and occupational hazards, giving priority to activities aimed at preventing or minimizing environmental degradation.

**Assistance Activities:**

- environmental policy, management, private sector and public involvement programs, which will have the dual benefit of improving the quality of life as well as assisting in economic restructuring;

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- technical assistance to better detect dangerous pollutants and identify specific health impacts in the population of the most prevalent environmental contaminants;
- analysis of legal, regulatory and operational impediments to effective environmental protection;
- direct technical assistance, training, and monitoring equipment to demonstrate strategies for reducing toxic exposure in selected sites;
- training in occupational medicine to physicians in place in factories, facilitate the exchange of technical information among medical specialists and technicians, promote information campaigns on environmental risks;
- support the establishment of academic training programs in epidemiology, toxicology, environmental science and public health.

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