

PN ARS-LSI
93290

UNITED STATES SEED ACT ASSISTANCE STRATEGY UPDATE

FOR ROMANIA



1994-1997

Submitted by American Embassy Bucharest
Approved June 28, 1994

UNITED STATES SEED ACT
COUNTRY ASSISTANCE STRATEGY UPDATE
FOR ROMANIA
1994 - 1997

Status of Reforms

The reform agenda in Romania has experienced mixed results during the past year. The overwhelming focus of the reform process has been economic transition issues, with slow but steady progress towards certain key economic policy goals. This has not been translated, as yet, into major successes in privatization of State-owned companies. One impact of this focus on economic issues, as well as the parallel slowness in addressing the budgetary drains caused by loss-making State industries, has been a delay in focussing more effectively on social service restructuring and decentralization of government. In all, however, it appears that the recent resolution of key national economic framework issues, and approval of essential financing from the international financial institutions and donor community, will set the stage for a more active approach to other critical reforms in 1994 and 1995.

Economic Transition

The primary forum for economic reform actions during the past year has been the negotiations between the Government of Romania (GOR) and the International Monetary Fund (IMF) on proposed Standby and Special Transition Facility (STF) agreements. Parallel to these discussions the GOR has been negotiating the terms for release of the second tranche of the World Bank Structural Adjustment Loan. The total value of this financing package, including G-24 balance of payments assistance, is \$1.125 billion. Although not directly linked to those negotiations, significant additional World Bank loan assistance is dependent on finalization of the Standby and SAL policy framework agreements. These include the Industrial Development Project (\$175 million) and the Financial and Enterprise Sector Adjustment Loan (\$250 million).

On April 12, the IMF announced that the GOR had met the requirements for the final condition to proceeding with the Standby. Actions taken to liberalize the foreign exchange auction system and produce a "clearing rate", as the next critical step towards convertibility for the Romanian leu, were sufficient to allow the formal approval documents for the IMF program to be sent to its Board for action. It is expected that this approval, when received, will trigger World Bank action on the SAL and related

lending programs. In all, it is hoped and expected that this combination of investment and balance of payments financing, working to support the policy reforms and operational objectives of the transition program, will provide Romania with the stimulus needed to move the national economic reform into a higher gear.

A series of other actions, often linked directly or conceptually to IMF and World Bank requirements, contribute to the economic reform assessment of the past year. The GOR instituted a value added tax (VAT) in July 1993 in a significant effort to modernize its revenue collection methods. Parliament has recently passed an excise tax, a tax on private agricultural income and local taxation authority. This should be followed by a global income tax system in 1995.

Much attention has been rightfully focussed on the GOR's slowness in addressing the restructuring and privatization of State-owned companies and "regies autonomes." A number of actions taken during the past year, such as the creation of the Restructuring Agency to guide management of the most problematic State companies, seem to be having a useful effect. The recently-created Restructuring Agency in particular gives the appearance of being the proverbial two-edged sword: if it is successful in tightening management of its portfolio of companies, while also providing guidance and motivation for the State Ownership Fund to privatize large parts of its portfolio of companies, it can have a very positive effect on overall privatization. On the other hand, if it cannot count on a strong political commitment from the GOR and the Presidency to carry through with the privatization, restructuring and liquidation options it identifies, or if it simply adds yet another layer of bureaucracy which further excludes market-driven decision making, GOR performance on privatization will continue to be unconvincing.

Taken as a whole, however, the matrix of GOR institutions responsible for different aspects of the privatization process seems to be moving in a positive direction: forceful policy direction from Mircea Cosea's Council for Coordination, Strategy and Economic Reform; identification of significant privatization opportunities by the Restructuring Agency; implementation of those plans by a newly-created Department for Special Restructuring within the State Ownership Fund; and pressure for immediate action on privatization of selected medium-sized companies by the five Private Ownership Funds.

An assessment of Romania's economic transition cannot, however, focus only on the privatization of State-owned companies. Despite the slowness of that process, and the continuing distortions and unfair competition caused by production subsidies for the State sector, the private sector in Romania has shown surprising vitality. In 1993, private businesses produced 30% of Romania's gross domestic product (GDP). As unproductive State-

owned companies are taken off life-support systems, and other companies undergo successful privatization, it is expected that the private sector contribution to both GDP and jobs will grow significantly over the next several years.

Democratic Transition

The past year has seen neither stunning advances in the development of democratic attitudes and institutions, nor significant backsliding. Although the governing party (PDSR) has been forced into a Parliamentary coalition with nationalist parties which harbor extremist elements, those parties have been successfully excluded from direct participation in the Government. The ethnic tensions fanned by extremists of all stripes have not resulted in open confrontations -- with the exception of vigilante-style attack on the Roma (gypsy) population of the village of Hadareni by their ethnic Romanian or Hungarian neighbors -- in part due to the work of the official Minorities Council formed during the past year. The GOR responded to the Hadareni incident by issuing a strong condemnation of vigilantism and providing assistance to help the Roma rebuild destroyed homes. The Minorities Council has initiated several projects for the benefit of Romanian Roma, but much work remains to be done in relation to Romania's treatment of its Roma ethnic minority, dealing with the deep-seated misunderstandings and suspicions of Roma held by Romanians from all walks of life.

The political party system is badly fragmented and marked by deep mutual suspicion between the governing party and the opposition. Most parties tend to be dominated by a single leader or a small group of leaders, with relatively little input from rank-and-file members. The courts have only begun to emerge as independent bodies, and police behavior is still marked by brutality and a disregard for citizens' rights. Independent media, in particular print and radio journalism, continues to develop despite unfair competition from State-subsidized television, but faces an imminent shake-out as commercial pressures force uncompetitive companies out of the market.

With regard to the further development of new democratic institutions, most activity in the past year has focussed on the need for decentralization of governing authority and establishment of financing mechanisms at the local level. Although a local financing law is under consideration, many observers do not think it goes far enough to liberate local authorities from central decision making. Continued attention will be required to assure the transfer of sufficient authorities to empower local administrations and their constituencies, and efforts made to provide the managerial tools those local representatives will need to be effective stewards of their newly-gained authorities and resources.

Quality of Life

One of the most difficult aspects of the economic and political transition process is its impact on the existing social service system in Romania, and on prospects for restructuring that system. Restrictions on overall government deficit-financing required by the IMF, continued spending on State-sector industrial subsidies, and rampant inflation (over 350% in 1993 alone) have combined to reduce actual social service spending in real terms. The past year has seen further deterioration of government delivery systems, as some responsibility for financial support to social service institutions has been transferred from the national level, which is functioning under the restrictions listed above, to the local level, which does not yet have the level of resources or sufficient control over budgeting to provide the necessary support in most cases. Certain child protection reforms which have been instituted appear to be too diffuse to have any impact, such as the State child allowance which provides 5,300 lei/child/month (approximately \$3.00) regardless of family income, with twice that amount for all categories of handicapped children. Child abandonment legislation passed in mid-1993 was a step forward, but implementation has been hampered by a lack of trained personnel and other resources at the local level. The health sector has also been plagued by a near-dysfunctional Ministry, wherein many of the most effective and reform-oriented staff have either been forced out or quit in frustration.

A positive development over the past year has been the increasing attention paid to environmental issues, particularly in how they relate to the health of Romania's people. Revitalized environmental non-governmental organizations (NGOs) and citizens' groups have been taking their issues to their political representatives and to the media, sparking creative conflict with polluting industries as their grass-roots approach to democracy turns a light on some of the continuing effects of Communist-era industrial development policies and priorities.

Assessment of Reform Opportunities

In reviewing the status of the economic, democratic and social transition in Romania, certain key opportunities and challenges for the future can be identified:

-- translating the policy guidance and privatization planning being produced by the various responsible GOR institutions into actual privatization, restructuring and liquidation decisions, and then into unquestioned commercial transactions whenever possible;

-- creating a moderate, reform-oriented governing coalition, which can pursue an economic and democratic transition agenda with broad-based citizen involvement and popular support, without succumbing to extreme nationalistic tendencies;

- decentralizing governing authorities and resources to the local level, bringing the people of Romania into direct and daily contact with the decisions and decision-makers which most effect them;
- restructuring the social service delivery systems in Romania to make more efficient use of scarce resources, target the services on those most in need, and identify alternative financing and delivery mechanisms, such as NGOs, to assure future sustainability; and
- assessing the true impact on the people of Romania of decades of environmental neglect and abuse, and identifying least-cost methods for correcting the worst problems while keeping the economy alive.

Program Assessment

The United States SEED Act Assistance Strategy for Romania, approved on July 20, 1993, recognizes a need for the U.S. to be involved in helping Romanians through their democratic, economic and social transition for the next seven to ten years. Due to the comparatively slow start-up of U.S. Government programs in Romania, many of the key assistance activities identified in that Strategy have only been initiated in the past year, and some priority programs are only just coming off the drawing boards. Nonetheless, programs financed by the U.S. Government are already having an impact in Romania, as demonstrated by the following achievements.

Civil Society

One of the key elements of our strategy for the development of a civil society is deepening the understanding of democratic processes and principles. The recently-held national forum of Romanian NGOs, organized under the auspices of the International Foundation for Electoral Systems (IFES), represented a milestone for citizen involvement in public policy issues. The five White Papers produced by the representatives of over fifty NGOs, and the collaborative analysis and drafting process used in their production, was a significant step forward for groups which have rarely worked together in the past, and which are just beginning to focus on issues with broader policy implications.

A key linkage has evolved between our assistance in civic education and our work with environmental NGOs. This linkage reinforces the role being played by programs such as the Environmental Training Project, through a consortium led by the University of Minnesota, in refining environmental NGOs' organizational, fund-raising, analytic and strategic planning skills. Such groups are already finding their voice in environmental "hot spot" towns such as Zlatna and Baia Mare, and are helping to shape new river basin management approaches as Romania implements a new water law.

Governance and Public Administration

Technical assistance provided through the International City/County Managers Association (ICMA) has been addressing real-world operational issues in three Romanian cities, and finding highly cost-effective solutions to problems such as water supply, with a 12% increase in available water in the City of Craiova through better management of the system. These results can be replicated in other cities, and the techniques used in Craiova are being disseminated through seminars and the production of monographs in Romanian. ICMA has also provided expert commentary on the proposed local finance law, which it found seriously limited, helping to mobilize mayors from all over the country to take their case directly to Parliament.

The "Good Morning Romania" public information campaign, which sought to heighten awareness about the opportunities to be found as State-owned companies were privatized and, more immediately, the benefits which can be realized through private business ventures, was very successful at raising the profile of public debate on privatization. From keynote events involving the President and senior Government officials, to national television pieces focussing on individual entrepreneurs, to the five "Privatization Days" organized all over the country, the campaign tapped an enormous reserve of interest, enthusiasm, and frustration related to private initiative and privatization. Private business people were able to bring their concerns directly to Government policy-makers, often for the first time. This pressure for accelerated reform, coming from the entrepreneurs, labor leaders and Chambers of Commerce which participated in the program, is essential if the economic reform program is to benefit all Romanians and outlive the immediate requirements of the international financial institutions.

Small and Medium Scale Enterprises

The Center for Business Excellence established by Washington State University has allowed WSU and its counterparts at six Romanian universities to build on their experience with small business development centers and create a national training facility for business counselors. This training will be very important in maintaining a high standard of counseling competence as the national network of business development centers, financed by the GOR and a variety of international donors, is put in place. At the company level, programs such as the International Executive Service Corps (IESC) and Citizens' Democracy Corps (CDC) are making direct "turnaround" technical assistance available to small and medium scale businesses around the country.

Energy Sector Restructuring

Technical assistance provided through USAID energy programs was critical to the development of the sector restructuring

recommendations used to develop a \$176.6 million World Bank loan. With the largest refinery industry in Central and Eastern Europe, and the most energy-inefficient industrial sector as well, reform and restructuring in the petroleum sector is an essential aspect of Romania's economic transition. With successful negotiation of the World Bank loan, and completion by the GOR of the policy framework on which the loan is conditioned (including creation of an independent regulatory body, the National Agency for Mineral Resources) our technical assistance will be central to the implementation of the restructuring plan.

Free Market Agricultural Economy

The high protein animal feed supplement imported under the \$10 million Agriculture Sector Support Program (ASSP) had an impact far beyond the immediate increase in meat production in 1993. By targeting the feed supplement on private, commercial-scale swine and poultry producers, through a series of free market-style commodity auctions around the country which were carefully managed by the International Fertilizer Development Center, the program was testing new market mechanisms for the importation and distribution of essential agricultural inputs. Private meat production must be increased rapidly in order to meet the market demand, and increasingly displace inefficient State farms, while avoiding the public unrest which could be caused by a reduction in staple meat supplies.

Environmental Legacy and Economic Restructuring

Technical assistance and equipment provided through the World Environment Center (WEC) is already making a difference at the largest oil refinery and petrochemical complex in Romania, helping to reduce the discharge of pollutants into the groundwater system through low-cost improvements leading to better information and management of production systems. Similar work is underway at two other sites, and WEC's assistance was instrumental in defining the technical basis for an expected major program at the Zlatna copper smelter and sulphuric acid plant, one of the most serious environmental "hot spots" in the country.

Quality Health and Social Care

New approaches to social services, which can be used as models for the restructuring of social service delivery systems in Romania, are being pursued through several programs. Revitalization of the social work program in Romania, with assistance from Holt International, the U.S. Peace Corps, and a Fulbright grantee, is having immediate results. In one pilot project, social work counseling is helping 40 families with HIV positive children keep those children in the home, rather than being institutionalized. New ways to take mildly-handicapped adolescents out of institutions and give them the social and job

skills they need to survive and, for the first time, live relatively normal lives are being tested by Project Concern International. Romanian physical therapists trained by World Vision Relief and Development are having an astounding impact on severely-handicapped children, giving them the hope for mobility which can literally change their lives.

Update of Strategy and Plan

The United States SEED Act Assistance Strategy for Romania, 1993-1995, was approved on July 20, 1993. The FY 94 resources which will provide the funding needed to begin to pursue many of the country-specific goals and objectives listed in that Strategy are only now beginning to be committed. Key assistance activities in critical sectors discussed in that Strategy, from the Romanian-American Enterprise Fund, to Parliamentary technical assistance and a new Public Administration program, to environmental health activities, are not yet in place. It can be argued, therefore, that the 1993-1995 Strategy is only now able to commence implementation, and that major reorientation is premature. The lessons learned in Strategy implementation, combined with an increased ability to shape the program to fit priority development opportunities in Romania and available funding, will result in progressive course corrections and refinement of the Strategy. Furthermore, from a strategic perspective, the 1993-1995 plan did take a mid-term view, and the program priorities and objectives remain largely valid as described.

In refining our objectives for the period 1994-1997, we will stress concrete steps which act on new policy developments. The Assistance Strategy for Romania already includes a significant involvement in democracy strengthening, covering a range of priority activities related to the development of a civil society and improvements in governance and public administration. In response to PRD-36 and the resulting Presidential initiatives, the in-country Democracy Commission prepared a Democracy Strategy for Romania which continues and deepens our engagement in those programs, through integration of non-SEED Act programs, and adds a specific focus on the development of indigenous NGOs through the Democracy Network and USIA programs as part of our work in developing a civil society. Regarding other aspects of PRD-36, we have advocated a more significant involvement in public administration support, particularly related to local government and decentralization, since December 1991. We welcome the initiation of activities under this project in 1994, and anticipate that Romania will be a focus country for public administration project.

Similarly, the U.S. Government assistance program in Romania has been dealing with social service issues since its inception. That base of experience in service-delivery programs has positioned us to pursue social sector restructuring programs in the key areas

of child protection, women's health, and health care financing. Our activities in each of these areas will pursue the longer-term restructuring needed to revitalize service delivery systems within Romania's human and financial means, while paying particular attention to the impact on the most vulnerable groups of the ongoing and necessary economic, democratic and social transition processes. The example of financing for child protection institutions, which deals with decentralization/democratization issues, municipal finance reforms, and maintenance of critical health services for developmentally-delayed and physically-challenged people, is a case in point.

Opportunities to integrate our activities in Romania with similar programs elsewhere in the region, both to enhance their direct "technical" impact and to achieve the broader benefits of bringing people together, are already being pursued in several programs. Obvious cross-border environmental issues are being addressed in Danube region and Romania-Hungary water quality programs. Less known examples exist in the health sector, with collaborative efforts in women's health issues and family, epidemiology, and exchange of information on cardio-vascular surgery techniques. A number of democracy strengthening activities have stressed regional integration, including networking among young women politicians, civic education programs and electoral process exchanges. In economic transition programs, regional activities have included the Black Sea University, in which several U.S. Government-financed projects participated, and the Balkan Small and Medium Enterprise Council, in which Romania has been active. Finally, Romania has been a key participant in regional infrastructure discussions linked to the United Nations sanctions on Serbia-Montenegro.

Additional areas for future involvement include regional power grid planning, as we become more involved in power sector restructuring, health market and health care financing programs which share experiences and approaches, local public administration and decentralization, where Romania may profit from other regional successes, and expansion of our environmental activities into air quality and climate change questions, which will have significant regional ramifications.

Program Concentration and FY 1995 Planning

From the initiation of technical assistance activities in FY 1990 through FY 1993, SEED Act funding has been channeled to Romania through at least 85 identifiable activities. By late FY 1993, at the time of approval of the Strategy, this had been reduced to approximately 70 active programs. The attached Country Planning Worksheet for Romania shows a further reduction to 63 activities for FY 1995. By the end of the planning period in FY 1997 we predict an assistance portfolio comprising approximately 40-50 activities. Assuming continued ability to restructure our

project mix to meet country priorities, those 40-50 activities (i.e., management units) will be grouped into approximately 20 integrated programs which address our key development objectives. This process has already begun, within the limits of existing grant and contractual mechanisms, with reasonably integrated efforts underway in environment, energy, small business development and privatization programs.

For the immediate future, we are proposing specific program concentration efforts in two areas, political process and agriculture/agribusiness development, as indicated in the 1993-1995 Strategy. In political process, we believe it necessary to consolidate the resources now devoted to two parallel programs, NDI and IRI, which are each working on Parliamentary process issues, including constituency realtions. This proposed consolidation will also allow us to pursue a new in-country program management system with the chosen grantee or contractor, pursuing our objective (as detailed in the Democracy Strategy) of placing qualified country program managers in two-to-three year assignments for democracy strengthening activities. It is expected that short-term pro bono expert assistance will continue to be stressed in these programs, but that the longer-term country program manager will be able to develop the country information and professional relationships which we consider essential to achieving the best possible results. In agriculture and agribusiness development, we are proposing a project design and approval process in FY 1994 and 1995, while existing projects continue, leading to a consolidated program in FY 1996.

We anticipate that the overall assistance portfolio will continue to be concentrated as certain shorter-term transitional programs reach the end of their utility and resources are shifted to continuing priority sectors. As described in the 1993-1995 Strategy, we expect that those transitional activities will include a number of privatization-oriented programs, which should decline in importance in the FY 1996-1997 out years as those national processes reach their objectives. Similarly, legal- and policy-framework activities related to the immediate economic transition should be time-limited. Conversely, we anticipate that activities in civic education and democratization, decentralization and local public administration, agriculture and agribusiness restructuring, health care restructuring and environmental programs will remain as priorities throughout the 1994-1997 planning period. Each of these programs will involve a combination of attitudinal change and institutional development processes which are likely to require a longer-term commitment to show lasting results.

In addressing comparative priorities among main program sectors, the 1993-1995 Strategy predicted a program mix of Democratization 15%, Economic Restructuring including the Enterprise Fund 60%, and Quality of Life 25%. The proposed FY 1995 budget attached shows a very close correlation to these levels,

with total funding divided as follows: Democratization 14%, Economic Restructuring including the Enterprise Fund 63%, and Quality of Life 23%. Since these figures will become increasingly skewed towards the Economic Restructuring total as the significant transfers necessary to capitalize the Romanian-American Enterprise Fund are factored into the budget, we believe it is also useful to separate the predominantly technical assistance elements of the rest of the portfolio from the Enterprise Fund. This analysis should be of practical benefit as we track the impact of recent policy developments on the program mix. For FY 1995, the analysis shows Democratization 19%, Economic Restructuring 50%, and Quality of Life 31%.

Specific proposals for priority financing in FY 1995 are presented in the attached Country Planning Worksheet.

Draft: AIDREP, Richard Hough (4-25-94)

Clear: DCM, POL, ECON, USIS, PC (4-26-94)

Approved: Ambassador John R. Davis (4-27-94)

APPR: CP ()
DRAFT: DC ()
CLEAR: RJ ()
CLEAR: ()
CLEAR: ()
CLEAR: ()
CLEAR: ()

UNCLASSIFIED

AID/ENI/ECA/ST:DCRANE:DC
06/28/94 736-4073
AID/DAA-ENI:CPASCUAL

ENI/ECA/ST:TLANDAU (DRAFT)
STATE/EUR/EEA:RJOHNSON

ENI/ECA:PORR (DRAFT)

PRIORITY BUCHAREST

AIDAC FOR AIDREP

E.O. 12356: N/A

TAGS: EAID, RO

SUBJECT: REVIEW OF U.S. ASSISTANCE STRATEGY UPDATE FOR ROMANIA

1. ON MAY 11, 1994 DAA CARLOS PASCUAL CHAIRED THE REVIEW OF THE ROMANIA ASSISTANCE STRATEGY UPDATE: 1994 - 1996. USAID REP TO ROMANIA RICHARD HOUGH PRESENTED THE STRATEGY. ALSO IN ATTENDANCE WERE STATE COORDINATOR FOR EAST EUROPEAN ASSISTANCE, RALPH JOHNSON, AND REPRESENTATIVES FROM USIA, TREASURY, OMB, THE NATIONAL SECURITY COUNCIL, LABOR, AGRICULTURE, THE FEDERAL TRADE COMMISSION, JUSTICE, STATE AND USAID. THE REVIEW CONFIRMED THE OVERALL DIRECTION OF THE ASSISTANCE PROGRAM, WITH OBJECTIVES IN ECONOMIC RESTRUCTURING, DEMOCRATIC INITIATIVES, AND QUALITY OF LIFE, BUT CALLED FOR A SHARPER FOCUS WITHIN THESE OBJECTIVES. TO ASSIST IN THIS PROCESS, USAID/W STAFF IN CONSULTATION WITH THE MISSION HAVE INITIATED A PROCESS TO PHASE OUT ACTIVITIES WHICH DON'T CLOSELY SUPPORT THE REFINED OBJECTIVES, AND WHICH ARE HAVING LIMITED IMPACTS, PARTICULARLY IN THE DEMOCRACY AND ECONOMIC RESTRUCTURING ELEMENTS. SPECIFIC OUTCOMES OF THE MEETING ARE SUMMARIZED BELOW.

2. THE DAA PRESENTED TWO THEMES TO FRAME THE DISCUSSION

UNCLASSIFIED

12

OF EACH AREA OF THE STRATEGY: 1) SHARPENING OF THE PROGRAMMATIC FOCUS, AND 2) CLARIFYING THE EXPECTED RESULTS OF ASSISTANCE ACTIVITIES.

3. DEMOCRACY/GOVERNANCE

3A. OBJECTIVES: THE MISSION'S EMPHASIS IS ON STRENGTHENING LINKAGES BETWEEN THE PUBLIC AND THE GOVERNMENT AND STRENGTHENING DEMOCRATIC PROCESSES AND INSTITUTIONS. IT WILL PRIMARILY SEEK TO ACHIEVE ITS OBJECTIVES BY FOCUSING ON LOCAL GOVERNMENT AND CIVIL SOCIETY AREAS. THE POST WILL HONE ACTIVITIES TO COMPLEMENT BUILDING LOCAL-LEVEL CAPACITY, SUCH AS HOUSING AND URBAN DEVELOPMENT, PRIVATE SECTOR AND ENVIRONMENTAL MEASURES. THE COMMITTEE CONFIRMED THE IMPORTANCE OF DEMOCRACY ACTIVITIES IN ROMANIA AND CONCURRED WITH THE MISSION'S APPROACH. REGARDING THE INCREASED EMPHASIS IN BUILDING LOCAL-LEVEL CAPACITY, THE COMMITTEE STRESSED THE KEY PROGRAM NEED TO DEVELOP A MECHANISM TO SPREAD SUCCESSFUL EXPERIENCES AMONG LOCALITIES TO BROADEN THE IMPACT OF OUR ASSISTANCE. IN ADDITION, THERE WAS CONCERN ABOUT A PROLIFERATION OF SMALL PROJECTS WHICH ARE NOT SUFFICIENTLY FOCUSED AROUND THE KEY CONSTRAINTS.

4. ECONOMIC RESTRUCTURING:

4A. OBJECTIVES: ASSISTANCE IN THE ECONOMIC RESTRUCTURING AREA IS INTENDED TO HELP THE ROMANIAN ECONOMY BECOME MORE RESPONSIVE TO MARKET PRINCIPLES AND TO INCREASE THE ROLE OF CREATIVE AND MOTIVATED PRIVATE ENTREPRENEURS. THE MAJOR ACTIVITIES DESIGNED TO ACHIEVE THIS OBJECTIVE FOCUS ON PRIVATE SECTOR DEVELOPMENT, AGRICULTURAL GROWTH, AND ENERGY. THE PRIVATE SECTOR COMPONENT EMPHASIZES PRIVATIZATION, SMALL/MEDIUM BUSINESS DEVELOPMENT, AND POLICY AND REGULATORY CHANGES IN THE FINANCIAL SECTOR. SEVERAL COMMITTEE MEMBERS NOTED THAT THE CLIMATE FOR FINANCIAL SECTOR ASSISTANCE SHOULD BE WATCHED CAREFULLY, AND ASSISTANCE PROVIDED ONLY IF AND WHEN GOOD OPPORTUNITIES ARISE. GOR PLANS TO LAUNCH A MASS PRIVATIZATION PROGRAM, UNVEILED SINCE THE REVIEW, MAY PROVIDE ADDITIONAL OPPORTUNITIES FOR USG ASSISTANCE.

4B. DISCUSSION OF THE ROLE OF AGRICULTURAL DEVELOPMENT IN THE STRATEGY PROVIDED THE MOST SUBSTANTIAL DEBATE. THE PRIORITY OF THE AGRICULTURE SECTOR RELATIVE TO OTHER ASPECTS OF ECONOMIC REFORM WAS QUESTIONED. A NUMBER OF COMMITTEE MEMBERS EXPRESSED CONCERN THAT THE ECONOMIC RESTRUCTURING PORTFOLIO IS TOO WIDELY DISPERSED AMONGST OBJECTIVES, AND THAT AGRICULTURE IS THE LOWEST PRIORITY AND THUS SHOULD BE DROPPED. OTHERS ARGUED THAT

AGRICULTURE IS A KEY ASPECT OF THE ROMANIAN ECONOMY WHOSE SHARE OF THE ECONOMY IS GROWING AS THE OVER-INDUSTRIALIZED ROMANIAN ECONOMY IS RATIONALIZED OVER TIME. FURTHERMORE, AGRICULTURE IS A SECTOR WHICH TENDS TO RESPOND QUICKLY TO ECONOMIC REFORM MEASURES, AND THUS CAN PROVIDE EARLY, POSITIVE RESULTS.

4C. ADDITIONAL DEBATE CENTERED ON WHAT WOULD BE THE MOST APPROPRIATE AGRICULTURAL INTERVENTIONS. SOME FELT THAT CURRENT ACTIVITIES (VOCA, ACDI, LOL, IFDC) ARE TOO SMALL AND ARE NOT SUFFICIENTLY TARGETED ON ONE OR TWO KEY CONSTRAINTS IN THE SECTOR. OTHERS BELIEVED THE CURRENT INTERVENTIONS WERE APPROPRIATE. GIVEN THE UNCERTAINTY, THE AID REP PROPOSED UNDERTAKING AN ASSESSMENT OF THE AGRICULTURAL SITUATION IN ROMANIA TO IDENTIFY KEY CONSTRAINTS AROUND WHICH AGRICULTURAL ACTIVITIES COULD BE TARGETED. IT WAS AGREED THAT DAA PASCUAL WOULD VISIT ROMANIA AND REVIEW THIS ISSUE IN GREATER DETAIL WITH AIDREP HOUGH.

4D. DURING PASCUAL'S FIELD TRIP TO ROMANIA (JULY 19 - 23) IT WAS AGREED BASED ON SITE VISITS AND DISCUSSIONS WITH CONTRACTORS AND PRIVATE AGRIBUSINESS PERSONS THAT (A) THE ENVIRONMENT FOR PRIVATE AGRICULTURE IS NOT IDEAL, BUT IT IS ADEQUATE; AND (B) AGRICULTURE IS CRITICAL FOR THE ECONOMY, ACCOUNTING FOR THE LARGEST AND A GROWING SHARE OF BOTH GDP AND EMPLOYMENT. IT WAS AGREED THAT OAR/ROMANIA WILL DEVELOP AN AGRICULTURAL SUPPORT PLAN WITH SPECIFIC AND MEASURABLE PROGRAM TARGETS. BASED ON PRELIMINARY DISCUSSIONS, THE PROGRAM WILL FOCUS ON STIMULATING COMPETITIVE PRIVATE MARKETS FOR ROMANIA'S TWO KEY FOODS: BREAD/CEREALS AND MEAT. THE STRATEGIC EMPHASIS WILL BE ON PROCESSING AND MARKETING SYSTEMS (THIS IS WHERE ENTREPRENEURS HAVE THE STRONGEST POTENTIAL TO CHANGE MARKETING CHAINS FROM THE BOTTOM UP) AND ON LAND MARKETS (TO GIVE THE PRIVATE SECTOR CONTROL OVER THE MEANS OF PRODUCTION).

4E. ENERGY: U.S. ASSISTANCE IN THE ENERGY SECTOR AIMS TO REVERSE ROMANIA'S DECLINING OIL AND GAS PRODUCTION, RESTRUCTURE THE REFINERY INDUSTRY AND THE POWER SECTOR, AND IMPROVE THE ENERGY EFFICIENCY OF ROMANIAN INDUSTRIAL FIRMS. THE REVIEW COMMITTEE CONCURRED WITH THE CURRENT THRUST OF THESE ACTIVITIES.

5. QUALITY OF LIFE:

5A. THE MISSION STRATEGY SUPPORTS SOCIAL SECTOR RESTRUCTURING AND ENVIRONMENT ACTIVITIES UNDER THIS OBJECTIVE. THE REVIEW COMMITTEE EMPHASIZED THE IMPORTANCE

OF CONSIDERING THE SOCIAL IMPACT OF ECONOMIC REFORM, PARTICULARLY IN THE CONTEXT OF PRD-36. THE DAA HIGHLIGHTED THE NEED FOR ROMANIA TO DEVELOP AFFORDABLE, SUSTAINABLE SOCIAL SERVICE DELIVERY SYSTEMS WHICH ARE COMPATIBLE WITH A MARKET ECONOMY.

5B. SOCIAL SECTOR: THE AID REP OUTLINED THE PROPOSED ASSISTANCE STRATEGY IN THE SOCIAL SECTOR, WITH A FOCUS ON CHILD PROTECTION, WOMEN'S HEALTH AND HEALTH CARE FINANCING. CONTINUED ASSISTANCE IN FAMILY PLANNING IS AN IMPORTANT WAY TO ADDRESS THE ROOT CAUSES OF CHILD ABANDONMENT AND HIGH ABORTION RATES. ATTITUDES TOWARD FAMILY PLANNING ARE SLOW TO CHANGE, AND LIMITED RECEPTIVITY TO FAMILY PLANNING COUPLED WITH DIFFICULT ECONOMIC TIMES ARE AGAIN LEADING TO ABANDONED CHILDREN.

5C. THE STRATEGY'S MAIN APPROACH TO UNEMPLOYMENT ISSUES IS TO CATALYZE JOB CREATION THROUGH SMALL/MEDIUM BUSINESS DEVELOPMENT PROGRAMS. IN ADDITION, AND BASED ON SUBSEQUENT MEETINGS AMONG USAID, DOL, AND THE WORLD BANK, THE USG WILL PROVIDE SEED FUNDS THROUGH DOL TO THE BANK'S EMPLOYMENT AND SOCIAL PROTECTION PROJECT. THIS MONEY WILL FINANCE TECHNICAL ASSISTANCE FOR THE NATIONAL ADMINISTRATION AND POLICY AND LOCAL LABOR OFFICE ELEMENTS.

5D. ENVIRONMENT: THE STRATEGY PROPOSES TO CONTINUE ONGOING PROGRAMS WHICH IDENTIFY SERIOUS AREAS OF ENVIRONMENTAL NEGLECT AND ABUSE AND HELP DEVELOP AND IMPLEMENT LEAST-COST SOLUTIONS. THE REVIEW COMMITTEE CONCURRED WITH THIS APPROACH.

6. PROGRAM CONSOLIDATION: THE PROCESS MENTIONED IN PARA 1 IS NEARING COMPLETION. THE RESULTS WILL BE REPORTED SEPTEL.

7. RATHER THAN SPEND ADDITIONAL TIME EDITING THE COUNTRY STRATEGY TO INCORPORATE THE ABOVE COMMENTS, THIS CABLE WILL BE ADDED AS A PREFACE TO THE COUNTRY STRATEGY WHEN IT IS REPRODUCED. ANY NECESSARY CHANGES IN THE BUDGET, HOWEVER, SHOULD BE MADE PRIOR TO REPRODUCING THE STRATEGY.

8. THIS CABLE HAS BEEN CLEARED IN DRAFT BY USAID TECHNICAL OFFICES (GREENBERG, BECKER, BURNS, SHAPIRO, NAVIN, KARNS, ICHORD, HYMAN, GIDDINGS, CLELAND, FRENCH, TUMAVICK, AND MORGAN), STATE/EUR/EE (MALLY AND KIESLING), TREASURY (BANQUE), USIA (PORTNOY), LABOR (TALBERT), OMB (SANDY), AGRICULTURE (BECK), JUSTICE (SPENCER), FTC (BALFOUR), AND COMMERCE (TOOHEY AND WELLS).

YY