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**STRATEGIC PLAN
FOR
ASSISTANCE TO
ROMANIA
1998 - 2000**

**USAID/ROMANIA
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Executive Summary

The United States Agency for International Development (USAID) strategy for assistance to Romania, 1998-2000, focuses USG assistance on helping the Government of Romania (GOR) implement ambitious economic and social measures to accelerate its full transition to a democratic, market-based economy. Implementation of this strategy will prepare Romania for graduation from USAID assistance in the year 2002.

Since the overthrow of Ceausescu in late 1990, Romania has made substantial progress in its transition from a centrally-planned to a democratic market economy. The private sector contribution to the GDP has increased to nearly 55%. Fair and free elections have been held several times, the last being the national elections which brought the Democratic Convention-led Government to power.

Relative to advanced CEE countries, economic policy reform has been constrained until late 1996. As a result, Romania has not received its full potential share of foreign investment--only \$2 billion to date. Privatization has not been fully implemented, as the state retains "strategic" enterprises and a portion of Mass Privatization companies.

The new Government, elected in November 1996, was quick to announce a serious reform program. This was first done in January 1997, when the GOR released "Romania's Macro-stabilization and Development Basic Program Until the Year 2000," a comprehensive plan for economic, budget, social, and political reform. This was followed by the Prime Minister's "shock therapy" speech which announced drastic stabilization and privatization measures. The purpose of this strategy is to make the U.S. Government a full partner in supporting the Government's historical reform program.

ECONOMIC TRENDS

Romania has seen seven years of relatively slow and incomplete reforms, a process which in fact has ultimately proved to be unsustainable. As a result, macroeconomic performance has been uneven and structural imbalances have become increasingly evident.

As happened elsewhere, economic output contracted sharply at the outset of communism's collapse. Socialist planning mechanisms were eliminated and traditional markets disappeared. Due to Romania's relatively dynamic private sector, economic growth resumed in 1993, averaging roughly 4% from 1993-1996. Much of this expansion was export driven; 1994-1995 exports grew by 24%. Romania's GDP is now about 90% of its 1989 level, average for CEE.

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Private Sector Growth: The growth in the private sector's share of GDP has been quite impressive. In 1994, the private sector contributed only 35% of GDP; today it may be closer to 55% of GDP. Yet progress in industry remains elusive fundamentally because much remains in the state's hands. In 1996, 76% of total industrial output came from state-owned companies. This situation is reversed in agriculture; 87% of total agricultural product in 1996 resulted from private sector activity.

Public Sector Finances: The deterioration of the macroeconomic environment in 1996 was partly the result of election year politics, and partly symptomatic of the failure to adequately restructure the economy. Fiscal and monetary policy were relaxed, the government borrowed, and the economy grew by 4%. In an effort to keep domestic energy prices low, the government slowed the depreciation of the Romanian currency, the leu, by restricting access of enterprises to foreign exchange. Privatization was pushed off, labor shedding was minimized, and, in fact, unemployment declined.

Inflation increased significantly, however, from 28% in 1995 to 57% in 1996. Both the fiscal and current account balances deteriorated dramatically. The 1996 official general government fiscal deficit was roughly 5% of GDP, an increase from less than 3% in 1995 and 1% in 1994. A broader and more revealing definition referred to as the "quasi-fiscal deficit", which incorporates fiscal balances of state-owned firms and the government's liability for inter-enterprise arrears, shows the 1996 fiscal deficit closer to 10-11% of GDP. In fact, by 1996, inter-enterprise arrears, both in the public and private sectors, may have reached \$6 billion, equal to 16% of GDP.

State-Owned Industry: Underlying these structural imbalances is an economy that continues to be plagued by resource-draining state-owned enterprises that survive through direct or disguised public subsidies. The biggest culprits, the self-administered *regies autonomes* (prevalent in the energy and utilities sector, infrastructure, and defense), are relatively few in number; 40-60 firms account for most of the losses. In addition, state control of the financial sector continues. The Romanian government owns five commercial banks and the national savings and loan network. Together, these institutions account for over 75% of total banking system assets.

SOCIAL TRENDS

Painful History: While suffering and low standards of living were endemic both prior to the transition as well as during the early stages of reform throughout CEE, pain for Romanian society has been more severe than in most other CEE countries. In the 1980s, a primary objective of the government of Romania was to repay the country's large external debt. It was achieved by drastically curtailing consumption of both foreign and domestic goods. This

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contributed to a contraction of economic output and further repression of household consumption.

The transition in Romania has tended to be more painful than in many other CEE countries as well. While taking a gradual approach to economic restructuring has kept unemployment relatively low, output declines in the early years were greater in Romania, inflation has tended to be higher, and real wages have fallen further.

Poverty has taken on a different characteristic in Romania. For most countries of CEE, poverty tends to be shallow. Most of those impoverished are only marginally so; their incomes hover close to the poverty threshold. This has favorable implications for policy and, more fundamentally, for the living standards of those who are poor. In particular, economic growth and development may be sufficient to pull the impoverished above the poverty line; targeted interventions may be less critical.

Deep Poverty and the "Bite" of Reform: In contrast, poverty in Romania tends to be deep. Poverty may not be widespread; perhaps one in five in Romania is considered to be poor. This is above the CEE average, though not by much. However, poverty in Romania is likely more intractable. The poor are poorer, and perhaps for longer periods. Most of this poverty is rural; children may be the hardest hit.

The current acceleration of reforms is already starting to bite. With an acceleration of price liberalization has come a dramatic increase in inflation, perhaps currently running at an annual rate of close to 100%. This has translated into falling real wages and purchasing power. As of February 1997, factoring in the recent depreciation of the leu, average gross salary is about \$100 a month.

Fiscal austerity means money is tight and firms are being pressed on two fronts: not only do they have less access to money, but increasingly, more are under growing pressure to pay the bills. This leads to rising unemployment. In fact, an indication of "successful" implementation of the radical reform program may be, by various estimates, a doubling of unemployment.

The official registered unemployment rate is now close to 6%. Measuring unemployment through surveys tends to uncover a larger problem. A household survey conducted in the early part of 1996 in fact revealed unemployment to be closer to 15%; that is, roughly half of those unemployed, did not register as such. Consistent with deep poverty, is the prevalence of relatively long term unemployment in Romania. The average length of unemployment is 18 months. In 1994, almost one-half of all those unemployed were unemployed for more than one year.

DEMOCRATIC TRENDS

Overall 1996 ratings in democratic freedoms from Freedom House show Romania behind all the Northern Tier countries except Slovakia, and on par with Bulgaria. Still, steady progress since 1990 in both the development of political rights and civil liberties in Romania has been made; most recently, in political rights in 1996. The November 1996 presidential elections were the third such elections since the transition began and represent a political watershed.

NGOs: There are now some 12,000 NGOs in Romania. Some are viable, the majority may not be in the long run. Nevertheless, many NGOs attempt to influence public policy, seek to represent special interests, or try to improve local communities. City mayors throughout Romania are showing themselves to be capable leaders and are making effective efforts in providing their residents with good public service and responsible fiscal management.

The November 1996 Elections: The elections highlighted two important themes. First they demonstrated that Romania was committed to democracy, an open electoral system, and a pluralistic political party structure. The elections sent the signal both to the Romanian people and to those outside Romania that the country was wedded to a modern, western oriented, and stabilizing political process.

The second and equally important theme was that the government planned to lead the political and economic reform process. The victory of the Emil Constantinescu-led coalition was in part based on the acceptance that Romania itself had to lead the reform process and not be a passive follower. The idea that reform was in the best interests of Romania even though there would be short term high social and economic costs was a clear message of the winning coalition.

For nearly five decades, all decisions, small and large, rested with the president, and were enforced by the pervasive security forces. The new reform government plans to change that system, to open it and to spread political authority. They intend to make both political and economic decisions transparently. Decentralization is the operating methodology to be used. This includes decentralization from government to civil society; from central government to local government; and within the central government--from the executive branch to the legislative and judicial branches, and within the executive from the president and the prime minister to the line ministries.

Threats to Reforms: There are a number of constraints which could delay or even derail the ambitious democratic and economic reform plans of the government. While it is clear that the new government has the will to proceed in a vigorous fashion with the reform agenda, its capacity to develop detailed implementation

plans and to coordinate complex policy and institutional change, is less than certain. One of the necessary implementors will be the bureaucracy, which remains highly centralized. No one is sure if or how firmly long-term government employees are committed to the new agenda.

Another potential problem is the fragility of the coalition that brought the new government to power. Holding a diverse coalition together will prove increasingly difficult as the short term impacts of the reform process become apparent. There will be economic dislocation with harder economic and social times for many. The government understands these challenges and has plans to aggressively attend to the problems of the poor and most vulnerable.

USAID PRIORITIES

Many "retail" activities with the private sector and NGOs made sense when the national government was less receptive to change and the donor community was less sure about which national approaches would and would not work in Romania. Now, the opportunity and challenge is to work at the top or through mechanisms which almost immediately lead to widespread replication. An emphasis on laws, policies, and regulation along with the increased capacity to implement these will create the greatest change and reform in the current environment.

Criteria: In the past five months, USAID analyzed all sectors to ascertain how USAID/Romania's portfolio could best contribute to the GOR's worthy reform program, leading to graduation in 2002. This was done with the in-country participation of ENI/Washington SO team members, who helped USAID/Romania complete a comprehensive sector strategy for each Strategic Objective. The sector teams consulted extensively with other donors, GOR officials, NGOs, and the private sector in order to identify needs, opportunities, the extent, and emphasis of current and future assistance. The Strategic Plan summarizes those strategies. The sector strategies will become work plans for implementing the SOs.

In devising a more focused program, USAID applied the following general criteria:

- Concentration on the problems which constitute the fundamental constraints to the transition to an open democratic market economy, and, within the parameters of these problems, where current opportunities for real change exist
- Support for U.S. foreign policy objectives
- Responding to host government priorities--Given the new reform agenda of the government and the strong support it

has received from the international donor community, USAID should target it's resources sharply on areas of real potential change

- Focus on areas of emphasis in the GOR's development plan including privatization, capital markets development, decentralization and municipal development, citizen participation/transparency in government, child welfare, and others
- Focus more on "wholesale" efforts which lead to widespread effects--Policy change and the institutional support to implement it, especially support to the regulatory and legal framework, are the types of support that will have the greatest impact; there should be considerably less emphasis on programs which support "retail" level activities
- More focus on efforts which seek to make the outcomes of the reform process sustainable--This will require a totally integrated donor approach which makes capacity building a top priority; this is all the more critical for USAID which may have a shorter time horizon for it's programs than some of the other donors
- Taking advantage of USAID's comparative advantages in deciding on where to focus it's work in the last years of the program--There are significant donor resources available to Romania; USAID should not duplicate others, but rather should continue to leverage other donor resources to maximize the impact of it's program
- Reduction of management units, allowing greater concentration of USAID funding and staff on high impact interventions
- Taking all other criteria into account, building on accomplishments and optimally converting the current program into a more focused one

SUMMARY OF THE USAID PROGRAM 1998 THROUGH 2000-BY STRATEGIC OBJECTIVE

Strategic Objectives: USAID Romania proposes a focused program of reduced management units for the following strategic objectives: SO 1.3-Development and Growth of Private Enterprises; SO 1.4-A More Competitive and Market Responsive Private Financial Sector; SO 1.5-A More Economically Sustainable and Environmentally Sound Energy Sector; SO 2.1-Increased Better Informed Citizens Participation in Political and Economic Decision Making; SO 2.3-More Effective, Responsive, and Accountable Local Government; SO 3.2-Reduction of the Number of At-Risk Children in Romania; and, SO 3.3-Reduction of Environmental Risks to Public Health.

Synergy: There will be much synergy in the program. The focus of private enterprise development (SO 1.3) will be completing privatization in Romania. The capital markets and banking supervision activities in SO 1.4 (responsive financial sector) will provide mechanisms for privatization and increasing foreign investment. Privatization of energy under SO 1.5 is key to completing the privatization process and attracting foreign investment for energy and other sectors. Reducing environmental risks under SO 3.3 will improve Romania's image in the world as well as take specific measures to make Romanian industry more attractive to foreign investors.

The issuance of municipal bonds resulting from activities under SO 2.3 (local government) will improve capital markets (1.4). The strengthening of local NGOs under SO 2.1 (citizen participation) will help achieve SO 2.3. Improving the plight of at-risk children will address an internationally notorious humanitarian problem and help Romania's image in the world. It will ameliorate the impact of "shock therapy" measures on children, the most vulnerable group and the largest component of Romania's poor population.

Responsiveness: The program is highly and immediately responsive to the GOR's top priorities expressed in its development plan ("Romania's Macro-Stabilization and Development Basic Program Until the Year 2000"). It also supports quick implementation of the agreements made on World Bank structural loans and the IMF Standby, all of which will release \$1.0 billion of assistance for Romania. The essence of the agreements was voiced by the Prime Minister on February 17, 1997, when he delivered his "shock therapy" speech.

SO 1.3 Development and Growth of Private Enterprises

Activities supporting this SO will be reduced in management units from 10 to 3. The three remaining activities to receive funding in FY 1998 and future years are: Privatization, (new) Agribusiness Development Project, and the Romanian American Enterprise Fund.

Privatization: USAID will provide comprehensive technical assistance to the Ministry of Reform, State Ownership Fund (SOF), and the National Agency for Privatization (NAP) in order to implement rapid completion of privatization. USAID will: support the Ministry of Reform in its efforts to coordinate privatization; provide assistance to the SOF in developing policies and procedures, selling larger enterprises, auctioning small and medium enterprises, and liquidating unsold companies; and assist the NAP in harmonizing privatization laws.

In order to soften the blow of massive privatization, the government plans specific interventions in the labor market to minimize labor displacement and unemployment, and to facilitate labor mobility. USAID, EU PHARE, and the World Bank will be

helping with this effort. USAID has an Inter-Agency Agreement with the U.S. Department of Labor (DOL) to facilitate active and passive labor deployment measures to deal with lay-offs resulting from privatization. This activity will focus on early interventions with the labor and management of privatized or liquidated firms to identify sources of temporary income, re-training, and new employment. The activity with DOL will be co-financed by the World Bank.

Technical Assistance to Enterprises: Six "retail" level activities under the Technical Assistance to Enterprises and Restructuring Agriculture and Agribusiness will receive their last funding in FY 1997 and will be phased out by 1998, according to their original assistance completion dates. In their places USAID will start a new comprehensive Agribusiness project which will undertake policy reform and technical assistance at a "wholesale" level to producers' associations in order to privatize and maximize Romania's comparative advantage in agribusiness.

SO 1.4 A More Competitive and Market Responsive Private Financial Sector

Assistance under this SO will consist of four activities: Capital Markets, Banking Supervision and Training, Competition, and Bankruptcy. Competition will not be funded after FY 1998.

Capital Markets: USAID will continue it's work with the Capital Markets Project. Building on a very successful program, USAID will strengthen existing private emerging capital market institutions and support the strengthening of the legal and regulatory framework under which these institutions function. Also, new financial instruments such as treasury bonds and municipal bonds will be added to the capital market. Such new instruments will result from work done by U.S. Treasury advisors at the Ministry of Finance, and municipal finance advisors, provided under SO 2.3 (local governance).

Banking Supervision and Training: USAID will assist the GOR to implement the privatization of banks through this project. USAID will help the National Bank of Romania by putting into place elements of a banking supervision system to be applied to private banks in order to enforce standards, audit requirements, and other measures to ensure financial soundness. In later years, beginning 1999, focus will shift from technical assistance to providing training in banking and banking supervision.

Bankruptcy: Technical assistance to improve legislation and procedures, as well as training of judges and other court officials will lead to resolution of bankruptcy cases. This will permit better re-allocation of productive economic resources required by a healthy economy.

Competition: Technical assistance will be provided to the

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Competition Council and Office of Competition to assist those entities to implement the Law on Competition and corresponding enabling regulations. This will lead to greater investor confidence in fair competition practices in Romania.

SO 1.5 A More Economically Sustainable and Environmentally Sound Energy Sector

Only one project/activity Energy Restructuring and Efficiency will receive funding from FY 1998 through FY 2000. The Energy Efficiency Activity (Energy Service Companies-ESCOs) is fully funded and will end in 1999.

Energy Restructuring: Without fundamental restructuring and privatization of the energy sector, the economic problems of the sector will spill over into the rest of the economy and make other economic reform efforts less productive and perhaps impossible. Again, in this important project USAID will continue to support a successful program which has worked with the major multi-lateral financial institutions by leveraging resources to begin the process of restructuring and privatizing the energy sector. USAID will continue to focus on the oil/gas sector and the electrical power sector as points of primary intervention. Opening the sectors to private investment will remain a principal objective. Introducing competition and increasing efficiency will also be important themes, along with the creations of a modern independent regulatory structure.

SO 2.1 Increased Better-informed Citizens' Participation and Economic Decision-Making Through Pluralistic Mechanisms

Activities under this SO will include the following: NGO Development Program (Democracy Network), Parliamentary Assistance Activity, Reform TA and Training Activity, Rule of Law, and the Professional Media Program. While the NGO Development Project will phase out its sub-grant activity in 1998, the Professional Media Program will receive its last funds in FY 1998.

Reform Technical Assistance and Training: USAID will provide assistance to selected government offices and ministries (including that of the President and Prime Minister) to assist better decision making and implementation especially in connection with the GOR's reform program. Emphasis in providing technical assistance and training will be placed on communicating the reform process to the citizenry (better informed).

Parliamentary Assistance: Assistance will be provided to the Parliament to: give parliamentarians better access to information for decision making; establish uniform procedures; improve and increase legislative drafting; and improve work with constituencies. The latter area-constituencies-will receive strong emphasis. Through their parliamentary representatives, citizens will become better informed and will participate in the decision making.

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NGO Development: This activity will be modified to focus on institutional development, better coordinate assistance with other donors, and work especially at the local level with city and county governments.

SO 2.3 More Effective, Responsive, and Accountable Local Government

The two current projects, Public Administration and Decentralization/Municipal Finance (formerly Housing Assistance) will continue to the year 2000.

However, USAID will decrease direct support to city and municipal government in favor of working with institutions which will in turn work with individual local government on increasing their capacity as they increase their authority. While the Public Administration program will focus on organization, management, and citizen information issues, the Municipal Finance project will concentrate on local government financing and budgeting.

SO 3.2 Reduced Number of Children in Protection

Child Protection and Reproductive Health

USAID will continue its work on reproductive health, both as a way of helping women, who bear a disproportionate share of the burden of economic transformation, and as a means of preventing the increase of the number of abandoned and institutionalized children. USAID will continue to stress the improvement of reproductive health policy and promoting contraception distribution and use through market mechanisms. A new Child Development program will be designed to address the causes which perpetuate the abandonment and institutionalization of children in Romania.

SO 3.3 Reduced Environmental Risks to Public Health

By FY 1998, there will be only two activities under this SO: Environmental Policy and EAP Investments. This is a reduction of four management units from previous years. The SO will be phased out by the year 2000. While the Policy Program will continue to focus on environmental legislation and compliance regulations, the EAPS activity (or its replacement) will work with regional Environmental Protection Agencies on enforcing compliance and with private industry (on a model/pilot basis) in implementing compliance measures.

Special Initiatives and Cross Cutting Programs

Only Three Activities: The activities to be funded in FY 1998 and beyond are: Treasury Financial Service Advisors, Participant Training, the Ron Brown Scholarships, and Audit, Evaluation and Project Support (AEPS). Two activities (Partnerships in Health Care and Promotion of Health Markets) received their last funds in FY 1996. Therefore, the number of program elements is being

reduced from 5 to 3.

The remaining activities are very supportive of the SOs described above. Participant Training activities are directly supportive of the seven SOs and are very much valued by the GOR, the private sector, and civil society. Treasury Assistance is directly related to SO 1.4 and GOR reform efforts. It consists of assistance in establishing a system for issuing treasury securities, improving tax policy and administration, improving the GOR budget process, and drafting legislation for these areas, as well as for local government financing.

PROGRAM FOCUS AND CONCENTRATION

In the past, because there was less political will on the part of the former government to undertake fundamental structural reform, the USAID/Romania dealt directly with a wide array of partners, mostly in the private and NGO sectors. In this sense the program by-passed the government and was implemented directly with numerous partners at a "retail" level. These partners were individual firms, single municipalities, NGOs, or single institutions because each had a particularly effective individual leader or administrator. The new strategy proposes to conclude most of this retail level work and concentrate the final years of the program at a higher or more "wholesale" level where there has been a quantum increase in the political will to implement key reforms. Concentration and the wider spread impact of the program, brought about by a wholesale approach, will better guarantee progress toward graduation criteria.

Changes in the portfolio are described under each Strategic Objective, above. The total number of activities in the Romania program will drop from 37 with an average size of \$703,000 per activity in FY 1996 to 22 in FY 1998 with an average size of \$1.5 million per activity. This substantial reduction will take place in spite of the addition of several new activities to immediately support the GOR reform program. In FY 2000, 2 years before graduation, the Romania program will fund only 13 activities.

The trend of the number of management units is clear. There will be a 43% reduction in the number of management units between 1996 and 1998, and a 70% reduction between FY 1996 and FY 2000. This results from a tightening of program emphasis and a major shift in the mode of providing assistance.

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USAID's Strategic Plan for Romania

1. Introduction

Opportunities and Challenges. There are both significant opportunities as well as challenges in Romania's current bid to a market-oriented democracy. The opportunities derive in large part from a change in government in Romania, and a new-found political will for reform, at least among Romania's top policymakers. They have developed an ambitious game plan, in concert with substantial support and pressure from the international financial institutions (IFIs). The emergence in the November 1996 elections of a reform-minded government seems to stem from a sense among many Romanians that moving decisively ahead in economic restructuring is the only viable option at this time. The status quo is unacceptable.

Still, much of the challenge is in the timing. There exists now a window of opportunity, but it will likely not remain open if some tangible gains from the "shock therapy" program are not soon realized. The challenge is compounded by the tendency in the transition process for economic and social costs to manifest before substantial gains are realized. The Northern Tier countries of Central and Eastern Europe (CEE) that have gone through substantial economic restructuring, if not shock therapy, have all had to confront this reality. Shock therapy in the current Romanian context, however, must deal with an additional burden. Given the relatively slow and incomplete reform process since communism's fall in December 1990, and the particularly severe hardships endured prior to that under Ceausescu, Romanian living standards have been low for many people for many years.

U.S. Interests. U.S. Foreign Policy interests continue to center on achieving Romania's transition to a democratic, market based economy and to assist Romania's entry into the community of modern nations represented by NATO and the European Union. Entry requirements for both organizations contain economic criteria and USG assistance will contribute to their achievement. The primary emphasis of USG assistance, reflecting U.S. Mission objectives, has been on private sector growth. At the same time, U.S. interests include the development of democratic institutions and improvement in the lives of abandoned and institutionalized children (also a requirement for EU membership). Both areas continue to receive substantial USG assistance. The GOR's reform program proposes to accelerate progress in all of these areas of USG interest.

2. The Transition Environment

Romania has been on a relatively slow transition path, and still has a long way to go. Its progress towards a market-oriented

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democracy lags behind most other CEE countries. In general, democratic reforms in Romania may be further along than economic progress, though the latter may now be on a fast track.

A. Democratic Reforms and Political Developments

Overall ratings in democratic freedoms from Freedom House show Romania in 1996 behind all the Northern Tier countries except Slovakia, and on par with Bulgaria. Still, steady progress since 1990 in both the development of political rights and civil liberties in Romania has been made; most recently, in political rights in 1996. The November 1996 presidential elections were the third such elections since the transition began and represent a political watershed.

Commitment to Democracy. The elections also highlighted two important themes. First they demonstrated that Romania was committed to democracy, an open electoral system and a pluralistic political party structure. The elections sent the signal both to the Romanian people and to those outside Romania that the country was committed to a modern western oriented and stabilizing political process.

Commitment to Reform. The second and equally important theme was that the government planned to lead the political and economic reform process. The victory of the Constantinescu-led coalition was in part based on the acceptance that the GOR itself had to lead the reform process and not be a passive follower. The idea that reform was in the best interests of Romania, even though there would be short-term social and economic costs was a clear theme of the winning coalition.

The GOR Plan. In this regard, the new government has set forth its plans and intentions in a December 1996 framework document, "Romania's Macro-stabilization and Development Basic Program Until the Year 2000". The document lays out an ambitious program and is summarized in the following statement from its opening section:

"The government coalition wishes to set up in Romania an open and free society, characterized by the respect of diversity and pluralism, in which democracy, the rule of law and human rights constitutes the base for everybody's prosperity and dignity, for justice and social solidarity. In this respect the Government will promote, in conditions of responsibility and transparency, a policy that will be directed toward the following main targets: decentralization, decrease of bureaucracy, privatization, elimination of monopolies and increase of competition, reduction of tax and duties. Also, social protection and assistance will be insured for less favored, marginalized or vulnerable

categories."

Decentralization. The Government's intentions are clear with regard to the way it plans to approach the challenges it faces. Decentralization is the operating methodology to be used. This includes decentralization from government to civil society; from central government to local government; and within the central government--from the executive branch to the legislative and judicial branches and within the executive from the president and the prime minister to the line ministries.

For nearly five decades, all decisions rested with the president and were enforced by the pervasive security forces. The new reform government plans to change that system, to open it and to spread political authority. They intend, in this opening process, to take both political and economic decisions transparently.

The Bureaucracy. There are a number of constraints which could delay or even derail the ambitious democratic and economic reform plans of the government. While it is clear that the new government has the will to proceed in a vigorous fashion with the reform agenda, its capacity to develop detailed implementation plans and to coordinate complex policy and institutional change, is less than certain. One of the necessary implementors will be the bureaucracy, which remains highly centralized. No one is sure if or how firmly long-term government employees are committed to the new agenda.

The Coalition. Another potential problem is the fragility of the coalition that brought the new government to power. Holding a diverse coalition together will prove increasingly difficult as the short term impacts of the reform process become apparent. There will be economic dislocation with harder economic and social times for many. The government understands these challenges and has plans to aggressively attend to the problems of the poor and most vulnerable.

B. Economic Reforms and Performance

1996 EBRD economic policy reform ratings show Romania and Bulgaria behind all countries of CEE and several New Independent States, in particular, Russia, Moldova, and the Kyrgyz Republic. These ratings are based on EBRD's assessment of economic reforms through August 1996. However, much has changed in the last 8 months in Romania. There has been significant change in policy intent and articulation, and actual reforms are beginning to accelerate as well.

Seven Years of Slow Reform. The current policy environment emerges in the context of seven years of relatively slow and

incomplete reforms, a process which in fact has ultimately proved to be unsustainable. As a result, macroeconomic performance has been uneven, and structural imbalances have become increasingly evident.

Collapse and Recovery. As happened elsewhere, economic output contracted sharply at the outset of communism's collapse. Socialist planning mechanisms were eliminated and traditional markets disappeared. Due to Romania's relatively dynamic private sector, economic growth resumed in 1993, averaging roughly 4% from 1993-1996. Much of this expansion was export driven; 1994-1995 exports grew by 24%. Romania's GDP is now about 90% of its 1989 level, average for CEE.

Private Sector Gains vs. Public Sector Losses. Furthermore, the growth in the private sector's share of GDP has been quite impressive. In 1994, the private sector contributed only 35% of GDP; today it is closer to 55% of GDP. Still, progress in industry remains elusive fundamentally because most of it remains in state hands. In 1996, 76% of total industrial output came from state-owned companies. This situation is reversed in agriculture; 87% of total agricultural product in 1996 resulted from private sector activity.

Performance in 1996. The deterioration of the macroeconomic environment in 1996 was partly the result of election year politics, and partly symptomatic of the failure to adequately restructure the economy. Fiscal and monetary policy were relaxed, the government borrowed, and the economy grew by 4%. In an effort to keep domestic energy prices low, the government slowed the depreciation of the Romanian currency, the leu, by restricting access of enterprises to foreign exchange. Privatization was pushed off, labor shedding was minimized, and, in fact, unemployment declined.

The "Quasi-Fiscal Deficit." However, inflation increased significantly, from 28% in 1995 to 57% in 1996. Both the fiscal and current account balances deteriorated dramatically. The 1996 official general government fiscal deficit was roughly 5% of GDP, an increase from less than 3% in 1995 and 1% in 1994. However a broader and more revealing definition referred to as the "quasi-fiscal deficit", which incorporates fiscal balances of state-owned firms and the government's liability for inter-enterprise arrears, shows the 1996 fiscal deficit closer to 10-11% of GDP. In fact, by 1996, inter-enterprise arrears, both in the public and private sectors, may have reached \$6 billion, equal to 16% of GDP.

State Ownership. Underlying these structural imbalances is an economy that continues to be plagued by resource-draining state-owned enterprises which survive through direct or disguised public subsidies. The biggest culprits, the self-administered

regies autonomes (prevalent in the energy and utilities sector, infrastructure, and defense), are relatively few in number; 40-60 firms account for most of the losses. In addition, state control of the financial sector continues. The Romanian government owns five commercial banks and the national savings and loan network. Together, these institutions account for over 75% of total banking system assets.

Shock Therapy. In a clear departure from the partial, go-slow policies of the past, the new government has come forth with a comprehensive and radical market-oriented plan for the economy. The focus is on stabilization (on fiscal austerity), price liberalization, and privatization. The program was designed in close collaboration with the World Bank and the IMF and was announced in the Prime Minister's "shock program" speech on February 17, 1997.

International Aid. Such collaboration should boost the chances of success significantly. For starters, the direct infusion of capital will be substantial. The IMF recently approved a new \$430 million stand-by arrangement. The World Bank package, which includes a Financial and Enterprise Sector Adjustment Loan (FESAL) and an Agricultural Sector Adjustment Loan (ASAL), is roughly of the same order of magnitude. Add to these amounts the leveraging efforts from other international donors, including the EBRD, EU-PHARE and USAID, as well as the private capital that often accompanies the World Bank/IMF program, and one arrives at a significant total of foreign resources.

External Pressure and Financial Support. An important element of the IMF and the World Bank programs is tough conditionality. Implementing the reforms that the conditions of these two programs require will be very difficult politically. But mixing external pressure with financial support in a step-by-step fashion should increase chances of success. It gives the reform effort credibility (which explains why foreign private capital often responds), and it provides a type of release-valve for the GOR in its public relations with the Romanian people.

Privatization. In light of the current policy environment, the opportunities for economic change derive from several emphases. First, a renewed push for privatization needs to be a core priority. While privatization efforts in the past met with some success, now is the time to complete what remains unfinished. This includes a focus on the large enterprises, in industry, energy and the utilities, and the banking sector as well. Previous efforts resulted primarily in the privatization of relatively small firms, mostly through employee buy-outs, a mechanism which oftentimes does little to improve overall corporate governance.

Foreign Direct Investment. A related emphasis needs to be

improving the environment for foreign direct investment (FDI). The importance of FDI in restructuring and developing the private sector cannot be overemphasized. Foreign strategic investors need to be brought into the privatization process. In fact, there are more than 700 large companies in which the Romanian government, through the State Ownership Fund, maintains a majority share. Some of these are sound enough to attract foreign investors.

So far, there has been relatively little foreign direct investment in Romania. Two billion dollars of FDI have accumulated since 1989. This amounts to roughly 3% of GDP, and is well below the amount received in the Northern Tier countries: in Hungary it is over 30% of GDP, 13-14% in Estonia and the Czech Republic, and 7% in Poland.

Yet, Romania has good potential for FDI. It has a central geographic location, a large market (its population size is second only to Poland in CEE), and a work force that is at the same time well-educated and low-cost. As an associate member of the European Union, Romania enjoys preferential access to the vast European market. This treatment would apply equally to the foreign investors within Romania.

Energy. There is potential for foreign investment in the energy sector, which needs to be avidly pursued. There has been some interest from foreign companies, such as Shell, Amoco, and British Petroleum. While energy prices are being liberalized, there has been very little restructuring of the energy sector. Romania has crude oil and natural gas. Yet, the sector is replete with antiquated, environment-damaging plants and technology. With both overcapacity and underproduction, Romania, a former exporter, is now a net importer of energy. In short, while the sector is currently a drag on the economy, after reform it could become a driving force in the transition process.

Legal and Regulatory Framework. The government of Romania is making good progress towards establishing the legal framework for a market economy. Key laws, in bankruptcy, intellectual property rights, competition and commercial policy, have been passed. Most price controls have been phased out or are in the process of being phased out. While the government still sets prices in public transport, private electricity, gas consumption, and radio and TV licenses, all of these experienced steep increases in prices in early 1997.

The Key to Sustainability. Progress in these reform areas can help realize significant efficiency gains from privatization. If the loss-making enterprises can be restructured or liquidated, this will at the same time fundamentally address the fiscal and current account imbalances while helping to increase the overall productivity of the economy. This is the key to a sustainable

path to a market economy.

C. Social Conditions

If Romania is able to approximate the schedule for privatization and economic restructuring as laid out by the World Bank and the IMF, then we can expect a significant increase in hardships in the short term. This could have both social and political repercussions. The credibility of the government could be undermined, and reforms could be put on hold.

Past Hardships. Moreover, it is important to take into account the hardships endured by the Romanians prior to this juncture. While suffering and low standards of living were endemic both prior to the transition as well as during the early stages of reform throughout CEE, Romania's pain has been more severe. In the 1980s, a primary objective of the government of Romania was to repay the country's large external debt. It was achieved by drastically curtailing consumption of both foreign and domestic goods. This contributed to a contraction of economic output and further repression of household consumption.

Painful Transition. The transition in Romania has tended to be more painful than in many other CEE countries as well. While taking a gradual approach to economic restructuring has kept unemployment relatively low, output declines in the early years were greater in Romania, inflation has tended to be higher, and real wages have fallen further.

Poverty. Poverty has taken on a different characteristic in Romania as well. For most countries of CEE, poverty tends to be shallow. Most of those impoverished are only marginally so; their incomes hover close to the poverty threshold. This has favorable implications for policy and, more fundamentally, for the living standards of those who are poor. In particular, economic growth and development may be sufficient to pull the impoverished above the poverty line; targeted interventions may be less critical.

Romanian Poverty. In contrast, poverty in Romania tends to be deep. Poverty may not be widespread; perhaps one in five in Romania is considered to be poor. This is above the CEE average, though not by much. However, poverty in Romania is likely more intractable. The poor are poorer, and perhaps for longer periods. Most of this poverty is rural; children may be the hardest hit. Romania's gypsies, anywhere from 7-9% of the total population, likewise face disproportionate hardship.

Feeling the Shocks. The current acceleration of reforms is already starting to bite. With an acceleration of price liberalization has come a dramatic increase in inflation, expected to end at an annual rate of close to 100%. This has

translated into falling real wages and purchasing power. As of February 1997, factoring in the recent depreciation of the leu, average gross salary is about \$100 a month.

The Pressures of Reform. Fiscal austerity means money is tight and firms are being pressed on two fronts: not only do they have less access to money, but increasingly, more are under growing pressure to pay their bills. This manifests in rising unemployment. In fact, an indication of "successful" application of the radical reform program may be, by various estimates, a doubling of unemployment.

Behind the Unemployment Numbers. The official registered unemployment rate is now close to 6%. Measuring unemployment through surveys tends to uncover a larger problem. A household survey conducted in the early part of 1996 in fact revealed unemployment to be closer to 15%; that is, roughly half of those unemployed, did not register as such. Consistent with deep poverty, is the prevalence of relatively long term unemployment in Romania. The average length of unemployment is 18 months. In 1994, almost one-half of all those unemployed were unemployed for more than one year.

Targeted Support. Two basic policy efforts are needed. One is a targeted safety net to protect those most in need. Traditional safety nets in the enterprises, are eroding, and the new government, which faces significant budget constraints, cannot be expected to immediately fill the gap. The challenge ultimately tests the cohesiveness of society and the determination of the Romanians to achieve a market-oriented economy.

Minimizing Unemployment. The second aspect is labor market support. This needs to go hand-in-hand with the privatization process. The objective should be to facilitate labor mobility, which leads to minimizing the unemployment rate as well as the duration of those unemployed. Such a program is critical to keeping the reforms on track.

3. Evolution of country program

U.S. assistance to Romania began in 1990. Between 1990 and 1997 \$240 million has been provided to help Romania with its economic, democratic, and social transformation.

The Early Years. The earliest activities in 1990 focused on the direct provision of social services and humanitarian aid. They also sought to strengthen the very tenuous democracy which emerged from Romania's revolution and violent political process. As conditions permitted, additional resources were devoted to fundamental economic restructuring and the development of democratic institutions.

1992-1996. After the general elections of 1992, which reflected a period of political stability, new USAID program resources were directed at firm level assistance activities, NGO development, and strengthening political institutions and the independent media. Discussions with the Romanian government and other important financial donors resulted in initiatives in the areas of economic restructuring, rationalization of the energy sector and environmental protection. However, the government at the time was unwilling or unable to implement major economic reforms. An excessive concern for maintaining popular support mitigated against fundamental change and structural adjustment. The result was a serious deterioration in the macroeconomic situation of the country.

1997 - Supporting Reform. Support for FY 1997 and beyond has been shaped to address new objectives of the GOR and new political and economic realities. The new government has expressed a clear and strong interest in rapid privatization of state-owned enterprises and more radical macroeconomic and sectoral restructuring while simultaneously strengthening social protection measures. USAID's program is uniquely positioned to take advantage of the government's newly found zeal for reform. The current program is helping to develop Romania's "over-the-counter" stock market (RASDAQ) to support the privatization process and broader capital markets development. Technical assistance to the government and parliament is helping to build political institutions and promote stability. Assistance in the social sectors includes a special emphasis on family planning and child welfare. Overall, the portfolio of USAID assistance to Romania has been reshaped to support the government's strengthened commitment to reform.

4. Strategy overview

A. The Context

The goal of the U.S. assistance program is to help the Government of Romania formulate and implement a set of fundamental reforms that will put Romania firmly on the road to economic and democratic transformation. The current political environment in Romania is optimistic: the political leadership of the country has embraced reform as the primary task of governance.

Political Will. The political will in the government to face the tough issues associated with transformation, is supported by a group of donors who are present and willing to help Romania with considerable financial and technical help. The government welcomes the assistance of donors, but understands that ultimately it is the Romanian government which must lead the process and the people of Romania who will bear the cost and reap the benefits of a reform program.

U.S. Assistance Resources. While the U.S. remains one of Romania's most important international partners, for a variety of political and economic reasons, the financial role of our economic assistance program is relatively minor when compared to the principal IFIs. U.S. assistance resources for Romania in 1996 accounted for less than ten percent of all foreign aid to Romania. With the reform agenda proceeding at a much more vigorous pace in 1997 and hopefully into the next century, the large multilateral donors, World Bank, IMF, EBRD and EU-PHARE will be increasing their financial support to the new government, and the U.S. will represent an even smaller percentage of the total economic assistance flows to Romania.

Important Role for U.S. Assistance. The U.S. assistance program, however, has had an impact on the transformation process in Romania which goes beyond its relative percentage. First and foremost the USAID program carries the imprimatur of the U.S. government regardless of its size. That is a considerable factor in Romania. The program has targeted some of the most important issues which affect reform and transformation, and has, whenever possible, formed strategic alliances with other donors and nongovernmental organizations in order to leverage change, using the considerable financial resources of the IFIs. In addition the program has capitalized upon the intellectual resources of numerous NGOs to help identify solutions which suit the Romanian environment.

The Final Years of SEED Funds. The focus of the program and its concentration on critical issues remains an important element of its effectiveness. While the program is approaching its final years, it is doing so at a time when the government has coalesced around a reform agenda. The agenda is one that the U.S. has supported and will continue to support. However, the following constraints must be factored in USAID/Romania's strategy for the final years of the program: little time to make reform a sustainable reality; the comparatively modest level of financial resources available to USAID; and a Romania Mission management staff which is few in number.

Prioritization and Focus. These factors place considerable importance on this strategy. Prioritization and focus are critical to making the remaining years of the U.S. assistance program the most impact rich and productive for Romania. Given this context USAID's priorities stem from a set of **overlapping criteria:**

1. The program must concentrate on the problems which constitute the fundamental constraints to the transition to an open democratic market economy, and, within the parameters of these problems, where current opportunities for real change exist.

2. Opportunities are classically a function in part of what the host government wants and requests. Given the new reform agenda of the government and the strong support it has received from the international donor community, USAID has the option of targeting its resources sharply on areas of real potential change.

3. The program needs to be focused more on "wholesale" efforts which lead to widespread effects. Policy change and the institutional support to implement it, especially support to the regulatory and legal framework, are the types of support that will have the greatest impact. There should be considerably less emphasis on programs which support "retail" level activities. Retail activities made more sense when the national government was less receptive to change and the donor community was less sure about which national approaches would and would not work in Romania. The opportunity and challenge now is to work at the top or through mechanisms which almost immediately lead to widespread replication. An emphasis on laws, policies, and regulation along with the increased capacity to implement these will create the greatest change and reform in the current environment.

4. More focus will be needed on efforts which seek to make the outcomes of the reform process sustainable. This will require a totally integrated donor approach which makes capacity building a top priority. This is all the more critical for USAID which may have a shorter time horizon for its programs than some of the other donors.

5. USAID must take advantage of its comparative advantages in deciding on where to focus its work in the last years of the program. There are significant donor resources available to Romania. USAID should not duplicate others, but rather should continue to leverage other donor resources to maximize the impact of its program.

Unique Opportunity. USAID has a unique opportunity to contribute to real change in the Romanian economy and society by building on its rich history, engaging the new government proactively on its reform agenda, leveraging its resources with other donors, NGOs and the private sector in order to help Romania enter the new century as a modern European state.

B. The Strategy

In Romania's "Macro-stabilization and Development Basic Program" the government proposed the following "Basic Objectives":

"Reaching the durable economic growth means for Romania the rapid, consistent and coherent promotion of the

market oriented reforms.

The definition of these objectives is based on facts, on Romanian concrete conditions, and this mainly starts from the premise that Romania must accomplish these reforms since it still is a transition economy posting significant gaps compared to the developed countries.

The country's limited resources must be efficiently allocated and used. The government believes that it is both an emergency and priority for the governing programs to provide the reforms speeding up, mainly through the creation and the consolidation of the markets integrated system - the market represents the most efficient mechanism in appropriating the resources. Only by cutting the state role will be possible to raise both the domestic capital and the efficiency of its usage."

Pushing the Transition. These basic objectives capture the political reality of the new government in Romania. Economic restructuring and privatization are the top priorities. Romania is committed to pushing the transition as hard and as fast as it can. In this environment and consistent with the criteria outlined above, USAID will focus its final programs principally on supporting the government's economic restructuring efforts.

The Centerpiece of U.S. Assistance. Support for the government's privatization campaign will be the centerpiece of U.S. assistance to the economic transformation. The comprehensive, serious program to complete privatization was announced by Prime Minister Ciorbea on February 17, 1997, after intense negotiations with the World Bank and IMF. By implementing the program the GOR will accelerate the economic transition by terminating subsidies, cleansing the economy of economic dead weight and reassigning resources to profitable enterprises. In support of the privatization focus of the shock program, the US Government, through USAID, will continue to support the development of private financial systems that can attract and allocate capital efficiently. Without a private financial sector, the emerging private sector composed of privatized former state enterprises and new private enterprises will be at severe risk. Former state firms now cut off from state financial spigots and newly created enterprises need sources of financing if they are to grow, prosper, and contribute to Romania's economic growth.

Privatization

USAID will provide comprehensive technical assistance to the Ministry of Reform, State Ownership Fund (SOF) and the National Agency for Privatization (NAP) in order to implement rapid completion of privatization. USAID will: support the Ministry of Reform in its efforts to coordinate privatization; provide

assistance to the SOF in developing policies and procedures, selling larger enterprises, auctioning small and medium enterprises and liquidating unsold companies; and, assist the NAP in harmonizing privatization laws.

Capital Markets and Banking

USAID will continue its work on capital markets and begin work in banking supervision and training to help bank privatization. Building on a very successful program, USAID will continue to strengthen existing private emerging capital market institutions, help start the bank privatization process, and support the strengthening of the legal and regulatory framework under which these institutions function.

Energy

A third, equally important and mutually supporting focus area related to economic restructuring, will be the energy sector. Without fundamental restructuring and privatization of the energy sector, the economic problems of the sector will spill over into the rest of the economy and make other economic reform efforts less productive and perhaps impossible. Again, in this sector USAID will continue to support a successful program which has worked with the major multi-lateral financial institutions by leveraging resources to begin the process of restructuring and privatizing the energy sector. USAID will continue to focus on the oil sector and the electrical power sector as points of primary intervention. Opening the sectors to private investment will remain a principal objective. Introducing competition and increasing efficiency will also be important themes, along with the creations of a modern independent regulatory structure.

Democracy and Decentralization

As a compliment to this basket of interventions designed to support the government of Romania's economic restructuring program, USAID will also support the government on some of its most critical efforts to further reform democratic structure in Romania. The two efforts are linked closely. From the economic side as the government liberalizes the economy it is bringing greater numbers of new decision makers into the economic and political process. By moving to strengthen the institutions which will receive the devolved power from the central government, the government is also making all reform, both economic and political vastly more sustainable.

For years, political and economic decision making have been highly centralized in Romania. The government plans to change that. It has made decentralization as important a theme in its development plan as economic restructuring. There is a strong sense that the two efforts together are critical to achieving success. Decentralization will mean changes in governmental relationships: Authority will move from being vested in the central government to being vested in civil society; from central

government to local government; within central government from the executive branch to the legislative and judicial branches; and, within the executive branch from the president and prime minister to the line ministries.

To support this unprecedented shift in locus of power, USAID will help strengthen the capacity of the legislature, continue to strengthen the judiciary, build on extensive experience working with NGOs to help them assume an even more effective role in Romanian society, and increase support but shift emphasis in the area of local government. USAID will decrease direct support to city and municipal government in favor of working with the Federation of Mayors and other associations which will in turn work with individual local government on increasing their capacity as they increase their authority.

Labor and Child Protection

Finally one can not overestimate the importance of social conditions in the Romanian context and how these conditions will affect the pace and direction of reform. The shock therapy implied by the governments "do it now" restructuring agenda will exacerbate living standards for many. Painful costs will be borne up front and the gains will be realized over the long term.

The government has plans for specific interventions in the labor market to minimize labor displacement and unemployment, and to facilitate labor mobility. USAID, EU PHARE and the World Bank will be helping with this effort. There is also a critical need for interventions directed at the most vulnerable groups. USAID, working with new and traditional partners, will put into place a new, comprehensive program to reach at-risk children and help protect them during this period of economic uncertainty. To complement this effort, USAID will continue its work on family planning, both as a way of helping women, who bear a disproportionate share of the burden of economic transformation and as a means of preventing the future increase of the number of abandoned and institutionalized children.

5. Graduation Prospects

Romania has far to go in its transition to a market-oriented democracy. Of the thirteen countries of CEE, Romania ranks 8th in terms of democratic freedoms in 1996 as measured by Freedom House. As of mid 1996 and according to the EBRD, Romania ranked last alongside Bulgaria in terms of progress in economic reforms. Implementation of the GOR's reform package can change such ratings.

Prospects for Decentralization. Looking across USAID's three strategic assistance areas, democratic reforms in Romania may be the most advanced. Nevertheless, what is new today is an

explicit focus on decentralization by the Romanian government, and it is very difficult to gauge at this juncture how this will play out. Recent Romanian history, up to the November 1996 elections, consists of almost exclusive emphasis on a highly centralized system of political decision-making. The new focus means, among other things, that while the desire to decentralize--from the executive to the parliament and judiciary, to the local governments, and to civil society--may be there, the capability may not. Nor may the political will be sustained, as efforts to disperse the power go forth.

Institutionalize Reform. The key to the democratic reforms may be to institutionalize the changes as quickly as possible. For example, local governments must be empowered with capabilities so that they can fend for themselves and be more financially and administratively self-sufficient. Developments in the next year or so should provide the basis for a more realistic perspective on progress in this regard as well as on thresholds; that is, how far has Romania gone and how far is far enough for it to be sustainable.

The Path to Economic Restructuring. While Romania has made some progress in economic restructuring, much still needs to be done. The private sector as a percent of GDP has been increasing impressively, and today is nearly 55% of GDP. However, this trend is likely more the result of the growth of new business starts in the private sector, than from privatization. Furthermore, without substantial progress in large-scale privatization, including significant investment by foreign investors, the growth of the economy overall will be restricted.

If the renewed push to privatize is successful, and a reform-minded government continues to preside, momentum in economic restructuring could increase substantially. Much of the legal and regulatory framework is in place or is being put into place. Financial sector institutions, particularly capital markets, are far along, and should facilitate not only privatization but post-privatization as well. Furthermore, under the guidance and pressure of the IMF and the World Bank, macroeconomic stabilization is the GOR's priority.

Trends and Progress. As with democratic reforms, trends and progress should be significantly clarified during the next year. The privatization schedule is a very ambitious one; the World Bank is calling for the privatization of fifty firms a week. Although it is not likely that this schedule will be met, if the government sustains its will to privatize, substantial progress should be evident in months.

Social Sector Impact. Social conditions are slow to improve in Romania, when compared to the other two strategic areas and to social conditions elsewhere in CEE. Furthermore, if most of the

proposed economic reforms go through, living standards for many Romanians are likely to get worse before they get better. If economic reforms stall, living conditions will deteriorate even more drastically.

Reform Backsliding? Backlash from the reforms is already being voiced by some of the unions, and reform backsliding is a real possibility if social concerns are not adequately addressed. The most effective response to this would be to move the reforms along as quickly as possible. This is certainly the approach taken by the GOR and the international donor community.

Targeted Social Interventions. There are, however, also targeted interventions that focus on ameliorating personal hardships, which are being pursued. One being undertaken by the World Bank and EU Phare put into place a fiscally sustainable social safety emergency fund. USAID is contributing to the social safety net through its historically key role in efforts to reduce the number of at-risk children in Romania.

Labor Redeployment. A second social safety net area for USAID is a labor market program (labor redeployment) designed to facilitate the economic restructuring process by minimizing the pain from the inevitable labor shedding that goes along with privatization. In this regard, USAID and the U.S. Dept. of Labor, in concert with the World Bank, is working to facilitate: (a) transitional income support for displaced workers (severance pay, unemployment benefits, tax breaks); (b) rapid intervention and planning assistance to enterprises (to help them engage in the labor shedding process in as humane a way as possible, with redeployment plans and social dialogue); and (c) labor redeployment assistance given to local public and private service providers (to facilitate employment and relocation services, retraining, public service employment, small business assistance, and local economic development planning). The World Bank plans to make \$11 million of its Employment and Social Protection Loan available for this activity.

6. Program Focus and Concentration

The number of activities in the Romania program will drop from some 37 with an average size of \$703,000 per activity in FY 1996 to 22 in FY 1998 with an average size of \$1.5 million per activity. This substantial reduction will take place in spite of the addition of several new activities to immediately support the GOR reform program. In FY 2000, 2 years before graduation, the Romania program will fund only 13 activities.

Outlook for Management Units. The trend of the number of management units is clear. There will be a 41% reduction in the number of management units between 1996 and 1998, and a 65% reduction between FY 1996 and FY 2000. This results from a

tightening of program emphasis and a major shift in the mode of providing assistance.

The Move from Retail to Wholesale. In the past, because there was less political will on the part of the former government to undertake fundamental structural reform, USAID/Romania dealt directly with a wide array of partners, mostly in the private and NGO sectors. In this sense the program by-passed the government and was implemented directly with numerous partners at a "retail" level. These partners were individual firms, single municipalities, NGOs or single institutions because there was a particularly effective individual leader or administrator at its head. The new strategy proposes to conclude most of this retail level work and concentrate the final years of the program at a higher or more "wholesale" level where there has been a quantum increase in the political will to implement key reforms. Concentration and the wider spread impact of the program, brought about by a wholesale approach will better guarantee progress toward graduation criteria.

Orderly Phase-Out. The most dramatic shift in the program will be in the area of support and development of private enterprise. USAID will carry out an orderly phase-out of retail style activities as they are completed. No new money will flow to these activities after FY 1997.

Improved Approach. The emphasis will focus on assistance to the national privatization program. It will help set the policy framework of the privatization process and will support the institutions which are charged with carrying out this process.

Building on the Success of Agriculture Activities. The other main focus in this area will be a new activity to support the post privatization institutions of the agro-industrial sector, where Romania is recognized to have a leading comparative advantage. This will build on the current successful work of VOCA and Land of Lakes, and will deal with the institutions critical for an efficient and truly market-oriented agriculture sector.

The ROAEF. The Mission must carry the Romanian American Enterprise Fund at full funding out through FY 2000. That activity--almost 20% of each year's OYB--is inconsistent with the wholesale approach of the new strategy. It focuses totally at the retail level and acts independently of the Mission--although the Mission, through the SO team process has forged cooperation between the ROAEF and other enterprise development activities.

Capital Markets and Banking. In the financial sector the Mission will continue to support its two main policy and institutional development activities. These support the development of the capital market structure in Romania and the sound functioning of

the banking system. Both of these activities operate at the national level.

Bankruptcy. The Bankruptcy project will be funded through FY 2000. This activity is key to implementing privatization and to reallocating financial and other resources to achieve a healthier, more competitive enterprise sector.

Energy. USAID/Romania will also continue its current programs in Energy throughout the period of the strategy. The activities focusing on privatization of the oil and the power sectors will remain the dominant emphasis. The energy efficiency activity will be phased out, with FY 1997 being its last year of funding.

Shifts in Democracy Programs. The democracy program will likewise undergo a substantial shift, both in focus and approach. Again a much more wholesale approach will be used. The activities will seek to support the institutions relevant to the governments decentralization efforts. Parliament and NGO's will be the key partners in this process. Support for political organizations is complete and the Media program, now supporting a more mature and dynamic media, will receive its last funding in FY 1998.

Parliament and NGOs. Parliament will be assisted in strengthening its legislative functions and linkages to constituencies, i.e. local communities. NGO support will shift to institution building. Recognizing large levels of sub-grants to NGOs provided by other donors, USAID/Romania plans to phase out of the NGO sub-grant activity of the Democracy Network in 1998.

Local Governments and Decentralization. Activities which support local government will continue throughout the strategy period, but will shift totally to a national level support structure. Neither of the two core activities will continue to provide retail assistance directly to municipalities, rather they will shift to providing training and technical services to large numbers of local authorities on a national scale and to assisting national government ministries with local government responsibility. The aim is to make decentralization from the national level to municipalities and cities through out Romania a sustainable concept.

Institutionalized Children. A new area of emphasis will be child protection. This will continue the ongoing family planning program and will explore a network concept among Romanian and US NGOs, the government, and international institutions to concentrate attention on the serious problem of at risk children in Romania. USAID, supported by strong Congressional interest, has been the leading donor in assistance on behalf of at-risk children in Romania. While this new, comprehensive program is

not yet developed, USAID/Romania fully intends to utilize a wholesale methodology as it goes forward and develops the concept.

Environment. The environment program will be completed with last year funding in FY 1999. This program represents a commitment made by the U.S. to Romania and will end in two years. The work in this sector complements USAID/Romania's work in privatization and energy and should help to improve the investment climate. It will likely create environmental investment opportunities for Romanian industry and municipal utilities.

Cross-cutting. In the area of special initiatives the Mission will complete the health work underway with current funding available. The Treasury activity will continue under the current arrangement with final funding in FY 1999. Training activities, because they support all the of the core strategy programs will continue at current levels.

STRATEGIC OBJECTIVE 1.3: DEVELOPMENT AND GROWTH OF PRIVATE ENTERPRISES

1. STATEMENT OF STRATEGIC OBJECTIVE

Strategic Objective 1.3, the development and growth of private enterprises, will remain an integral part of USAID/Romania's program strategy. However, we will shift the focus from assisting individual enterprises to supporting the Government of Romania's (GOR) privatization effort and reform of the agriculture and agribusiness sectors.

2. PROBLEM ANALYSIS & USAID INTERVENTIONS

a. Problem Analysis

Three constraints impede the development of the private enterprise sector: there is not enough competition, i.e. privatization needs to be completed; support for reform is dampened by the apprehension of its social consequences; and enterprise development is hampered by poor management and information, and a confusing legal framework.

Competition & Privatization: The number one problem in Romania is the role of the Government in the economy. The Government is trying to do everything by acting as owner, manager, regulator, and financier. There is no doubt about the sincerity of Romania's leaders to sell off State enterprises. However, there is concern about the willingness of the new Government to let market conditions prevail during its "shock therapy" approach to market reform. The test will come with the sale and liquidation of the State's remaining assets and enterprises by the State Ownership Fund (SOF), which has controlling interest in almost all 5,000+ state-owned companies.

To keep up the pace of privatization mandated by the World Bank and IMF in the FESAL and ASAL agreements, the Government will likely have to strike a compromise in setting a price based on the contrived valuation price for SOEs established through complex GOR formulas and a true market price. The dilemma on "methodologies and norms" to value SOEs leads to a larger two-sided problem with privatization: how to obtain a sales price for State enterprises that is indicative of what the market will pay versus the legal intent of the State which is to maximize financial return. The GOR leadership should set the standard for open, regulated competition by selling its ownership in state enterprises at close-to-true market value. The political costs to the GOR would be severe because all SOEs are probably overvalued according to legal valuation procedures. However, the market will determine if any SOEs are cheap on an operating basis, under utilized or overvalued. Throughout Central Europe experience has shown that many companies may be restructured, but only after ownership is in private hands.

There is an urgent need to complete the privatization process. While the Mass Privatization Program was successful, a huge number of companies (approximately 5700), the state still owns over 51 percent of more than 2800 companies. While normal for mass privatization programs, the Romania amount seems high for the CEE region. Compounding this has been the policy of the SOF to restrict the privatization of large companies to tenders by strategic investors rather than offer them for auction, i.e., about 700 companies for which the SOF maintained at least a 51 percent interest. The end use of net proceeds from sales and liquidation generated by the sale and liquidation of SOEs by the GOR is also a concern: the GOR should consider using the revenues to fund infrastructure improvements and new training programs to keep Romania's labor force competitive in addition to budget offsets--there are concerns that as much as 80 percent of the sales proceeds will go toward budget attribution.

The biggest impediment to foreign investment is the slowness with which privatization has taken place. Foreign direct investment (FDI) in the Romanian economy is less than two and a half billion dollars, less than 90 percent has been for transactions of less than \$1.0 million, primarily because there are no incentives to deal with larger companies. FDI is less than one-third that of other equivalent economies in CEE, most with considerably less population. Much has been accomplished, but there are more than 6000 companies to be privatized (vs. 500 state companies in Hungary). Commitment to completing the rest of privatization appears to be firm at all levels of government, but performance cannot be measured yet. Key conditions stipulated by the World Bank and the IMF with regard to privatization (e.g., shares to be sold at market price at no minimum price, no interference from the Court of Accounts, no conditions required for sale) have been accepted by the GOR, but not implemented. The skills and organizational capacity to carry out privatization are not yet in place. USAID suspects that it will take longer to implement the cash auctions and longer yet to implement the volume of sales required by the FESAL (e.g., 50 enterprises per week).

Support for reform is dampened by its social consequences:

Hardships are already growing as monetary policy takes hold and privatization accelerates. This will be significantly compounded because there are many mono-industrial towns, e.g., mineral extraction and refining. Real wages are falling (approx. 75 percent of last year). Price liberalization has meant high inflation (approx. 76 percent for the first quarter of 1997) and falling purchasing power (CPI at 73 percent higher YTD). Money is tight and firms are being squeezed on a number of fronts: less access to reasonably priced money and lack of real job mobility. Unemployment is rising (10 percent on an annualized rate for the first quarter of 1997). In fact, an indication of the "successful" application of the IFI program may be a doubling of unemployment, from 6 percent (1996) to 12 percent (+600,000 persons) before the end of 1997.

Inefficient Management, Insufficient information and a confusing legal and regulatory framework are a barrier to enterprise development: More managers are needed for private enterprises who understand western business practices and can effectively manage people, money and ideas. Recently, the SO 1.3 team in Romania developed "focus priorities" for small business growth that are now in use to select firms, entrepreneurs, participant trainees and to design, monitor and evaluate current programs. "Must-have" characteristics include clients that are, or possess the instant potential to become, market-share leaders in "deep markets;" possess positive management attitude and leadership; and are truly private, with at least 51 percent Romanian ownership. Other important characteristics include: credit-worthiness; sectors and companies with low barriers to markets, foreign exchange earnings or the potential; national priority; geographic dispersion and women and minority-owned businesses.

A myriad of commercial laws and regulations of Romania limit private sector development. Laws and regulations are generally perceived by foreigners as attempts to control private enterprise, not expand it. Excessive employment taxes, confusing accounting rules, inconsistent application of customs duties, insincere investor incentives--all discourage domestic and foreign investment. Mistrust and fear of being taken advantage of often results in "no deal."

In addition, the lack of "rules of the game" on competition also make foreign investors wary and discourage the start-up of new domestic enterprises. Also, the lack of established and successful bankruptcy proceedings, generally limits an efficient allocation of productive assets and has been a constraint to disposing of insolvent state-owned enterprises in the privatization process.

b. Proposed USAID Interventions

Privatization: USAID's privatization TA will be focused on developing and implementing rapid privatization processes, particularly within the SOF. Outside of its new leadership, the SOF is still largely the same ineffective organization of the past. USAID will support privatization with technical assistance to the Ministry of Reform aimed at:

(a) supporting the Minister of Reform to coordinate strategies and policies for the successful integration of privatization, capital markets and foreign investment; provide training where and when required; provide investment promotion and public education for the privatization processes;

(b) supporting the State Ownership Fund (SOF) to develop the necessary framework of policies and procedures to expedite the privatization process, including: (i) sale of remaining state shares of relatively attractive firms; (ii)

auctioning of smaller, trade and agribusiness enterprises; (iii) offering open tenders to foreign investors for relatively large and unattractive enterprises; and (iv) liquidating unsold companies;

(c) assisting the National Agency for Privatization (NAP) in harmonizing the privatization laws, including the valuation methods for the privatization process and management of the information data base used to sort companies, establish value and inform investors; and,

(d) facilitating labor market support which includes: (i) transitional income support for displaced workers (severance pay, unemployment benefits; tax breaks?); (ii) rapid intervention and planning assistance to enterprises (to help them engage in the labor-shedding process; (iii) labor redeployment assistance given to local public and private service providers to facilitate employment and relocation services, retraining, public service employment, small business assistance; and, (iv) local economic development planning.

Labor Redeployment: A labor market program is critical to ameliorate the short-term negative social impacts of privatization. USAID, the U.S. Department of Labor (DOL), and the World Bank are collaborating on a labor market program to tackle anticipated unemployment with counseling and training. The objective will be to facilitate labor force mobility, which will minimize unemployment rate and duration. DOL's role will be to provide rapid response intervention with management and labor representatives of firms being privatized. This activity will be critical to keeping privatization on track and politically viable.

Competition, Bankruptcy and Other Legal Activities: USAID's legal technical assistance will target: laws of greatest economic importance to market reform; law drafting to improve clarity and technical precision; enforcement of newly adopted laws and regulations by officials and private practitioners; and institutions which support commercial laws, regulations and enforcement, e.g., Parliament and the economic press. USAID will continue to assist the GOR create the legal and regulatory framework for the capital market. USAID will continue to assist with the drafting and review of most major economic laws, e.g., securities, foreign investment, competition, bankruptcy, environmental protection and banking supervision. However, the vitality of a commercial system not only depends upon the existence of laws, but also on the application of laws--USAID will assist Romania to strengthen surveillance and enforcement of economic, prudential and commercial laws and regulations most relevant for financial markets, privatization and small business development.

Bankruptcy training will be expanded to train judges and

bankruptcy court administrators, trustees and clerks; resolution of cases will become an expected output. A long term advisor and additional training and short term assistance will be added to USAID's ongoing IAA with the Department of Justice/Federal Trade Commission and GOR Council and Office of Competition. USAID's US Treasury Tax Advisory Program will assist the Ministry of Finance reorganize the Tax Departments as functional agencies to streamline tax administration; tax codes and procedures will also require revision.

Also, many European and former Soviet Union countries with transitional economies adopted alternative dispute resolution ("ADR"), i.e., the resolution of commercial disputes which are heard in a non-governmental forum but enforceable in a public court. USAID may investigate the possibility of assisting the GOR adopt ADR methods of solving commercial disputes if existing laws and regulations are not enforceable in the courts and become a constraint to private enterprise growth.

3. RESULTS FRAMEWORK (see Attachment B)

4. JUDGING PERFORMANCE

SO 1.3, Development and growth of private enterprises: From 1989 through 1996, Romania's private sector has increasingly been viewed by the Government of Romania (GOR) as the primary engine of economic growth. Since 1992, USAID has assisted Romania with technical assistance to private enterprises. Private sector contributes about 55% of GDP--it should be much higher. Small business growth has created: greater productive output, greater number of new products and, more jobs (S.O. 1.3). However, the GOR failed to complete reforms to accelerate private enterprise development (IR 2). Development of private enterprise has been held back, principally due to a lack of capital (IR 3), management (IR 4), and laws and regulations (IR 2.1.1) and competition for markets because the State has been slow to finish privatization.

IR 1, Improved physical infrastructure: This IR has been deleted and became an assumption. Also, it could not be measured.

IR 2, More open and competitive marketplace (IR 1 in 1997 R4): In 1995-96, USAID assisted the Agency for Restructuring prepare companies for privatization and sale to strategic investors. USAID's program for the SOEs was focused on restructuring them so that they could be privatized; once privatized they would become credit-worthy and the financial drag on the national economy would be reduced. For 1996, USAID reduced financial blockages of 40 loss-leading SOEs by approximately \$1.0 billion and downsized more than 40,000 jobs, many of them at management or technical levels. In 1997, given the GOR's commitment to privatize SOF ownership of 2,750 small and medium firms and 700 larger firms, USAID's restructuring activities were redirected to provide technical assistance directly to the SOF and National Agency for

Privatization to assist in meeting the above targets. The IR has been adjusted accordingly.

Regrettably, no state banks were privatized because the law that USAID-funded US Treasury advisors drafted with the Ministry of Finance and the National Bank of Romania was not passed. Its passage is expected in 1997, as required by the new World Bank FESAL conditions. With the passage of the law and the start of USAID's Banking Supervision project privatization of state banks is expected to begin this year.

USAID has assisted the creation of the legal and regulatory framework for the capital market (IR 2.1.1). USAID is assisting with the drafting and review of most major economic laws, e.g., securities, foreign investment, competition, bankruptcy, environmental protection and banking supervision. USAID has trained more than 40 bankruptcy judges in administration of the bankruptcy law. The Ministry of Finance will reorganize the Tax Departments as functional agencies to streamline tax administration; tax codes and procedures will also require revision (S.O. 4.1).

IR 2 also supported the development of a more competitive and market responsive private financial sector (SO 1.4). Investment and operating capital will increase for a broader spectrum of private enterprises, thus supporting competition, when State banks are privatized. Regulations and legal changes to permit the capital markets to create and trade financial debt instruments are important to the evolution of competitive capital markets. Also, as the central bank authority strengthens and enforces prudential and other banking regulations (S.O. 1.4) more international banks will open branches in Romania (there are five now) and Romanian private banks will emerge.

IR 3, Increased capital investment in private enterprises (IR 2 in 1997 R4): Increased foreign direct investment is absolutely necessary to increase capital for Romania's private enterprise sector. Foreign direct investment for 1996 was \$600 million; this exceeded the USAID target of \$400 million; however, this is far lower than comparative economies in the CEE countries--and does not come close to meeting the capital needs of approximately 700,000 small and medium enterprises nor the several thousand large and newly-privatized SOEs that will also need capital. Domestic savings and investment will also need to increase. Capital investment is particularly needed for capital improvements and management know-how to keep up with rapidly changing markets. By reducing state ownership of enterprises (IR 1.1), the GOR is signaling its intent to devolve enterprise ownership and management to private domestic and foreign interests, to attract new investment capital for both the privatized state-owned enterprises.

USAID's approach to increase capital investment in private enterprises has been to assist existing small businesses become

credit-worthy by improving their ability to control costs, improve production and increase sales. However, improvement in production and sales did not significantly increase capital investment for our clients as a whole, although they probably did better than most SMEs. The agribusiness associations that USAID assisted did very well, achieving approximately \$110 million of US private venture capital for about \$800,000 of USAID funding. The Romanian American Enterprise Fund has provided approximately \$11 million in loans and venture capital to 8 medium to large private companies and approximately \$500,000 to more than 80 microenterprises. Further, USAID enterprise development TA providers (e.g., CDC, VOCA/ACDI) began earnest collaboration to improve the efficiency of qualifying and success rate for small business loan applicants.

IR 4, Improved management practices adopted by enterprises (IR 3 in 1997 R4): For 1992-1996 USAID's program to private enterprises utilized three general approaches: (1) production, marketing and management consultation to firms and entrepreneurs; (2) training business trainers and consultants at GOR Centers for Business Excellence and GOR Chambers of Commerce; and, (3) providing loans to SMEs through the Romanian American Enterprise Fund. Also, USAID assisted State-owned enterprises that were assigned to the GOR Agency for Restructuring restructure so that they could be privatized. Generally, these programs have been successful in helping limited numbers of existing firms and entrepreneurs.

The ten US providers who make up the SO 1.3 team developed a consolidated approach to enterprise development that focuses on viable sectors and companies and leveraging. USAID's firm-by-firm providers are discovering that they can leverage more assistance by focusing on specific sector and company profiles (see above), forming business associations or groups to share a technical consultant, and, working with intermediary financial institutions to prepare clients for loans, etc. The business education providers are achieving near-sustainability for their consulting programs because they are carefully selecting enterprise sectors and firms with which to work. All S.O. 1.3 providers are achieving even greater success by leveraging other donor programs.

5. COMMITMENT AND CAPACITY OF DEVELOPMENT PARTNERS

Privatization: Selling and liquidating the remaining shares of SOEs is a priority that requires USAID and other donor support. The skills and institutional capacity in the Government to carry out privatization of assets by sale and liquidation are not sufficient. USAID, the World Bank and EU Phare are cooperating to provide technical assistance. USAID is concentrating on management and coordination of the privatization process, the various auction systems for selling State shares and judicial insolvency. The EU/Phare program is assisting MOR to privatize and restructure State enterprises (and development of capital

markets--4.0 million ecu), i.e. legal drafting, establishing a national association of liquidators, liquidate 5-6 large commercial companies, public awareness and strategic investments. The World Bank has a special technical team that will provide short term assistance to the accelerated privatization FESAL and ASAL process: managerial assistance to the SOF, public awareness for domestic investors, assist investment banks and companies prepare initial public offerings on the BSE; assist the SOF to package large SOEs for investment bankers to sell to strategic investors.

Small business development centers: The Centers for Business Excellence and the Chambers of Commerce are part of the GOR scheme to assist SMEs. The CBEs are assisted by USAID, GTZ, EU/Phare, and UNDP. USAID believes that other development partners are majority supporters of CBEs and other general purpose business education programs.

The IBRD will agree to provide a \$250 million Agricultural Structural Adjustment Loan (ASAL) for policy reform (removal of subsidies, price controls), accelerated privatization of loss-leading State farms and enterprises and legal revisions to create secondary land markets. However, the only major technical assistance donor in agriculture is GTZ.

6. ILLUSTRATIVE APPROACHES

Different approaches were important to determine USAID's ability to improve private enterprise development in Romania. Generally, USAID-funded programs have achieved what they set out to accomplish, but fell short in either one of two areas: individual clients succeeded in business, but the program impact was confined to a handful of firms in several sectors; conversely, for those USAID providers where formal business management education was the objective, the expansion was wider, but improvements or accomplishments of the participants' businesses were difficult to measure. Also, local chambers of commerce in small communities which bypass by the GOR Chambers and Centers and "businessman's clubs" (membership does include women) are becoming popular and effective. USAID-funded assistance to organize private sector meat processors, dairy processors and miller and bakers associations are providing services for members, locating markets and foreign investors and effectively promoting legal and regulatory reform.

Beginning FY 98, USAID plans to reduce the number of its providers of technical assistance to SMEs and to focus on targets of high priority for the small business sector over the next three fiscal years. Therefore, USAID's focus will be to pick a sector and develop a critical mass of technology and management through an alliance of entrepreneurs to attract GOR support and foreign and domestic investment.

Therefore, FY 97 will be the last time funds will be obligated

for all of the present providers of S.O. 1.3 enterprise development programs except the Romanian American Enterprise Fund, the privatization program, and the bankruptcy and competition law programs. Beginning Summer 1997, USAID will conduct a sector assessment with the intention of launching a more expansive program in one sector of highest priority and potential based on the rationale discussed above. USAID has selected agribusiness as the sector which offers the best comparative advantage for the Romanian economy, and one which offers the most promising opportunities for increased income for 35% of the work force.

Agribusiness development in Romania: The objective of increasing assistance to agribusiness is to achieve a threshold of private sector competence that expands the contribution of agriculture to the entire economy. Overall growth in agriculture in Romania from 1990 to present has averaged 2 percent p.a., and agriculture contributes about 20 percent of GDP. Most of this growth is due to new, private, small and medium scale agribusinesses. Progress was limited as long as the previous government was subsidizing and managing the agricultural economy through its SOEs. The rapidly evolving commercial and economic situation affecting agribusiness provides immense challenges and opportunities simultaneously: Hyperinflation and the liberalization of prices have caused a complete rethink of business strategies by all private firms and entrepreneurs: cost control, marketing and financing are new skills that must be learned and applied immediately for agribusinesses to stay competitive. The cost of raw product (slaughter animals, meat, milk) has roughly doubled in the first quarter of 1997. The price of other inputs have increased too.

Focusing enterprise development on policy reform, privatization, agribusiness, and associations has good linkages with the rest of USAID's portfolio, especially S.O. 1.4 (financial sector) and S.O. 2.1 (citizens participation in decision-making). Also, there is a compelling social or equity consideration: poverty is mostly rural. And, in contrast to shallow poverty which prevails in most of CEE region, deep pockets of poverty exist in Romania.

In sum, the speed of return may be quicker for agribusiness than in the industrial, manufacturing and service sectors. USAID proposes to conduct an analysis of Romania's agribusiness sector and design a three year program.

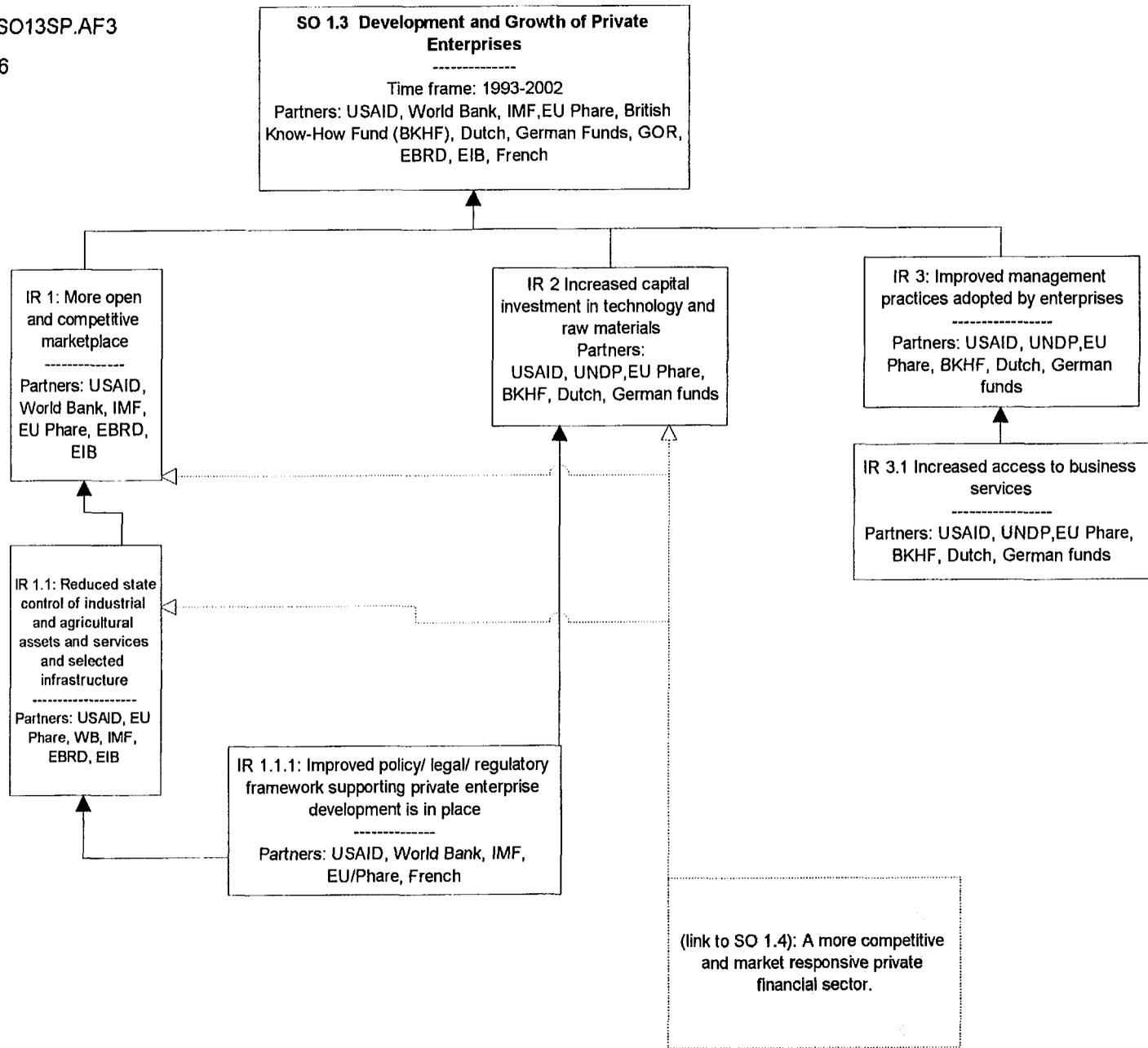
7. SUSTAINABILITY

The accelerated privatization program (IR 2.1) will considerably reduce state monopolies in many sectors of the economy, thereby advancing a more open, competitive and sustainable free market system for private enterprise. USAID's privatization program is driven by the FESAL and ASAL schedule that requires the sale or liquidation of more than 3000 State enterprises by mid-1998. USAID's reorganization of its restructuring program to

accelerated privatization will require a heavy ramping-up of technical assistance, but for a relatively short duration, i.e., 18-24 months.

The existing enterprise development programs have or will achieve sustainability and will complete their firm-level commitments by the end of FY 97. Beginning FY 98 USAID will expand its support to improve the agriculture sector during FY 97-2000, building on the success of the USAID agricultural program in place, but expanding to policy reform, technical innovation, trade promotion and strengthening private associations.

Policy, legal and regulatory reform is an integral part of all S.O 1.3 programs and make those programs more sustainable. Capital markets, foreign investment, bankruptcy and competition (antitrust) laws and regulations have the highest economic priority because they provide the enabling environment that allows enterprises to grow through competition and to attract foreign investment, and thereby become more sustainable. There is also the need to complete the necessary legal revisions and enabling legal and regulatory changes to support accelerated privatization and sustainable private enterprises.



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Strategic Planning (1997 and Beyond)
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS
S.O.1.3: Development and Growth of Private Enterprises

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
				YEAR	VALUE	Target	Actual (year end)	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Development and growth of private enterprises	Percent of annual GDP that is from the private sector	Definition: value of GDP that is produced by private sector/total value of GDP Unit: Percentage	95	45%	55%	52%	60%		65%		70%		75%	
IR 1	A more open and competitive market place	Time for licensing procedure for new firms is reduced as per World bank conditionality	Definition: Unit: avg # of weeks	1995	12	8	8	6		4		4		4	
		Government meets IMF requirements for price decontrol	Definition: Unit: Yes/No	1995	No	Yes	No	Yes		X		X		X	
IR 1.1	Reduced state control of industrial and agricultural assets and services and selected infrastructure	Number of companies privatized under Mass Privatization Plan (e.g. 51% private ownership)	Definition: cumulative number Unit: number	1995	1,500	2,500	2,847	3,500		4,000		4,500		4,800	
		Number of state-owned banks that are privatized	Definition: % of total Unit: %	1995	0%	17%	0%	17%		67%		84%		100%	

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Comments/Notes:

SO 1.3/ Source: National Agency for Privatization

Previous Intermediate Results related to Improved Physical Infrastructure and Increased Investment in Infrastructure (IR's 1 and 1.1) have been eliminated due to problems of data collection. The acknowledgement of the importance of infrastructure has been retained, however, as a Critical Assumption to the achievement of the SO.

IR 1/ a. Several sources of information exist. The mission has chosen to use first-hand information from the Romanian Trade Registry. Another study, sponsored by the World Bank and carried out by the UNDP business center reports the average licensing time at 4 weeks.

b. November 1996 elections resulted in new reformist government. Most price controls were not lifted until January 1997, and therefore the result for 1996 remains as "No". However, it seems clear that the new government has not lost its resolve to proceed with price decontrol. The IMF is likely to approve a \$400m package of loans by mid-May, 1997.

IR 1.1/ a. Source: Romanian Agency for Restructuring report

b. A Bank Privatization Bill failed to clear Parliament last year before the elections. The new government has made bank privatization a priority, despite the political complications surrounding the issue. Local trade publications foresee that one state bank (out of six) will be privatized, and as many as three during 1998. Subsequently, the mission has adjusted this target.

IR 1.1.1/ The new government is planning to submit up to 99 new or revised laws to Parliament for passage in 1997. A total of 35 of these laws will be presented by the end of April. This package of laws includes those deemed critical for private sector development, in areas of taxation, registration, investment and accounting.

IR 2/ Source; The Economist's Business Central Europe Annual (April, 1997). Trade publications are optimistic that Romania could experience greater FDI in 1997 (\$800-1 bn), However, without enabling legislation in place, the mission will remain with its more conservative estimates.

IR 3/ Increases in sales were determined from reports from USAID assistance providers, including Citizen's Democracy Corp., the Centers for Business Excellence (Washington State Univ.), VOCA/ACDI, Land O'Lakes, and Peace Corps. Data was aggregated using an estimated common scale, adjusted for inflation, and averaged. Some factors, however, such as the strict price controls in place for agricultural products, tended to depress sales figures for firms in this area.

IR 3.1/ Source: Contractor reports

The indicators for the original IR 4.1.1 and the IR itself (Strengthened business support service organizations), have been eliminated for future reporting purposes, because they do not adequately measure results and impact.

STRATEGIC OBJECTIVE 1.4: A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR

1. STATEMENT OF STRATEGIC OBJECTIVE

SO 1.4, a more competitive and market responsive private financial sector, is a key to sustainable private sector development in Romania and USAID/Romania's top priority program. This SO includes five intermediate results (IRs): 1. Increased availability of capital from formal sources; 2. More diversified financial instruments available; 3. Increased number of variety of financial intermediaries; 4. Financial market place infrastructure developed; and 5. Increased citizen participation in the financial sector.

2. PROBLEM ANALYSIS & USAID INTERVENTION

a. Problem Analysis

Romania's financial system is neither competitive nor market-responsive. The lack of regulated competitive private banks and capital markets for the rapidly evolving private sector are major constraints to economic recovery. Romania has attracted no more than \$2.1 billion in foreign direct investment in the last seven years, making it among the lowest of any CEE country on a per capita basis. The country has huge potential and the economy will certainly surge ahead if the financial markets develop quickly.

Reforming Romania's financial sector will require more institution building, and the development of new skills and an operating framework will take time. The state must privatize banks and encourage regulated competition among financial intermediaries. Within the next year Romania's financial sector must begin to attract and mobilize domestic and foreign private capital.

Thus, the two critical components of a financial sector to support market reform in Romania are capital markets and private, competitive banks.

Capital Markets: The capital market in Romania consists of a secondary trading system, RASDAQ, the state-subsidized Bucharest Stock Exchange and private commodity and maritime exchanges. The RASDAQ and the BSE trading systems provide an opportunity for the general public to realize value for the privatization shares they have received. Without the capital market, there is no mechanism to set the value of the shares; without transferability and the presence of buyers there is no ability to cash out.

However incredible Romania's accomplishment in establishing one of the largest securities markets in the world in just over one year, the capital market of Romania as a whole must be able to perform the capital-raising function within a few months. No

claim may be made that the USAID capital market development initiative has been fully successful nor that the trading institutions that USAID helped developed are commercially viable until the RASDAQ finds a way to become a source of equity capital for economic take-off.

During 1997-98 RASDAQ and its supporting institutions must achieve greater commercial and political viability. First, the capital market system must be able to cover its costs. Since the fee structure of most trading systems is non-profit, there is an obvious incentive to add services and new issues. For Romania's capital market, new corporate services must be added as companies reshape themselves at the direction of new management and shareholders. It is also imperative that the capital market add new products to entice firms to use the market to raise cash for operating costs and investment. Finally, the RASDAQ needs trading volume to achieve commercial viability; this means adding securities once the basic technical architecture is complete. Government securities exist and can be added to the RASDAQ with minimal work. Commercial paper, commercial bonds, mortgage-backed securities, and initial public offerings (IPOs) are possibilities to explore.

Related to this is the need for better public relations for RASDAQ and the BSE, especially with the Romanian public and potential foreign investors. USAID has the lead in the development of the capital market in Romania and the development of the regulations that ensure its transparency and fairness. This leadership carries additional responsibilities for USAID to: (1) assist with the integration of the weaker BSE once it is privatized; and (2) work with legislators and key policy-makers to complete the basic commercial laws that underpin the capital market, foreign investment, banking, and perhaps accounting; (3) work with the managers of companies who are skeptical about securities markets in general and using the market to raise capital for their company in particular.

In the context of Romania, prices will not reflect the true fair value of a security unless all of the participants have access to all relevant information. Presently basic technical, corporate and financial market information about companies traded is not complete, accurate and accessible--all relevant data needs to be presented to the market. Two reasons for this deficiency are a lack of internationally accepted accounting standards and a lack of information about the state-owned industrial and agricultural companies that are or will soon be in private hands.

Banking Sector: In general, the banking sector continues to suffer from a weak and volatile capital base, poor loan quality, a narrow funding base leading to over reliance on refinancing from the central bank, market segmentation, and poor corporate governance. In 1996, two high profile private banks failed; one was the largest private bank in Romania.

Today, of the close to thirty banks, seven are state-owned, about

fifteen are private or semi-private, and the balance are either foreign-owned or foreign-based joint venture banks. Yet, despite growth of the private banks, the state-owned banks continue to dominate the sector, accounting for over eighty percent of commercial loans. In addition, the state savings bank accounts for forty-five percent of household deposits and is the only bank which benefits from an explicit government guarantee of deposits.

From 1990-1996 the previous government controlled the banking sector and monetary policy. Substantial amounts of directed, subsidized credit was provided to SOEs who bore no real responsibility for repayment. The majority of this directed credit was for subsidized agricultural inputs. Hence, Agricola Bank, accounts for 60% of current bank debt arrears and 60% of supplier debt arrears is with RENEL, the state energy company. The state banks are not privatized nor adequately regulated by the National Bank of Romania. Yet the World Bank and the IMF have imposed stiff conditionalities on this new reformist government, a government which seems intent on radical change to a full market economy. For example, until recently the National Bank fixed the exchange rate of the lei. Now, it is a "managed float" and is expected to be totally free within a few months. Prices of most commodities have been liberalized totally.

The 1991 Commercial Banking Law gave the central bank, the National Bank of Romania (NBR), broad authority to license and supervise banks, promulgate regulations, and require corrective action by the banks. Prudent regulations and accounting standards based on Western norms have been adopted by the central bank. However, bank supervision remains weak, particularly the on-site examination function which remains more a compliance exercise than a safety and soundness inspection based on review of the loan portfolio and analysis of capital. In addition, the failure of the two private banks has focused attention on the inadequacies in the law, policies, and procedures regarding failed banks.

Although most prudential regulations are in place, the necessary enforcement mechanisms, i.e. bank supervision, is weak. There is an urgent need to strengthen the regulatory powers of the National Bank of Romania (NBR) and to establish an enabling environment for the development of effective competition as insolvent banks disappear and new private banks struggle to offer financial products and services at competitive prices.

b. Proposed USAID Intervention

Capital Markets: USAID will continue to develop and improve the RASDAQ, the securities commission and the supporting securities market institutions, i.e., the independent share registry and the depository. USAID will assist the securities commission to continue to build the regulatory and legislative foundation for a transparent, regulated market that promotes active participation from domestic and foreign investors. Commercial viability,

completion of the computer systems, surveillance and monitoring by the self-regulatory organizations and the securities commission, systems safeguards, reporting and training are USAID's priorities for the development of the RASDAQ and securities commission. USAID will also work with the RASDAQ system and the CNVM towards creating new corporate functions (e.g., mergers, acquisitions) and financial products; these need to be added quickly to enable firms to raise capital and foreign investors. This process will likely begin with Government securities (T-bills) and possibly municipal bonds if local financing laws permit their sale. Commercial paper, commercial bonds, IPOs and mortgage-backed securities are possibilities in the future.

USAID has the added responsibility to work with others to ensure that the capital market is itself, a competitive market. First, USAID will continue to advocate and offer assistance to legislators and policy-makers for the enactment of securities laws, regulations and procedures that are transparent, fair to investors and enforceable. More surveillance and enforcement of existing securities markets rules and regulations will be conducted by the self-regulatory organizations (e.g., ANSVM) and the securities commission. USAID's legal assistance will focus on securities, foreign investment, relevant banking laws and perhaps accounting as it affects financial disclosure. Second, USAID will work with legislators and key policy-makers to facilitate the integration of the Bucharest Stock Exchange (BSE) and the RASDAQ. However, there are donors with the major responsibility for developing BSE itself.

Banking Sector: Regulation is the thrust of USAID's banking supervision program, though it is also an important component in the capital markets program. USAID assistance in banking supervision supports objectives of the World Bank's FESAL. Romania is committed to annual on-site bank inspections and increasing the bank supervision staff of the NBR. The NBR has requested this assistance from the U.S. and is giving high priority to strengthening bank supervision.

USAID's banking supervision program supports the institutional development of the Bank Supervision Department of the NBR. This is to occur through: (a) strengthening the legal and regulatory framework; (b) strengthening on-site supervision capabilities; (c) linking the on-site examination process to the off-site surveillance system to promote the development of supervisory strategies to determine the scope and frequency of supervisory activities based on perceived levels of risk; (d) developing a range of procedures to deal with problem banks; and (e) providing a U.S.-based training program for bankers. Dealing with problem banks is likely to be particularly important in part because as regulation and supervision improves, one can expect a shake-out of the banking sector; that is, some will fail. Ironically, then, an increase in bank failures may initially be an indicator of "success" of the program.

The bank privatization and restructuring program will result in a greater competitive environment among banks, and ultimately more banks. More financial intermediaries would mean a greater capacity for the financial system to be market-responsive; to better meet customer needs; and to encourage broader participation. USAID's technical assistance support to the key Romanian institutions charged with privatization, the State Ownership Fund and the National Agency for Privatization, will facilitate this process.

3. RESULTS FRAMEWORK (see Attachment B)

4. JUDGING PERFORMANCE

SO 1.4, A more competitive and market-responsive private financial sector: Since 1995, USAID has assisted Romania with the development of a capital market as an essential element of both the financial sector and economic reform. Romania's mass privatization program created more than 15 million shareholders of approximately 5,600 previously state-owned enterprises. Through USAID's capital markets development program in Romania, a modern marketplace has been established in Romania where citizen shareholders can obtain cash, trade their shares or invest. Success is further evidenced in the table below which shows that RASDAQ is exceeding the FY 1997 target of \$100,000: the volume of equity trading per week is approximately \$5.0 million. The cumulative figure is perhaps even more impressive: since trading began in October 1996, the total volume of trading on the RASDAQ has been the equivalent of \$50 million. Romania's capital market provides a mechanism for individuals or entities to buy control of the former state-owned enterprises. Approximately 5 million shares are traded each week; and, more than 400 companies are actively traded.

IR 4, Financial marketplace infrastructure developed: To achieve this result, USAID established RASDAQ (trading system), ANSVM (broker/dealers association) and UNOPC (union of mutual funds), all self-regulatory organizations that survey the RASDAQ market and enforce the rules of fair practice that were established for it. USAID has also worked with the brokerage community in Romania, developing back-office procedures that protect investors, and training broker/dealers on market conduct and compliance with market regulations.

The market for MPP shares successfully opened on October 25, 1996. RASDAQ has grown to include 128 members (78 dealers) with over 2700 companies listed. All trades executed on RASDAQ have cleared and settled through the newly-formed Depository's automated clearance and settlement system, and changes of share ownership are recorded at the independent share registry that was established. As the market has evolved, so has investor interest in it; the chart below demonstrates the period growth of the market.

	<u>25 October 1996</u>	<u>18 December 1996</u>	<u>1 March 1997</u>	<u>24 April 1997</u>
Companies Listed	6	1,300	2667	2,740
Trades	2	196	682	1,222
Shares Traded	238	304,000	1,499,911	2,900,000
Value in Lei	1,851,400	81,000,000	3,744,197,455	10,405,992,874
Value in Dollars	500	17,000	440,000	1,552,985
Broker/Dealers	4	91	109	122

IR 4.1, Increased transparent and quality information available: USAID met the target for this IR when it established an independent share Registry and a Depository with fully automated securities clearance and settlement facilities to facilitate trading of shares of the more than 5,000 companies from the Romanian Mass Privatization Program ("MPP"). The Registry and Depository also maintain the records of ownership of the more than 15,000,000 Romanian shareholders. Phase I of the development of these institutions was completed early this year and Phase II is underway and expected to be completed in September 1997.

IR 2, More diversified financial instruments available: USAID helped establish 13 open-end investment funds in Romania, in addition to the five private ownership funds that were created through mass privatization. The target for FY 1996 was 15. USAID also helped develop an association of mutual funds, the Union or UNOPC, which has established a code of conduct and model accounting principles for the investment fund industry. The Union has also been representing the industry before Parliament, drafting promoting changes to the current law governing investment funds, and is presently seeking self-regulatory status from the Securities Commission, which will give it the power to enforce its rules and standards throughout the industry.

IR 2.1.1, Improved policy, legal, and regulatory environment: As part of our effort to address securities and market regulation, USAID has assisted the Romanian Securities Commission, the CNVM, establish the legal and regulatory framework for the capital markets. This assistance has included drafting laws and regulations governing the market, and training Commissioners and the Commission staff to survey the market and enforce its regulation. Moreover, USAID recently began a program to educate the corporate issuers who were created through privatization in Romania about the benefit of capital markets and their obligations to the marketplace. Assistance is presently planned through December 1997 to fully meet the FY 1996 target to establish a national securities commission that enforces standards.

As further effort toward this IR, USAID has engaged in a

securities analysis training program that was designed to reach participants throughout the capital markets. This program has been extraordinarily well-received; more than 500 have paid tuition for and attended these programs, which have been led primarily by Romanian trainers. Participants have included broker/dealers, investment funds, banks, insurance companies, the Securities Commission, government officials, and corporate executives. USAID assistance will end on 1 June 1997.

5. COMMITMENT AND CAPACITY OF DEVELOPMENT PARTNERS

Capital Market: The impetus of the RASDAQ came about because the number of companies and shareholders for mass privatization was huge, and the World Bank and the GOR asked USAID to develop an Over-the-Counter market as an important and final step to transition. The Bucharest Stock Exchange, a public company, is principally dependent on assistance from the EU/Phare, the Canadian government and the U.K. Know-How Fund. However, the BSE automatic trading system is undersized and is incompatible with USAID's more modern, quote-driven system. BSE is not commercially viable at this point, although its listings are increasing and trading volume is too. Cooperation between the donors who are supporting the BSE and USAID is important, however, the other donors will have to develop the BSE system and provide additional training to staff to permit USAID to achieve cooperation and integration of some functions, e.g., depository, sale of government securities.

The EU/Phare program is assisting the Romanians in reforming the accounting and auditing standards and practices used in the market to make them more reliable and understandable to domestic investors and foreign investors. Assistance in the future may be required to develop an electronic funds transfer system for the banking sector, a much-needed financial information circuit for domestic banking transactions and off-shore investors. Shareholder information and the trading data will then need to be more readily available for reporting and analysis by the public and financial professionals.

Banking sector: The World Bank's FESAL and ASAL provide the impetus for reform of the banking sector. Immediately, the following areas are stipulated as a condition for further IFI financing: banks have to be privatized, liquidated and reorganized; the legal framework for insolvency, collateral, supervision and collateral is to be strengthened; the regulatory and supervisory capabilities are to be improved; and, the supervision of banks is to proceed.

6. ILLUSTRATIVE APPROACHES

Capital Markets:

- Continue legal drafting assistance, training and business consultation to strengthen the capacity of the CNVM to monitor

and enforce existing laws and regulations and add new ones that expand the development of a competitive, private capital market and ensure participation by domestic and foreign investors.

- Technical assistance, equipment, software development, training and business consultation to the RASDAQ, the independent share registry (RRA), the non-profit depository (SNRDD) to complete the development of the basic quote-driven, portal system to meet Romania's needs, while achieving economic independence. Present priorities include completing the basic trading, monitoring, reporting, disaster recovery and cash settlement functions; next, to add corporate functions; and, then, to develop and implement financial market instruments to enable Romanian companies to raise capital.
- Continue training and outreach public awareness programs for Romanian dealers and brokers and managers of commercial companies traded on the RASDAQ, focusing on corporate governance and finance.

Banking Sector:

- Assist the Banking License and Supervision Department of the National Bank of Romania to strengthen on-site supervision capabilities, develop a range of procedures to deal with problem banks and strengthen the legal and regulatory prudential framework.

7. SUSTAINABILITY

USAID cannot guarantee sustainability of the financial sector improvements to which it contributes. However, USAID is committed to strive to create the conditions by which the financial sector in total and USAID-supported institutions in particular, can compete effectively to maintain commercial and political viability. The development of a fully-functioning securities trading system evidenced by RASDAQ, CNVM, and other supporting institutions and systems will never be complete because the market must continually evolve to remain competitive.

USAID's assistance to the banking sector is more likely to be finished within two years after on-site supervision training and corollary legislation is enacted. However, the application of prudential standards offers USAID other opportunities to support the banking sector, as mentioned above.

Therefore, USAID assistance to both capital markets and the banking sector will likely continue through the end of the program. These are high priority areas for both the mission and for Romania. The types of reforms needed, in particular more developed regulatory mechanisms, generally require more time and effort than other reforms. Further, failure to bring the financial sector adequately along invites systemic risk and with it potentially serious set-backs to the economy and reform.

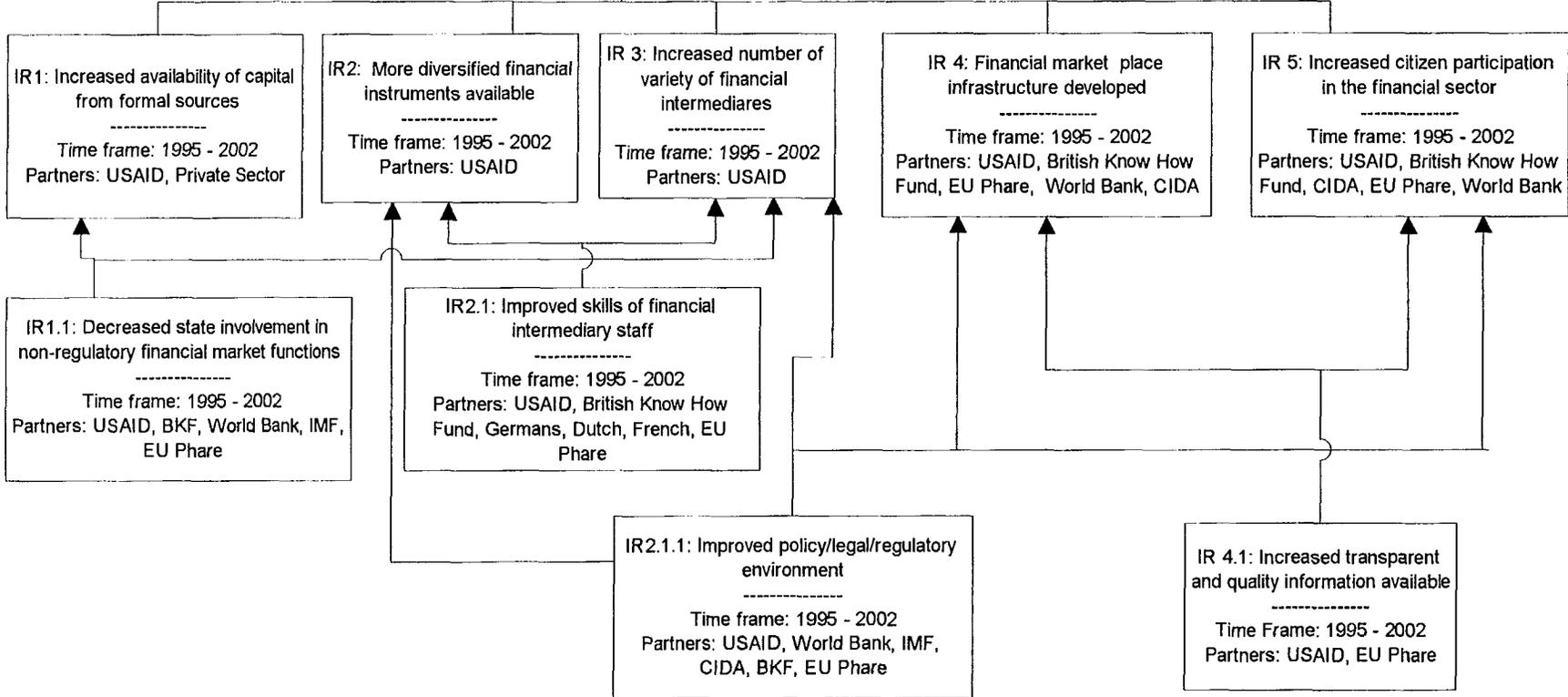
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SO 1.3

LINK TO SO 1.3

SO 1.4: A more competitive and market-responsive private financial sector

Time frame: 1995 - 2002
Partners: USAID, World Bank, IMF, GOR, EU Phare, British Know How Fund, CIDA



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Strategic Planning (1997 and beyond)
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS
S.O.1.4: A more competitive and market-responsive private financial sector

RESULT ID (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
				YEAR	VALUE	Target	Actual (Ye- ar-end)	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.4	A more competitive and market-oriented private financial sector	Annual volume of government security transactions	Definition: Gov't T-Bills sold to public Unit: \$ US sold	1995	\$0	\$200 M	\$500 M	\$300 M		\$350 M		\$400 M		\$450 M	
		Foreign exchange trading is free of government interference (IMF conditionality)	Definition: Inter-bank market Unit: yes/No	1995	No	Yes	No	Yes		X		X		X	
		Average Volume of Equity trading per week	Definition: Bucharest stock market and OTC market % increases in value Unit: % ROL	BSE 1/96	1,788M ROL	+50 %	195 %	100 %		+50 %		+20 %		+20 %	
				OTC 4/96	411M ROL	+50 %	3,465 %								
		Average number of shares traded weekly	Definition: Shares on BSE and OTC Unit: %	BSE 1/96	41,597	+50 %	5925 %	100 %		+50 %		+20 %		+20 %	
				OTC 4/96	838k	+50 %	611 %								
		Average number of stocks traded daily	Definition: Stocks on BSE and OTC Unit: %	BSE 1/96	17	+50 %	59 %	100 %		+50 %		+20 %		+20 %	
				OTC 4/96	123	+50 %	185 %								

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ES

IR 1	Increased availability of capital from formal sources	Level of Savings rate	Definition: per-capita rate of savings Unit: %	1996	15%	15%		15%						
IR 1.1	Decreased state involvement in non-regulatory financial market functions	Number of state-owned banks that are privatized	Definition: Percent of total Unit: %	1995	0%	17%	0%	33%		50%		67%		100%
		Issuer stock records kept at independent registry	Definition: Percentage of initial MPP issuer records transferred from NAP to RRS Unit: cumulative %	1996 4Q96	48%	N/A	N/A	90%		100%		X		X
IR 2	More diversified financial instruments available	New financial product developed (variety of T-bills)	Definition: new varieties of T-bills exist (T/30, T/60, T/90, etc) Unit: Number	1995	0	T/90	T/90 /120	T/ 6 mo.		T/12 mo.		T/ 1.5 Yr.		T/ 5 Y & 2 Y
		Number of credit unions introduced	Definition: cumulative Unit: Number	1995	0	2	3	6		10				
		Mutual funds increase	Definition: Cumulative number Unit: number	1995	4	15	13	30		45		60		
IR 2.1	Improved skills of financial intermediary staff	Number of staff of financial intermediaries trained (proxy for skills)	Definition: Unit: Number of staff	1995	100	200	400	200		200		200		200

		<i>Romanian Securities Institute Established and Active</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	No	Yes	Yes	X		X		X		X
<i>IR 2.1.1</i>	<i>Improved policy/legal/regulatory environment</i>	<i>National Securities Commission is established and enforces standards</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1994	Yes	X	X	X		X		X		X
		<i>Bank Privatization Law passed</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	No	Yes	No	Yes		X		X		X
<i>IR 3</i>	<i>Increased number and variety of financial intermediaries</i>	<i>Number of key types of financial intermediaries doing business</i>	<i>Definition:</i> <i>Broker/dealers (%)</i> <i>Settlement banks</i> <i>Custodian Banks</i> <i>Independent registries</i> <i>Mutual Funds</i> <i>Unit: percent growth/year or absolute value</i>	1995		+5%		+5%		+5%		+5%		+5%
					60		72%							
					-		11							
					-		3							
					-		2							
					15		12							
<i>IR 4</i>	<i>Financial marketplace infrastructure developed</i>	<i>OTC trading market established</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	No	Yes	Yes	X		X		X		X
		<i>Bucharest stock Exchange established and privatized</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	Yes (established)	Yes (expanded)	Yes (expanded)	X		Privatized		X		X

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IR 4.1	Increased transparent and quality information available	Independent share registries established	Definition: share registries for companies and OTC marketplace Unit: Yes/No	1995	No	Yes	Yes	X		X		X		X
IR 5	Increased citizen participation in the financial sector	Number of investors participating in OTC market	Definition: Unit: number	1996	55,475	N/A	N/A	200K		500K		750K		1M
		<p>Comments/Notes:</p> <p><i>SO 1.4 Indicators: Overall, Romania has progressed dramatically in percentage terms because of a previous small or non-existent base. FOREX trading is expected to be substantially more free by end-1997.</i></p> <p><i>IR 1/ The previous indicator proved to be unworkable, due to a lack of transparent financial data regarding state-owned banks. Mission has changed the indicator for 1997 to focus on the per capita savings rate, a much more measurable unit.</i></p> <p><i>IR 1.1 & IR 2.1.1/ A new law on Bank Privatization has been passed by Parliament. The privatization of at least one state-owned bank should begin in 1997</i></p> <p><i>IR 5/ Results are skewed for the first indicator because of the hundreds of thousands of individuals that received share coupons during Romania's mass privatization program, many of whom sold their share to a broker but should not be considered as "active" participants in the OTC market. The second indicator - Level of Savings - will be integrated into IR 1 in the future.</i></p>												

STRATEGIC OBJECTIVE 1.5: A More Economically Sustainable and Environmentally Sound Energy Sector

1. STATEMENT OF STRATEGIC OBJECTIVE

Strategic Objective 1.5, a more economically sustainable and environmentally sound energy sector, remains the same as that proposed in the 1996 R4. A new Results Framework, however, is proposed in this strategy in order to more accurately reflect conditions within the energy sector in Romania and to reflect the hierarchy of problems that affect the sector.

2. PROBLEM ANALYSIS

Romania, the largest producer of crude oil and natural gas in Central and Eastern Europe, has an economy that is highly energy intensive, inefficient, and polluting. The World Bank estimates that the energy intensity of the Romanian economy, measured in terms of energy consumed to produce a unit of GDP, is 1.9 metric tons of oil equivalent per \$1000 of GDP. This is about three times the average for European OECD countries. Others estimate that the figure may actually be as high as six times the OECD average.

This fact represents Romania's longstanding over-investment in large and energy intensive heavy industry. These investments include steel, petrochemicals, oil refining, mining, and many others. This pattern of economic structure and energy intensity are classic centrally planned solutions to the challenges of economic growth. In Romania's case these decisions can be traced back to 1947 when decisions were made to exploit the countries significant oil, gas, and coal resources. In addition, the Government targeted subsidies to manufacturers of heavy industrial products that consumed these energy resources to produce products for export to other eastern block countries.

When Romania chose to end its centrally planned approach to economic management, the industrial sector produced 46 percent of GDP while consuming 61 percent of primary energy and 78 percent of electricity. In 1995, following several years of economic contraction, the industrial sector accounted for 33 percent of GDP, 47 percent of total primary energy consumption, and 69 percent of electricity consumption.

It is clear that without significant reform in the energy sector, the economic problems of the sector will continue to drive macro-economic distortions throughout the economy and will make other sectoral reforms less productive or perhaps even impossible. The transition from a centrally planned economy to a market economy will require energy sector reform.

Monopolistic state ownership and control of the energy sector have led to gross mismanagement of energy resources. These controls have also resulted in other major distortions and

problems throughout the economy. Specific examples include:

- Imports of over one-third of Romania's total energy needs, causing a huge drain on foreign exchange, estimated at 26% of export earnings in 1993;
- Price distortions and subsidies encourage state-owned energy intensive industries to manufacture products uneconomically, causing a severe drain on the government budget;
- The emphasis on exporting energy-intensive products results in a net loss of foreign exchange;
- Mismanagement within the energy sector deprives the government of important tax revenues while increasing government expenditures to unsustainable levels;
- Non-payment of energy bills by state industrial consumers, along with non-payment of fuel bills by the national electric utility and municipal heat and water utilities create a vicious circle of debt arrears throughout the economy; and
- Billions of dollars of badly needed foreign investment are discouraged by the uneven playing field in the sector and the lack of a sound legal and independent regulatory framework for energy.

It is clear that Romania must undertake major structural reform in the energy sector. The World Bank, IMF, EU, and U.S. have all carried this message to the GOR for a number of years. Some progress has been made but not enough to constitute a critical mass which will help right the economy. With the new government of 1997 in place, however, and with the conditionality of the new World Bank and IMF loans, energy sector reform and restructuring now appear to be at the top of the reform agenda.

b. Proposed USAID Interventions

USAID has targeted technical assistance at reform in the energy sector since 1992. The program is focused on three intermediate results (IRs) which are presented in the new Results Framework:

IR 1: A functioning free market and favorable investment climate for oil and gas exploration, production, processing, transportation and distribution.

IR 2: A competitive, efficient electric power system based on market prices, open access for private and foreign investors and suppliers, and a well defined legal framework, including an independent regulatory authority.

IR 3: Improved energy-efficiency and environmental performance in the Romanian economy, particularly in the enterprise sector and

in municipalities.

The goal of this program remains consistent. By 2002 Romania should have made significant progress restructuring the energy sector so that it can operate in a competitive market environment, meet the necessary requirements for EU membership and develop laws and regulatory capabilities necessary for major strategic investment. These results will be critical to achieving broad economic restructuring and reform.

3. RESULTS FRAMEWORK (see Attachment B)

A new Results Framework has been developed for SO 1.5. The revised RF does not signify major change in the energy strategy or in specific USAID assistance priorities or activities, but captures expected IRs in a simpler and more logical way. Some changes in targets and indicators have also been made. The following section provides results to date as they relate to the revised IRs.

4. JUDGING PERFORMANCE

SO 1.5, A more economically sustainable and environmentally sound energy sector: In the Results Framework developed in 1996, the overall SO was to be measured as an annual increase in the productivity of investment in the energy sector. It is now apparent, however, that attracting energy investment and putting it to work in construction of new or revitalized energy supply capacity, and then measuring the output of that capacity, is a longer-term challenge than one year. Further, such investment can itself be considered a desired outcome of USAID assistance in creating a viable investment climate through establishment of a sound regulatory framework, price liberalization, privatization and restructuring of the key petroleum and electric power entities. In the future, the key indicator for SO 1.5 will be a reduction in the energy intensity of GDP.

IR 1, A functioning free market for oil and gas exploration and production, processing, transportation, and distribution: This revised IR captures a number of the 1996 IRs as they relate specifically to oil and gas.

As described above, Romania's development potential has been severely affected by problems and economic distortions in the petroleum sector including price distortions, poor management, outmoded technology, and lack of investment. In 1994, at the request of the government and the World Bank, USAID provided technical assistance to PETROM, the state owned petroleum exploration and production company. USAID assistance assessed the upstream petroleum sector and recommended changes needed to attract foreign investment, strengthen institutional capacity, and create an independent entity to oversee the development of oil and gas reserves.

The government created the National Agency for Mineral Resources (NAMR) in 1995. USAID assistance also provided recommendations on the petroleum law which created NAMR and established a new legal basis for the petroleum sector.

USAID's analytic and legislative assistance paved the way for a 1995 World Bank loan to restructure the upstream petroleum sector. USAID and the World Bank continue to work closely together to help NAMR implement a tariff system for oil and gas pipeline transport, develop oil and gas regulations, and support promotional efforts for its first round offer for licensing oil and gas exploration and production concessions. This solid legal and regulatory framework is critical to achieving adequate investment in oil and gas exploration and production in Romania.

USAID is also helping Romania implement a new World Bank loan to rehabilitate the refinery sector. In 1996 USAID undertook an analysis of the steps necessary to create an economically and financially viable refining industry. While there was some reluctance to accept all the study's recommendations, the new government is beginning to implement them. Three refineries are slated for sale and there are plans to end all subsidies to refineries. If this positive action on the reform agenda continues, USAID will continue to provide assistance in this area, assessing more fully in 1998 what final work should be undertaken in the last years of the program.

IR 2, A competitive, efficient electric power system, based on market prices, open access for private and foreign investors and suppliers, and a well defined legal framework, including an independent regulatory authority: Again, this revised IR captures progress to date in a number of previous IRs including those dealing with improved market orientation, open networks for buyers and sellers, and multilateral lending conditionalities in place. USAID-financed technical assistance and analysis were critical to the agreements reached by Romania with the World Bank and the EBRD to support the Banks' loans for the electric power sector. These power loans contain lending conditions which are helping the GOR begin to restructure according to market principles, a key requirement for Romania's accession into the EU.

This analysis is assisting the government to select a model for the structure of the sector consistent with the objectives of competition, private participation, and compliance with EU requirements; to develop a long term action program to achieve the chosen structure; and to develop a framework Electricity Law for submission to the Parliament. The study was presented to the GOR in 1996, but the elections and the reorganization within the new government delayed action until Spring 1997, when a reform-oriented director was appointed to head RENEL, the national utility, and to spearhead RENEL's restructuring and privatization.

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USAID will continue to support the reform process with technical help to implement the conditions laid out in the World Bank/EBRD program and the recommendations of the USAID analysis. As in the petroleum sector, if reform continues to proceed USAID will remain an important provider of technical help in the sector. An assessment in 1998 will look at progress and recommend program options for the final years of USAID's program in Romania.

IR 3: Improved energy efficiency and environmental performance:

This revised IR captures prior IRs dealing with improved environmental performance, improved business performance, and improved management practices. Measurable results have been achieved in the energy efficiency work, which contributes to the overall objective of attaining economic and environmental sustainability in the energy sector. In a pilot effort, USAID has trained and supported newly formed private Romanian energy service companies (ESCOs). These firms have conducted ten industrial energy audits, installed low cost U.S. energy efficiency equipment, and provided recommendations for improved operation and maintenance practices. These efforts produced significant energy savings to the client industries, recovering the costs of the investments in six to twelve months. More fundamentally, USAID's support for the ESCOs has laid the basis for a private sector capacity to achieve improved energy efficiency on a cost-effective basis.

5. COMMITMENT AND CAPACITY OF DEVELOPMENT PARTNERS

The component parts of USAID's program -- electric power sector restructuring, oil and gas industry restructuring, and energy efficiency -- have been developed in close collaboration with the World Bank and the EBRD, supporting their combined \$600 million investment program since 1992. USAID's program has helped shape and advance the Banks' reform agendas and is contributing a substantial body of analysis and action planning to make reform a reality. The new government indicates that the reform process in the energy sector will accelerate in the next year, particularly in the power sector with expected final passage of the Electricity Law and movement toward the restructuring of RENEL.

USAID's participation has been critical to the definition of the problems of the energy sector and to helping implement institutional solutions once the government agreed to change. However, without the linkage to the resources of the international financial institutions, USAID could not significantly influence Romania's decisions on energy sector reform.

6. ILLUSTRATIVE APPROACHES

- USAID's first priority will be to assist with legislative development for electric power, to help the GOR create an independent regulatory body for power and to break up RENEL into separate entities for generation, transmission/dispatch

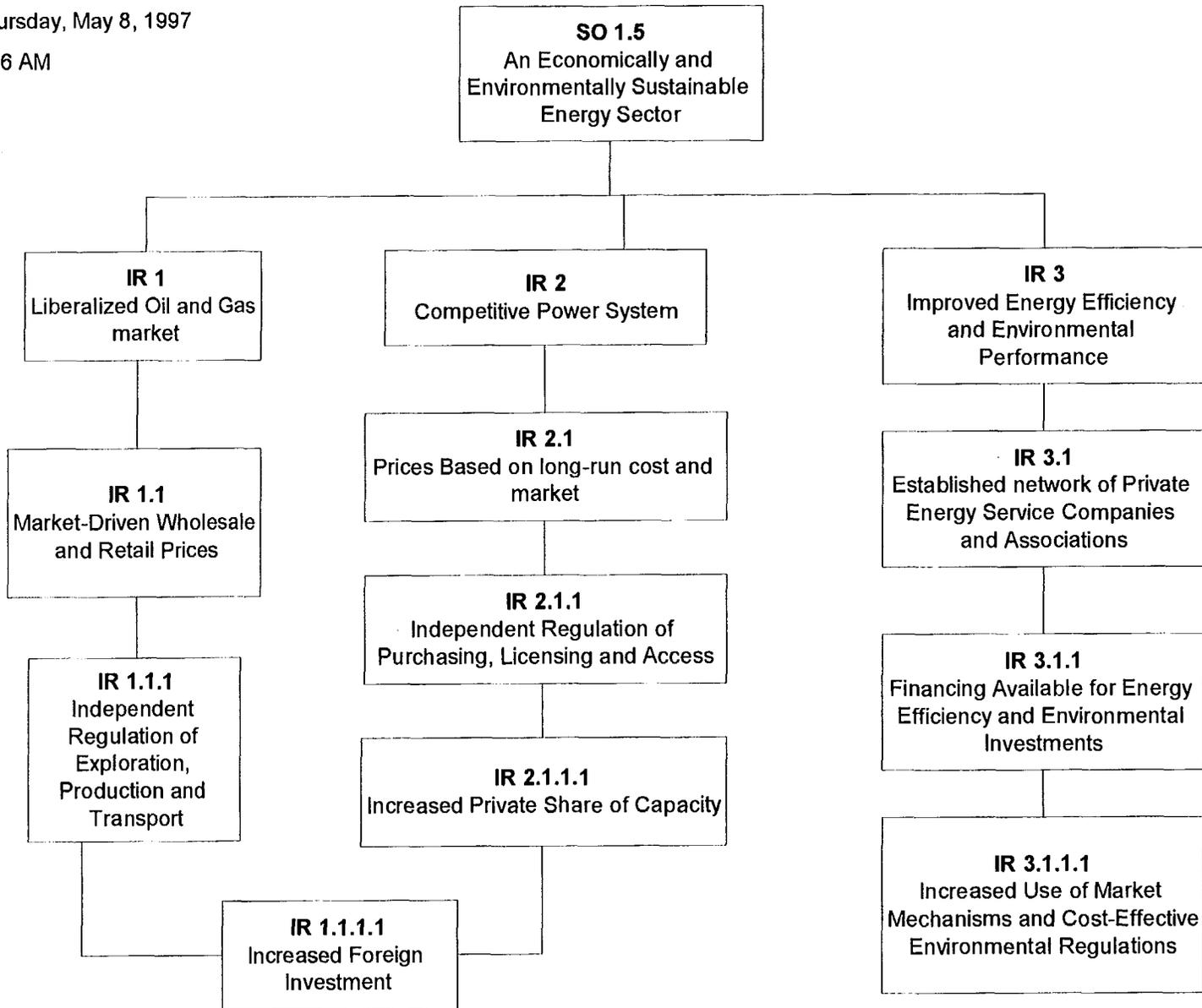
and distribution.

- In the petroleum area, near-term activities will focus on refinery sector rationalization and on supporting the competitive bidding process for oil and gas exploration.
- To further advance energy efficiency, the ESCOs will be assisted with marketing their services and becoming viable private businesses that can have significant impact on the energy efficiency of their industrial and commercial clients, and hence on the economy as a whole.

7. SUSTAINABILITY

With the new GOR in place, there is a very good probability that USAID's energy work will be sustainable. It appears that the new government is very serious about economic reform and restructuring. They understand that reform of the energy sector is critical to the process. The World Bank, the IMF, and the EBRD have all made reform in the energy sector a bottom line consideration for their financial and overall support.

By 2002 Romania should have made significant progress restructuring the energy sector so that it can operate in a competitive market environment, meet the necessary requirements for EU membership and develop laws and regulatory capabilities necessary for major strategic investment. These results will be critical to achieving broad economic restructuring and reform.



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Strategic Planning (1997 and Beyond)
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS
S.O 1.5.: A More Economically Sustainable and Environmentally Sound Energy Sector

RESULT/LE VEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
				YEAR	VALUE	Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.5	A more economically sustainable and environmentally sound energy sector	Energy Investment Productivity	Definition: Output per dollar (from Nat'l statistics) Unit: Annual % increase	1995	TBD	+0%	0%	+1%		+2%		+2%		+2%	
		Energy Intensity is reduced	Definition: (metric tonnes of oil equivalent/\$1000 GDP) Unit: Annual % decrease	1996	TBD	TBD		TBD							
IR 1	Liberalized oil and Gas Market	Development of intermediary network between refinery and retailers	Definition: new independent firms Unit: Cumulative number	1995	-	-	0	0		1		2		3	
		Ratio of independent retail gas stations to state-owned gas stations	Definition: foreign and domestic retailers (independent) Unit: ratio (priv./state)	1995	50/50	55/ 45	50/ 50	60/ 40		65/ 35		70/ 30		75/ 25	
		Crude Oil import monopoly ended	Definition: crude oil imports allowed by private firms Unit: yes/no	1996	no	no	no	no		yes					

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		<i>Increased cash flow</i>	<i>Definition: Net profit before tax, with non-cash charges restored (depletion/depreciation)</i> <i>Unit: Annual % Increase</i>	1995	TBD	N/C	N/C	N/C		+5%		+5%		+5%
		<i>Internal investment financed by cash flow (ei) for those GOR enterprises (joint stock co.s) that currently retain cash flow</i>	<i>Definition: Percentage of net profit</i> <i>Unit: %</i>	1995	10%	10%	0%	10%		10%		10%		10%
IR 1.1	<i>Market-driven wholesale and retail prices</i>	<i>Prices of domestically produced crude approximate world prices</i>	<i>Definition: % of domestically produced crude priced at world market price (Source: NAMR)</i> <i>Unit: % per year</i>	1995	0%	2%	0%	3%		5%		10%		16%
		<i>Retail price includes producer price, manufacturing, transport and retail costs plus reasonable profit</i>	<i>Definition: gradual removal of cross subsidies to raise prices to world level</i> <i>Unit: % of subsidy per year</i>	1995	0%	5%	0%	(see comment)	(see comment)	30%		45%		60%
IR 1.1.1	<i>Independent Regulation of Exploration, Production and Transport</i>	<i>Regulations under the Petroleum Law adopted</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	No	Yes	Yes	Yes		X		X		X
		<i>Competition Law adopted for Oil and Gas Sector</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	No	-	No	Yes	Yes	X		X		X

IR 1.1.1.1	Increased Foreign Investment	Decommissioning of least efficient refineries	Definition: selected refineries identified in Bechtel report (up to 4) Unit: # of refineries	1995	-	-	0	2		2	1		
		External private Investment (USD)	Definition: Investors like AMOCO, Shell, Enterprise, etc. Unit: Annual increase (USD millions)	1995	\$150M	\$100 M	\$30 M	\$100 M		TBD	TBD		TBD
		Oil and gas Regū Autonomes become joint stock companies per World Bank conditionality	Definition: number of regia in oil and gas the become JS companies Unit: # per year	1995	0	0	0	2		1	1		1
IR 2	Competitive Power System	Decision by GOR to adopt an option for Phase 2 from the Bechtel energy sector study, and implement recommendations	Definition: Decision to begin Phase 2 needs to be taken by GOR by June, '96, implementation phase should be in 1997 Unit: Yes/No	1996	-	Yes (Decision)	No	Yes (Develop Imp. Plan)		Yes (Implementation)	X		X
		Internal investment financed by cash flow (let) for those GOR enterprises (joint stock co.s) that currently retain cash flow	Definition: Percentage of net profit Unit: %	1995	10%	10%	0%	10%		10%	10%		10%
		Increased Cash Flow	Definition: Net profit before tax, with non-cash charges restored (depletion/depreciation) Unit: Annual % increase	1995	TBD	N/C	N/C	N/C		+5%	+5%		+5%

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IR 2.1	Prices Based on Long Run Cost and market	Tariffs in effect for electricity transmission	Definition: respecting of tariffs Unit: Yes/No	1995	-	-	-	No		Yes		X		X
		Electricity prices adjusted twice per year (per World Bank conditionality)	Definition: Unit: Yes/No	1995	No	Yes	No	Yes		X		X		X
IR 2.1.1	Independent Regulation of Purchasing, Licensing and Access	Electricity and Heat Law enacted (per World Bank conditionality)	Definition: Unit: Yes/No	1995	No	-	-	No		Yes		X		X
		Economic regulation of power sector initiated through establishment of regulatory body (power sector does not have yet-WB)	Definition: Unit: Yes/No	1995	No	-	-	No		Yes		X		X
		Competition Law adopted for Power sector	Definition: Unit: Yes/No	1995	No	-	No	Yes	Yes	X		X		X
IR 2.1.1.1	Increased Private share of Capacity	Increasing market share for independent power producers	Definition: New power plant in Buch. area (% of total) Unit: % increase of total annual production in MW	1995	2%	0%	0%	2%		4%		6%		8%
		Private Share of existing generation and distribution companies	Definition: TBD Unit: % increase	1996	TBD			TBD						

IR 3	Improved Energy Efficiency and Environmental Performance	Remediation programs in place per World Bank schedule	Definition: Adherence to schedule Unit: Yes/No	1995	No	Yes	No	Yes		X		X		X
		Energy Intensity by industrial sector	Definition: standard measurement Unit: % decrease per year	1996	TBD									
IR 3.1	Established Network of private Energy Service Companies and Associations	Number of active firms and associations	Definition: Unit: Number	1996	TBD									
IR 3.1.1	Financing available for energy efficiency and environmental investments	Internal Investments financed by cash flow	Definition: Percentage of net profit Unit: %	1995	10%	10%	0%	10%		10%		10%		10%
		External Investments made	Definition:TBD Unit:	1996	TBD									
IR 3.1.1.1	Increased Use of Market Mechanisms & Cost Effective Environmental Regulations	Environmental Regulations put in place	Definition: TBD Unit:	1996	TBD									
		Market Mechanisms in place	Definition: TBD Unit:	1996	TBD									

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Strategic Planning (1997 and Beyond)
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS
S.O 1.5.: A More Economically Sustainable and Environmentally Sound Energy Sector

RESULT/LE VEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
				YEAR	VALUE	Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.5	A more economically sustainable and environmentally sound energy sector	Energy Investment Productivity	Definition: Output per dollar (from Nat'l statistics) Unit: Annual % increase	1995	TBD	+0%	0%	+1%		+2%		+2%		+2%	
		Energy Intensity is reduced	Definition: (metric tonnes of oil equivalent/\$1000 GDP) Unit: Annual % decrease	1996	TBD	TBD		TBD							
IR 1	Liberalized oil and Gas Market	Development of intermediary network between refinery and retailers	Definition: new independent firms Unit: Cumulative number	1995	-	-	0	0		1		2		3	
		Ratio of independent retail gas stations to state-owned gas stations	Definition: foreign and domestic retailers (independent) Unit: ratio (priv./state)	1995	50/50	55/ 45	50/ 50	60/ 40		65/ 35		70/ 30		75/ 25	
		Crude Oil import monopoly ended	Definition: crude oil imports allowed by private firms Unit: yes/no	1996	no	no	no	no		yes					

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		<i>Increased cash flow</i>	<i>Definition: Net profit before tax, with non-cash charges restored (depletion/depreciation)</i> <i>Unit: Annual % Increase</i>	1995	TBD	N/C	N/C	N/C		+5%		+5%		+5%
		<i>Internal investment financed by cash flow (ei) for those GOR enterprises (joint stock co.s) that currently retain cash flow</i>	<i>Definition: Percentage of net profit</i> <i>Unit: %</i>	1995	10%	10%	0%	10%		10%		10%		10%
IR 1.1	<i>Market-driven wholesale and retail prices</i>	<i>Prices of domestically produced crude approximate world prices</i>	<i>Definition: % of domestically produced crude priced at world market price (Source: NAMR)</i> <i>Unit: % per year</i>	1995	0%	2%	0%	3%		5%		10%		16%
		<i>Retail price includes producer price, manufacturing, transport and retail costs plus reasonable profit</i>	<i>Definition: gradual removal of cross subsidies to raise prices to world level</i> <i>Unit: % of subsidy per year</i>	1995	0%	5%	0%	(see comment)	(see comment)	30%		45%		60%
IR 1.1.1	<i>Independent Regulation of Exploration, Production and Transport</i>	<i>Regulations under the Petroleum Law adopted</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	No	Yes	Yes	Yes		X		X		X
		<i>Competition Law adopted for Oil and Gas Sector</i>	<i>Definition:</i> <i>Unit: Yes/No</i>	1995	No	-	No	Yes	Yes	X		X		X

IR 1.1.1.1	Increased Foreign Investment	Decommissioning of least efficient refineries	Definition: selected refineries identified in Bechtel report (up to 4) Unit: # of refineries	1995	-	-	0	2		2	1		
		External private Investment (USD)	Definition: Investors like AMOCO, Shell, Enterprise, etc. Unit: Annual increase (USD millions)	1995	\$150M	\$100 M	\$30 M	\$100 M		TBD	TBD		TBD
		Oil and gas Regū Autonomes become joint stock companies per World Bank conditionality	Definition: number of regia in oil and gas the become JS companies Unit: # per year	1995	0	0	0	2		1	1		1
IR 2	Competitive Power System	Decision by GOR to adopt an option for Phase 2 from the Bechtel energy sector study, and implement recommendations	Definition: Decision to begin Phase 2 needs to be taken by GOR by June, '96, implementation phase should be in 1997 Unit: Yes/No	1996	-	Yes (Decision)	No	Yes (Develop Imp. Plan)		Yes (Implementation)	X		X
		Internal investment financed by cash flow (let) for those GOR enterprises (joint stock co.s) that currently retain cash flow	Definition: Percentage of net profit Unit: %	1995	10%	10%	0%	10%		10%	10%		10%
		Increased Cash Flow	Definition: Net profit before tax, with non-cash charges restored (depletion/depreciation) Unit: Annual % increase	1995	TBD	N/C	N/C	N/C		+5%	+5%		+5%

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IR 2.1	Prices Based on Long Run Cost and market	Tariffs in effect for electricity transmission	Definition: respecting of tariffs Unit: Yes/No	1995	-	-	-	No		Yes		X		X
		Electricity prices adjusted twice per year (per World Bank conditionality)	Definition: Unit: Yes/No	1995	No	Yes	No	Yes		X		X		X
IR 2.1.1	Independent Regulation of Purchasing, Licensing and Access	Electricity and Heat Law enacted (per World Bank conditionality)	Definition: Unit: Yes/No	1995	No	-	-	No		Yes		X		X
		Economic regulation of power sector initiated through establishment of regulatory body (power sector does not have yet-WB)	Definition: Unit: Yes/No	1995	No	-	-	No		Yes		X		X
		Competition Law adopted for Power sector	Definition: Unit: Yes/No	1995	No	-	No	Yes	Yes	X		X		X
IR 2.1.1.1	Increased Private share of Capacity	Increasing market share for independent power producers	Definition: New power plant in Buch. area (% of total) Unit: % increase of total annual production in MW	1995	2%	0%	0%	2%		4%		6%		8%
		Private Share of existing generation and distribution companies	Definition: TBD Unit: % increase	1996	TBD			TBD						

IR 3	Improved Energy Efficiency and Environmental Performance	Remediation programs in place per World Bank schedule	Definition: Adherence to schedule Unit: Yes/No	1995	No	Yes	No	Yes		X		X		X
		Energy Intensity by industrial sector	Definition: standard measurement Unit: % decrease per year	1996	TBD									
IR 3.1	Established Network of private Energy Service Companies and Associations	Number of active firms and associations	Definition: Unit: Number	1996	TBD									
IR 3.1.1	Financing available for energy efficiency and environmental investments	Internal Investments financed by cash flow	Definition: Percentage of net profit Unit: %	1995	10%	10%	0%	10%		10%		10%		10%
		External Investments made	Definition:TBD Unit:	1996	TBD									
IR 3.1.1.1	Increased Use of Market Mechanisms & Cost Effective Environmental Regulations	Environmental Regulations put in place	Definition: TBD Unit:	1996	TBD									
		Market Mechanisms in place	Definition: TBD Unit:	1996	TBD									

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		<p>Comments/Notes:</p> <p><i>Many indicators from the 1996 R-4 are included in this new reordered results framework. New indicators (with TBDs) should be considered as illustrative.</i></p> <p><i>IR 1.1, second indicator: 1997 removal of cross subsidies is as follows: 100% for petroleum products, 100% for crude oil prices, but 0% for coal production.</i></p>
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		<p>Comments/Notes:</p> <p><i>Many indicators from the 1996 R-4 are included in this new reordered results framework. New indicators (with TBDs) should be considered as illustrative.</i></p> <p><i>IR 1.1, second indicator: 1997 removal of cross subsidies is as follows: 100% for petroleum products, 100% for crude oil prices, but 0% for coal production.</i></p>
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STRATEGIC OBJECTIVE 2.1: INCREASED BETTER INFORMED CITIZEN PARTICIPATION IN POLITICAL AND ECONOMIC DECISION MAKING

1. STATEMENT OF STRATEGIC OBJECTIVE

SO 2.1, increased better informed citizen participation in political and economic decision making, remains the same as proposed in the 1996 R4. However, a new configuration of Intermediate Results (IRs) is proposed to better capture the opportunities created by the new reform minded government and to reflect the dynamics of the key actors within the new political environment.

2. PROBLEM ANALYSIS & USAID INTERVENTIONS

a. Problem Analysis

Romania has embarked on a process of political and economic liberalization that ultimately will result in expanded participation within the framework of democratic institutions and the rule of law. The new government has made room for new actors on the political scene to help improve communication between state and society; creating the conditions not for abrupt, revolutionary democratization, but for an incremental, stable approach that promises to achieve real political change and better facilitate the country's transition toward sustainable democracy. Economic and political reforms have opened a window of opportunity for engaging civil society to make government more responsive to citizens needs and to champion the consolidation process to achieve sustainable democracy. Organizations of civil society have responded with dynamism demonstrating their potential to mobilize resources to articulate and aggregate citizens' political demands in helping achieve sustainable status.

Romania has a reform government, a pluralistic Parliament, emerging local governments, a flourishing media, professional organizations, NGOs, and other special interest groups. Citizens have found these to be effective vehicles to articulate and champion national issues. However, for Romania to consolidate its democracy, such mechanisms for political participation must be improved. Most existing organizations remain institutionally weak, largely because they have not been incorporated into the policy making process. To facilitate increased political participation, new vehicles such as advocacy and special interest groups will have to be encouraged while existing NGOs, media, and professional organizations need to be strengthened. The advent of decentralization and the likelihood of increased direct and indirect taxation for the delivery of basic services will further increase the demand for such organizations to influence policy at the local level.

The GOR needs assistance in organizing the reform process in order to be responsive to civil society: Many of the highest

government leaders, including the President and Prime Minister, come from civil society backgrounds, as former leaders of NGOs or labor organizations. Campaign promises and now reforms, whether in social protection, anti-corruption or other areas, are based on responsiveness to the citizenry or civil society. Such leaders and their key advisors, never having served in government, need help in organization and management in order to carry out proposed reforms.

Romanian NGOs need institutional development: An important objective for the GOR is to strengthen the government's relationship to civil society, i.e. to the citizens, especially through national and local NGOs. A strong and vibrant NGO sector capable of articulating and representing the needs of citizens to decision-making authorities and mustering programs to support citizen initiatives is a critical element of a civil society in democratic nations. Since 1990, Romania civil society experienced rapid growth as small NGOs by the thousands sprang up all over the country. The vast majority of NGOs remain small, poorly organized and strapped for financing. Estimates of active NGOs in Romania are around 12,000--less than half are considered likely to survive for more than a few years and fewer can be expected to become viable over the long term. Most are institutionally weak.

Substantial amounts of small grant funding are available to the NGO community from two principal donors: the Soros Foundation and EU Phare. Most of the annual \$12 million Soros provides to Romania is available to NGOs. EU Phare's annual budget for micro-grants to NGOs is about \$1.2 million, and Phare provides another \$4.5 million per year to NGOs through the Foundation for Development. Only USAID has addressed the institutional development needs of NGOs in a significant way.

Parliament needs strengthening: The Romanian Parliament has in a short period of time become a multi-party arena through which elements of civil society, including the opposition, can seek to influence governmental decision making. However, the Parliament needs to further develop its capacities to: draft, consider and pass legislation; contribute to public policy formation; participate in the budgetary process; provide checks and balances to the executive; and strengthen links to public constituencies.

The media needs improvement: Responsive and effective participatory government relies on extensive linkages both within government and between government and civil society. The flow of timely fact-based information is critical to maximize the growth of these interrelationships. Although both the print and electronic media have experienced an unprecedented period of boom and expansion, the various organs of the media have not yet achieved the levels of professionalism in business practices, news reporting, analysis, or investigative reporting that are necessary to disseminate information and opinion on a large scale. Viability of the sector is also severely constrained by

the limited institutional and administrative capacity of media enterprises. Most lack the basic knowledge and understanding of techniques of modern business management, advertising, sales, and professional responsibility.

Labor discontent could threaten the reform program: Another problem facing the GOR is that of labor discontent with the government's "shock" program. As chief bearers of the very real pains of economic transition, including high inflation and labor shedding, the reaction of labor, especially labor unions, will be one of the serious civil society issues facing Romania.

The justice system is weak: Participatory democracy requires a predictable system of justice. The Romanian justice system has failed to fulfill its principal objectives, which are to serve as an impartial and timely mechanism for resolving disputes among citizens and to uphold the laws of the nation. Legal professionals are poorly trained; procedures and codes are ambiguous and obsolete; a comprehensive legal framework is lacking; and authority is exercised without sufficient accountability or transparency. Changes in the legal and procedural codes are being discussed throughout society. The new government has acknowledged the need to restructure the judiciary to give it more credibility. These activities are strengthening the awareness and leadership needed to launch a reform program. Despite these encouraging signs, the process of reform is at a very early stage.

The spread of corruption is a danger: There are other problems and opportunities in the democracy sector. Corruption pervades the public sphere in Romania. Falling real wages, weak and non-transparent administrative processes, inadequate legislation, and a climate of uncertainty have exacerbated the incidence of corruption. Petty corruption in everyday transactions such as tax collection, license applications, and medical care has existed for decades but, unless addressed, is likely to increase as the volume of such transactions grows. Grand corruption in such areas as privatization, banking and public procurement could also increase as the government privatizes its assets and the economy expands. Under the new reform government, the stakes in grand corruption will grow substantially.

President Constantinescu has launched an anti-corruption drive and established an anti-corruption council composed of himself as chairman and the Ministers of Justice, Interior, Defense and Finance. In February 1997, he created county commissions to coordinate anti corruption activities at the local level.

b. Proposed USAID Interventions

Through a more focused program for SO 2.1, USAID will be able to address most of the problem areas summarized above. Other areas, as discussed below, will be covered by other donors, or are

partially addressed by activities under SO 1.3 (enterprise development) or SO 1.4 (financial markets).

Assistance to Executive Offices and Ministries: USAID will assist the President's and Prime Minister's Offices in organization/management, and other areas related to effectively carry out reform programs. USAID will also provide training to those offices and Ministries in public relations in connection with the reform process.

Support for the NGO Sector/Democracy Network Program: USAID recognizes the importance of continuing support to Romanian NGOs, as a means of strengthening participatory democracy and assisting the GOR to meet one of its important objectives. Because other donors provide generous funding to NGOs and USAID's own comparative advantage is in the institutional development of NGOs, USAID will concentrate its Democracy Network activities on the institutional strengthening of NGOs.

Since the current Democracy Network program has approved very few subgrants (17), while other donors have provided abundant funding, the subgrant activity will be phased out over the next year. The Democracy Network will coordinate institutional development of NGOs with other donors, i.e. Soros, EU Phare and the Foundation for Development of a Civil Society. This can be done in two ways: training of trainers--training the local staff of Soros, FDCS, and perhaps Phare in advocacy/institutional development techniques; and, in coordination with Soros and Phare, provide training to local NGOs at joint-donor supported regional resource centers. USAID will emphasize providing training to local NGOs which support decentralization and the development of local government services. This will be done in unison with activities under SO 2.3 (local governance).

Support to Parliament: Building on the accomplishments of the Congressional Research Service Activity, USAID will provide **administrative and legal training.** This will focus on rules administration and committee work to strengthen the role of staff and committee experts, and shorten the time needed between drafting, reviewing and adoption of legislation. In the legal area, since only about ten percent of members have any legal training, increasing technical expertise of members and staff alike will improve the status of parliament in the government.

Work in **constituency outreach** will focus on (1) constituent correspondence/public relations, interventions with local authorities on constituents' behalf; (2) publicizing and providing greater citizen and NGO access to draft legislation (e.g. expanding distribution of Official Monitor, timely publishing records of debates and votes, and media coverage of committee hearings); and (3) technical support to establish internet connections between each of the 381 constituencies and their offices in Bucharest.

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Support to Independent Media: Very modest support will be provided during FY 1997 and 1998 to bring the Professional Media Program to a successful conclusion. Further training will focus on television stations and newspapers in smaller localities not yet served by the program. Training will emphasize business management (including advertising, sales, and circulation) and basic journalism techniques and standards. PMP will also provide training aimed at explaining government reforms to readers and viewers. This will entail short courses in economic reform, privatization, capital markets and other economic/business topics.

Labor: There will be no support to labor under SO 2.1; rather, support to ameliorate the short term effects of privatization and labor shedding will be provided under SO 1.3. The US Department of Labor will provide labor redeployment services under the Privatization activity, as described above in the SO 1.3 discussion.

Support to the Justice Sector: USAID does not plan full-scale involvement in the Justice Sector. This is strictly a modest pilot program designed to support the reform-minded Minister of Justice implement judicial reform and to generate other donor support for the sector. A much broader program, financed by other donors, is needed to address the problems of the justice sector. Activities will consist of judicial training provided through the Romanian Magistrates' School focused on due process guarantees, court administration, administrative procedures, and judicial prosecutorial relations. Also, technical support will be provided to regional judicial associations on: organization of the judiciary, due process, judicial lobbying for greater independence and greater judicial control over the Procuracy and exchange programs with American jurists and organizations.

3. RESULTS FRAMEWORK (see Attachment B)

4. JUDGING PERFORMANCE

SO 2.1. Increased better informed citizen participation in political and economic decision making:

IR 2. Strengthen advocacy activity by groups with policy formulation and implementation concerns: USAID support to the civil sector has been successful. Two national policy-oriented NGOs, Pro-Democracy Association (PDA) and CENTRAS, have been established under USAID sponsorship. Several other regional and local NGOs focused on policy change issues are being supported through the Democracy Network (DemNet) program. This program uses an innovative hands-on approach to provide training in advocacy, fund raising, financial management, and organizational development. Two hundred NGOs received such assistance under DemNet.

IR 1.1, Effective responsive and accountable Parliament:

Romanians have chosen to make Parliament the key arena where basic political change is negotiated and institutionalized. Parliament is the only institution where both the government and the opposition are represented, making Parliament central to the process of democratization. USAID provided support to the development of Parliament through the Congressional Research Service (CRS) program. The major elements of the program included technical assistance to develop the parliament's research, analysis, and reference capacity, the provision of automated equipment and software, and the enlargement of the parliamentary library. Both chambers have benefited from the infusion of information technology.

5. COMMITMENT AND CAPACITY OF DEVELOPMENT PARTNERS

In USAID's limited focus on NGO institutional development, much will depend on effective coordination with other donors, i.e. Soros and EU Phare. USAID must direct its technical assistance to NGOs which receive subgrants from the other donors; and the other donors, in turn, should target those NGOs which have potential for viability and are making a difference in public advocacy or decentralization.

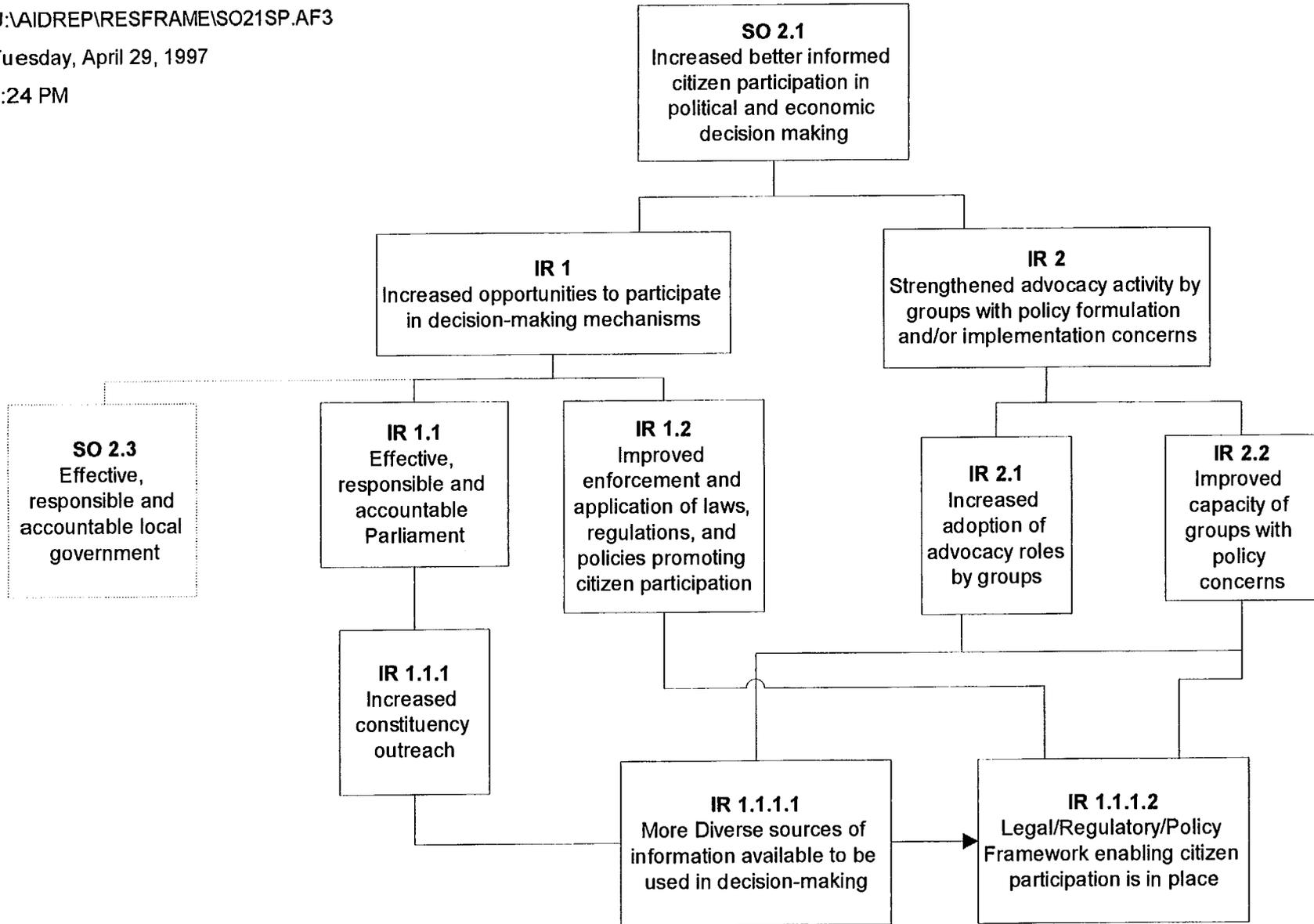
6. ILLUSTRATIVE APPROACHES

- Assistance to Executive Offices and Ministries will be provided, starting in 1997, under a new activity (Reform TA and Training) of the Political and Social Process Project.
- The Non-Governmental Organization Project Development Project (DEMNET) will continue to provide institutional development assistance to NGOs but will phase out of providing sub-grants after 1998.
- A new Parliamentary Assistance activity will be started under the political and Social Process Project in 1997 and will be funded through 1999.
- The Professional Media Program will be funded in 1997 and 1998, when it is expected to end.
- The ongoing Rule of Law-ABA/CEELI activity will fund support to justice sector, as well as assistance in legislative drafting to complement the Parliamentary Assistance Activity.

7. SUSTAINABILITY

Proposed activities in SO 2.1 are specifically aimed at sustainability. For example, institutional development activities for NGO's will make them more sustainable. Activities under the Pro Media Program will put the finishing touches

(business management and decentralization) on AID's successful interventions in helping the media. Technical assistance and training for the offices of the President and Prime Minister and key Ministries will make the reform process more sustainable.



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PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

S.O. 2.1: Increased, better-informed citizen's participation in political and economic decision-making through pluralistic mechanisms

RESU LTLE VEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
				YEAR	VALUE	Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 2.1	Increased, better informed citizen's participation...	Number of groups with policy concerns	<p><i>Definition: Groups with policy concerns are those organizations (NGOs, professional associations) which seek to influence the development and implementation of public policies in any priority sector, i.e. democracy/human rights, environment, economic development, social safety nets</i></p> <p><i>Unit: Number of groups listed in counterpart database on a particular date with advocacy as their purpose</i></p>	1995	12 Revised Target ('97)	88	81	132	-	155		177		210	
		Membership of groups with policy concerns	<p><i>Definition: Total Membership</i></p> <p><i>Unit: Number of people</i></p>	1996	145,000	-	145k	160k		180k		190k		200k	

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IR 1	Increased opportunities to participate in decision-making mechanisms	Number of cooperative activities between groups and government	<p><i>Definition: Cooperative activities are defined as joint initiatives involving government and civil society to resolve community problems or address public needs</i></p> <p><i>Unit: number of activities</i></p>	1996	3	10	28	56		75		90		100
IR 1.1	Effective, responsible and Accountable parliament	Number of significant laws initiated/amended by Parliament	<p><i>Definition: Annual Budget Law, Economic Restructuring Laws, e.g.</i></p> <p><i>Unit: Number</i></p>	1996	0	-	0	0		5				
IR 1.1.1	Increased constituency outreach	Number of MP's field (constituency) offices with formal constituency communications	<p><i>Definition: Track record of calls, actions taken</i></p> <p><i>Unit: % of MP's (approx. 500)</i></p>	1997	20%	-	-	20%	20%	45%		75%		100%
IR 1.2	Improved enforcement and application of laws, regulations and policies promoting citizen's participation	Citizen's participation provisions of Law 417/95 (the Environmental Law) are honored	<p><i>Definition: The law mandates a public review process for the issuance of environmental impact permits required for certain types of construction having the potential for serious environmental impact</i></p> <p><i>Unit: yes/no</i></p>	1995	no	no	Yes	yes		X				
		Existing laws protecting freedom of association, assembly and speech are enforced.	<p><i>Definition: State Dept. human rights report</i></p> <p><i>Unit: yes/no</i></p>	1995	Yes	Yes	Yes	X						

IR 1.1.1.1	More diverse sources of information available to be used in decision-making	Number of NGO policy newsletters	Definition: NGO policy newsletters are those publications edited by NGOs that include information and debates on public policy issues Unit: Number	1995	30	40	40	50		65		80		100
		Number of TV stations broadcasting nationwide	Definition: RTV, satellite/cable Unit: Number	1995	3	5	3	4		5				
IR 1.1.1.2	Legal/ Regulatory/ policy framework enabling citizens' participation is in place	Law 21/1924 (regarding registration and operations of associations and foundations) amended as per NGO community proposal	Definition: Unit: yes/no	1995	no	no	no	yes						

IR 2	Strengthened advocacy activity by groups with policy formulation and/or implementation concerns	Human resources devoted to advocacy activities by groups	Definition: Human resources as measured by persons involved Unit: Number of persons - staff/management - volunteers, in hundreds	1996		33	24	36		48		72		110
						33	TBD	100		125		160		250
IR 2.1	Increased adoption of advocacy roles by groups	Number of groups that adopt advocacy role	Definition: Groups that already have a mission which allows for advocacy, that newly adopt that role Unit: Number of groups	1995	12	+66	+58	+33		+22		+33		+25
		Number of groups that change their mission to allow for advocacy role	Definition: Groups that incorporate policy-oriented activities in their mandate Unit: Number of groups	1996	-	10	6	+5		+5		+5		+5

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IR 2.2	Improved Capacity of groups with policy concerns	Capacity rating for each USAID-assisted group 1= Start-up 2= Developing 3= Consolidating 4= Sustaining	Definition: Average of the various ratings (for management, governance, service delivery, external relations, etc.) for each USAID group, disaggregated according to the number of years that groups have been rated. Unit: Scale	1996	-	1.3	2.3	2.5		3.0		3.1		3.2	
		Rating for external relations among selected USAID-assisted groups 1= startup 2= developing 3= consolidating 4= sustaining	Definition: Relationship with media, public authorities, other groups, donors, general public Unit: Scale	1996	-	1.1	2.1	2.7		3.2		3.4		3.5	

COMMENTS/NOTES:

- 1) DNP - DEMOCRACY NETWORK PROGRAM
- 2) NGO - NON-GOVERNMENTAL ORGANIZATION
- 3) IR 1.1 - Law 417/95 is the only law that incorporates citizens' participation. As new mechanisms come on-line, they can be added to performance indicators.
- 4) For indicators referring to policy groups, baseline values will result from the assessments made throughout the country during DNP's first months of activity.

UPDATE:

Many of the initial targets set at the outset of the DNP project have proven too optimistic. A narrow definition of advocacy/public policy for these groups resulted in many Romanian NGO's excluded from this count even if they are operating successfully at a local level or active in service delivery.

STRATEGIC OBJECTIVE 2.3: MORE EFFECTIVE, RESPONSIVE, AND ACCOUNTABLE LOCAL GOVERNMENT

1. STATEMENT OF STRATEGIC OBJECTIVE

USAID/Romania has modified its strategy for local government assistance under SO 2.3 to reflect new priorities and opportunities resulting from political changes in Romania. In the future, instead of only targeting local governments and working from the bottom-up, we will work on two tracks to support decentralization and devolution: at the national level to assist in the formulation of the policy reforms; and at the local level to develop the capacity and competence to implement expanded authority, and to develop public participation to support new responsibilities. The emphasis will shift from a retail effort with a few demonstration cities and counties to a wholesale approach to local authorities in general.

2. PROBLEM ANALYSIS & USAID INTERVENTIONS

a. Problem Analysis

Until the election of the reform government in November, 1996, local government dependency on central authority and central government control had altered little, despite the post-1989 constitutional commitment to the principles of democracy and decentralization. The government structure allowed little leeway for local government decision making, and many services were and are still controlled by other government entities. Cities have been limited in their ability to raise revenues to carry out capital investment programs for badly needed repairs and improvements to basic infrastructure, and central government control of flows of operating funds and investment credits have limited the ability to respond to citizen's needs. In an environment where central government was not amenable to carrying out substantial decentralization, the local government program focused on improvements within the system following a bottom-up approach.

Since the 1996 national election this atmosphere has changed; the new government has clearly stated that decentralization is of the highest priority; their program proposes a clarification and extension of the responsibilities and authority of local government for services and capital investments as well as a radical reform of the local government finance system.

Consequently, there are new and altered opportunities for achieving significant, and far broader results under this SO which have led to a revised strategic approach and program emphasis to take advantage. Of highest priority is assistance which will (1) promote a legal and regulatory environment that empowers local government to assume responsibility and authority for itself, and particularly for its own finances; (2) strengthen the capacity to plan, finance and manage its finances and

investments, and access a market-oriented credit finance system; (3) lay the foundation for a sound, market oriented credit finance system for investment in local infrastructure; (4) enhance the local democratic and participatory base as an integral part of the process of planning and managing local government.

b. Proposed USAID Interventions

USAID/Romania has modified its strategy for local government assistance to reflect these priorities. In the future, instead of working only from the bottom-up, we will work on two tracks to support decentralization and devolution: at the national level to assist in the formulation of the policy reforms; and at the local level to develop the capacity and competence to implement expanded authority, and to develop public participation to support new responsibilities. USAID/Romania is promoting policy change through immediate assistance to the relevant ministries to draft legislation, and in collaboration with the EBRD to develop a structure for municipal credit finance. At the local level, we will continue to build public management capacity and competence, create and promote strategies for citizen information and participation, and teach the managerial and technical skills to implement the new legislation and improve credit-worthiness. The emphasis will shift from a retail effort with a few demonstration cities and counties to a wholesale approach to local authorities in general.

3. RESULTS FRAMEWORK (see Attachment B)

4. JUDGING PERFORMANCE

SO 2.3, More Effective, Responsive, and Accountable Local Government: Given a policy environment which was not conducive to local government, the program nonetheless succeeded in achieving results commensurate with its modest and targeted aims and goals. Efforts were concentrated on incremental infrastructure and management improvements in six cities, and on improved citizen participation and information services in eight cities. Within the context of what was possible in a period of transition, the direct results of the program have been at the very least adequate. The program has been small-scale, but not insignificant, and has succeeded in preparing the ground for the major changes already underway. The following paragraphs provide information on selected intermediate results (IR) and correspond to the new USAID/Romania strategic plan.

IR 2, Increased Local Government Control over Functions and Revenues (FY 1996 IR 2.1): The proportion of the budget of local government units over which local governments have unrestricted authority has increased since 1995 by 2% on a national basis (using current lei), from 54.9% of total expenditures, to 56%. This is due to a decrease in the proportion of targeted subsidies which the central government returns to local

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governments, a steady increase in the percentage of total tax revenues which the central government gives back to local government, and an increase in the amount of revenue which is raised locally. It is a clear indicator of progress in the trend to local control on the part of central government, and will increase in the coming years when the Law on Local Public Finance is passed. This law will direct more revenues towards local government. In addition, more responsibilities and revenue streams will be transferred directly to the local level, most notably duties relating to taxes derived from profits and authority over utilities companies.

IR 3, More Revenue Available to Local Governments (FY 1996 IR 2.2): The total revenue available to local governments from national and local sources increased by 47% between 1994 and 1995, and by 1% between 1995 and 1996 (the huge jump in one year was due to implementation of the revised Law on Taxes and Fees, allowing revenue from direct locally imposed taxes to increase by 160% in real terms between those two years). This clearly indicates the dramatic effect of the initial increase in local revenue authorizations, although the expected effect on 1996 and 1997 will be far more modest. A second revision of tax powers is likely to be passed in 1997, giving more revenue raising powers to local authorities and the effect on indicators will be seen in 1998.

5. COMMITMENT AND CAPACITY OF DEVELOPMENT PARTNERS

IR 2 and IR 3 are dependent upon the USAID-funded U.S. Treasury (USDT) advisors and the European Bank for Reconstruction and Development (EBRD). USAID and USDT advisors have pursued an interest in municipal finance and their influence has resulted in unprecedented participation in the drafting of legislation which will create the foundation for a system of municipal credit. EBRD has pressured the GOR to create a municipal credit facility. USAID local government assistance programs have enhanced the creditworthiness of Romanian cities and counties, contributing to the EBRD effort and the credibility of the USDT advisors with the Romanian Ministry of Finance. A comprehensive USAID-financed study is providing the basis for recommended changes in the municipal finance and budget legal framework. The objectives of the USDT advisor, the EBRD, and USAID coincide in this effort. USAID programs are critical to the accomplishment of others' objectives.

6. ILLUSTRATIVE APPROACHES

The close collaboration among the USDT advisors, USAID's contractor, and the Ministry of Finance should result in legislation adopted by the Parliament this year which will impact municipalities in the future (IR 2). This transfer of power will coincide with the improvement in local government capacity and competence resulting from the efforts of USAID's other contractor in this area providing practical technical assistance to local

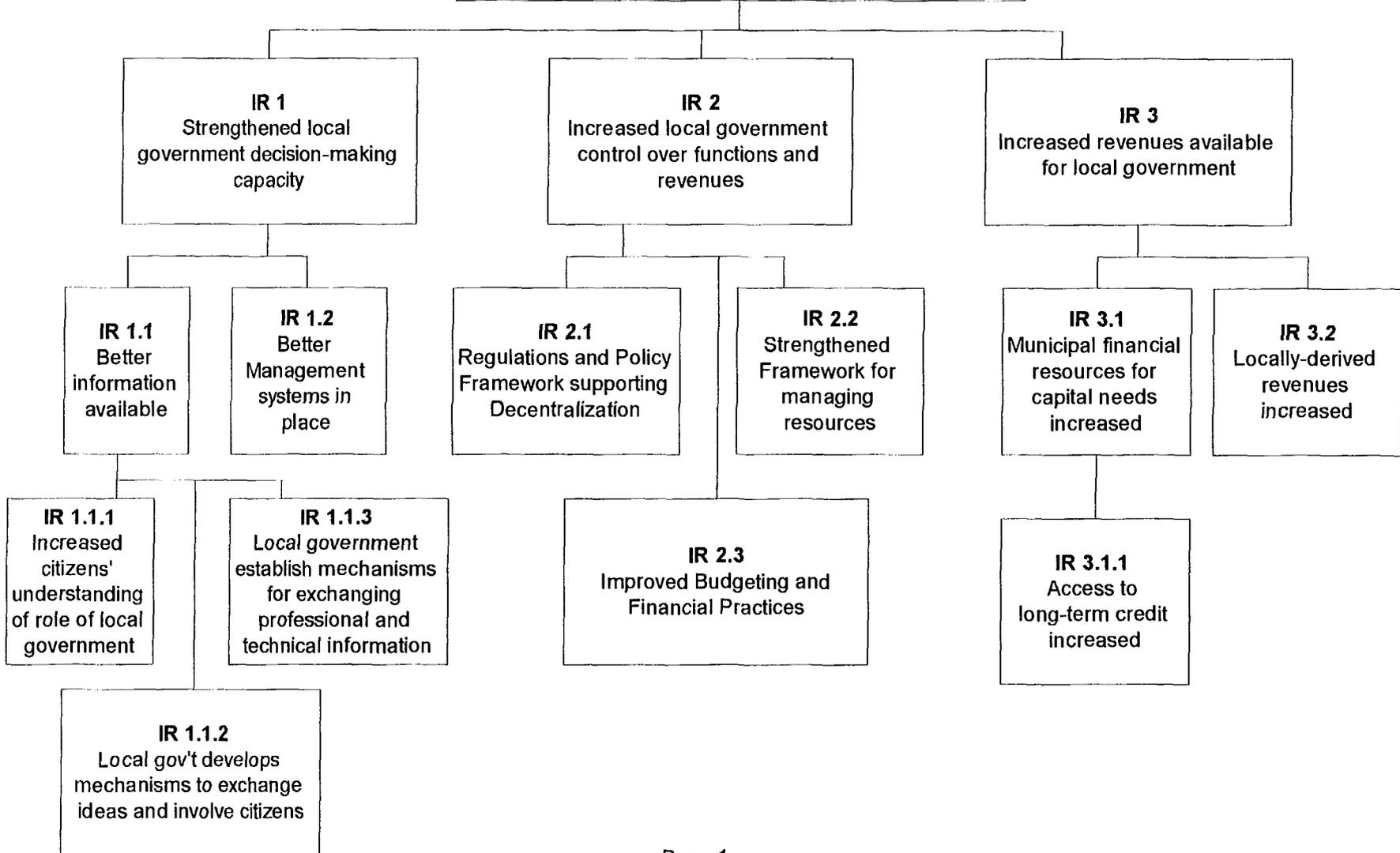
authorities (SO 2.3 and IR 1).

7. SUSTAINABILITY

The success of local government assistance programs and the promise of new authority over municipal finances have created demand for additional technical assistance beyond the resources of current programs. This will result in consideration of expansion and extension of these projects, but not for periods longer than that of this strategy. Local government assistance programs have provided for the development of training capacity by locally based NGO's and the assistance of one community by another. By 1999 the process of decentralization of authority and responsibility to local governments will be well along and irreversible. Local governments in turn will have demonstrated the capability of exercising this power. The improvement in effectiveness, responsiveness, and accountability will have become irreversible and self sustainable as well.

SO 2.3:
More Effective, Representative and Accountable Local Government

Time Frame: 1993-2002
Partners: USAID, WB, EBRD, Brit. Know How Fund, Soros



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Strategic Plan (1997 and Beyond)
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS
S.O.:2.3

RESULT LEVEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						1996		1997		1998		1999		2000			
						Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
SO 2.3	More Effective, responsive and accountable Local Government	Survey data indicates increasing satisfaction with activities of local government officials, transparency and accountability of activities	Definition: a citizen survey conducted in each, or a sample of client cities Unit: number of surveys, survey results	1995	0	0	0	1		1							
IR 1	Strengthened Local Government Decision-making capacity	Creation, development and use of a Program Performance Budget	Definition: A budget process involving citizen participation controlled by elected officials through appointed professionals producing an informational and usable management document accurately reflecting the policy intent of the local authority Unit: Number of approved Program Performance Budgets	1995	2	2	2	4		8							
			Definition: Unit:														

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<p>IR 1.1</p>	<p><i>Better Information Available</i></p>	<p><i>Information mechanisms provide usable information to governments and to citizens</i></p>	<p><i>Definition: Numbers of users of information centers</i> <i>Unit: Citizen contacts/month</i></p>	<p>1995</p>	<p>0</p>	<p>0</p>	<p>6K</p>	<p>12K</p>	<p>24K</p>						
<p>IR 1.2</p>	<p><i>Better management systems in place</i></p>	<p><i>Create and/or install program budget, financial management or computer operating systems.</i></p>	<p><i>Definition: a definable new method of managing and activity providing improved control, efficiency, decision-making capacity</i> <i>Unit: number of systems in place</i></p>	<p>1995</p>	<p>2</p>	<p>N/A</p>	<p>8</p>	<p>10</p>	<p>15</p>						
<p>IR 1.1.1</p>	<p><i>Improved citizen Understanding of local government role, Authority and Limitations</i></p>	<p><i>Citizens Information Centers provide access to local government information and services</i></p>	<p><i>Definition: Organization, construction and operation of centers provide citizen access to information and to officials, government outlet for dissemination of information</i> <i>Unit: number of operating centers</i></p>	<p>1995</p>	<p>0</p>	<p>1</p>	<p>2</p>	<p>5</p>	<p>7</p>						
<p>IR 1.1.2</p>	<p><i>Local Governments establish mechanisms to exchange ideas and involve citizens</i></p>	<p><i>Citizen participation entities established and functioning</i></p>	<p><i>Definition: Means of exchanging information horizontally among equivalent organizations and vertically to and from local government.</i> <i>Unit: Number of entities</i></p>	<p>1995</p>	<p>1</p>	<p>0</p>	<p>3</p>	<p>10</p>	<p>50</p>						

IR 1.1.3	Local Governments Establish Mechanisms to exchange Professional and Technical Information	Cities and counties establish formal and informal relationships for the exchange of information	Definition: Creation of professional association or informal establishment of networks of communications Unit: Number of associations or relationships established	1995	0	0	3	3		5					
IR 2	Increased local government control over functions and revenues	Proportion of the budgets of local government units over which they have unrestricted authority	Definition: Portion of budget expenditure over which the local authority has control and authority Unit: % of locally controlled expenditures to the total	1995	54.9	56	56	57		59		63			
		Comments/Notes:													

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Strategic Plan (1997)

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

S.O.: 2.3

RESULT/VE (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1996		1997		1998		1999		2000		
				YEAR	VALUE	Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
IR 2.1	<u>Regulatory and Policy framework that supports decentralization</u>	Laws establish regulatory and policy framework for decentralization	Definition: reform laws passed by Parliament Unit: number	1996	none	"	"	2		2						
		Additional functions delegated to local authorities	Definition: Yearly Budget Law transfers functions to local administration and provides adequate supplementary revenue transfers to fund the functions Unit: cumulative # over baseline	1996	none	"	"	1		2						

IR 2.2	<u>Strengthened Financial Framework and practices for Municipal services</u>	Revised Local Law tax Adopted	Definition: Parliament passes new local tax law which increases authority of local government to levy taxes and set the rates for these taxes Unit: status unchanged/passed	1996	N/C	"	"	N/ C	passed						
		Cities operate within their approved budgets	Definition: USAID target cities do not incur budget deficits Unit: yes/no	1996	TBD										
IR 2.3	<u>Improved planning, budgeting and financial management practices</u>	Number of USAID- assisted cities implementing improved budgeting methodology	Definition: cities implement revised budget methods Unit: number	1996	0	"	"	2	7		15				
IR 3	<u>More revenues available for local governments</u>	Overall increase in local annual budgets	Definition: Total revenue available to local governments from all sources Unit: % cumulative increase per year from 1995	1995	no in- crease	1	1	2	5		7				

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<p>IR 3.1</p>	<p><u>Increased financial resources to meet municipal investment needs</u></p>	<p><u>Number of municipalities borrowing for capital investment</u></p>	<p><u>Definition: borrowing from all sources</u> <u>Unit:</u></p>	<p>1996</p>	<p>5</p>	<p>"</p>	<p>"</p>	<p>+5</p>		<p>+5</p>		<p>+5</p>			
<p>IR 3.1.1</p>	<p><u>Access to long term capital finance increased</u></p>	<p><u>volume of lending by private commercial banks</u></p>	<p><u>Definition: total amounts of loans negotiated in a given year</u> <u>Unit: \$</u></p>	<p>1996</p>	<p>TBD</p>										
<p>IR 3.2</p>	<p><u>Increased locally raised revenues</u></p>	<p><u>Percent of general city operations financed by locally derived revenues</u></p>	<p><u>Definition: compare locally derived revenues to operating expenses</u> <u>Unit: %</u></p>	<p>1995</p>	<p>38.8%</p>	<p>39</p>	<p>39</p>	<p>40</p>		<p>42</p>		<p>44</p>			
		<p>Comments/Notes:</p>													

STRATEGIC OBJECTIVE 3.2: REDUCE THE NUMBER OF AT RISK CHILDREN IN ROMANIA

1. STATEMENT OF STRATEGIC OBJECTIVE

Strategic Objective 3.2, "Reduce the number of at risk children in Romania", modifies the 1996 version of the USAID/Romania SO 3.2 by incorporating a rekindled interest in the issue of at risk children in Romania. The restatement, with the intermediate results of (1) the welfare and protection of at risk Romanian children, and (2) the need to increase the use of modern contraception, brings together two critical elements of a much larger Government and donor strategy. This strategy seeks in the short term to support the economic and social transformation of Romania by protecting the poorest and most vulnerable groups in the society from the adverse impact of economic stabilization. In the long term the strategy seeks to build a policy and institutional basis for a sustainable group of social benefits and services.

2. PROBLEM ANALYSIS & USAID INTERVENTIONS

a. Problem Analysis

The Government of Romania (GOR), working closely with the World Bank and the full range of donors, has concluded that the economy will face an exceptionally difficult period in the short and medium term. While prior to the November 1996 elections the economic transition begun in 1989 had been gradual, there still were serious negative results from this transition including increased inflation, decreased economic activity, decreased real wages, increased unemployment, slow GDP growth, and an overall increase in poverty. With the renewed commitment of the new government to a faster transition and a much more rigorous restructuring of the economy, the expectation is that conditions, particularly for the poor, will be increasingly harsh over the next few years.

Experience in other transition economies and in Romania has demonstrated that there is a pressing need to protect the poor when entering macro economic stabilization programs. The GOR, World bank, UNICEF, and a range of other donors are working together to try to ameliorate the worst negative impacts of the restructuring process. The programs being planned and undertaken center on protecting the most vulnerable households in the economy, primarily households in the lowest 20 percent of income groups, families with children, and the elderly.

The government and donor strategy will support policies which enhance an assertive social safety net effort. The strategy will also help development institutions which over the long term, will sustain social safety net interventions at whatever level the economy requires. Finally, the government and donors plan to undertake immediate and direct interventions to improve the lot

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of the most at risks groups. These at risk groups include a good share of the country's 6.7 million children, and more specifically 30 to 50 percent of the most disadvantaged of Romania's children who are from minority groups, especially gypsy children, those infected with HIV, handicapped children, children in conflict with the law, and those from families in crisis.

b. Proposed USAID Interventions

Faced with the reality that Romania's children are at growing risk because of the necessary austerity being imposed on the economy and society as a result of the transformation, USAID has decided to recast Strategic Objective 3.2 from:

"Increased Use of Modern Contraceptive Methods, With an Emphasis on Private Sector Delivery Systems"

to:

"Reduce the Number of At Risk Children in Romania".

The recasting does not imply a diminution of support to the family planning (now "reproductive health") program outlined under in the Missions 1996 Results Framework under SO 3.2. Rather it incorporates the thinking and activity described in the reproductive health SO into a strategic objective which is more central and critical to the transition process.

Beginning in the early 1990s, USAID has been addressing the need for an active reproductive health program in Romania. The current program's customers are women and couples who have a need for contraception or need to use more modern effective methods of contraception. It is directed primarily at young Romanians who are open to adopting modern behavior such as modern contraception. In addition it also targets women who are at high risk of seeking abortion to terminate unwanted pregnancies and thus are at risk of dying from the procedure. The strategy focuses on increasing demand for modern methods of reproductive health, improving the quality of service delivery, and increasing the access to modern methods of reproductive health.

The new strategic objective has two intermediate results (IRs). IR 1 is "Increase the use of modern contraceptive methods with an emphasis on private sector delivery systems". IR 2 is "Improve the welfare and protection of Romania's at risk children". Achievement of both of these intermediate results will directly reduce the number of at risk children in Romania. The primary question, however, for a strategy which seeks to directly impact on the economic and democratic transition is, will the programs needed to achieve the intermediate results produce results in the time left for the Romania program?

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The Mission recognizes that the activities contributing to the reproductive health intermediate result and the preliminary ideas

which could form the basis of an activity to improve the welfare and protection of Romanian at risk children have a long term development aspect which needs to be understood and managed. There are also however results which are highly relevant to the time frame of the Romania program. In short, we expect to see results from both sets of activities which will directly reduce the number of at risk children in the time frame of this strategy and will also help launch sustainable development efforts which will deliver benefits over the long term.

3. RESULTS FRAMEWORK (see Attachment B)

4. JUDGING PERFORMANCE

New SO 3.2, Reduced the Number of At Risk Children in Romania:

In the post 1989 period the international donor community, including bilateral and multilateral AID agencies, the non-governmental organizations (NGOs) and many individuals responded to the plight of the institutionalized children of Romania with a significant level of economic assistance. The U.S. alone provided over \$1.6 million through UNICEF and nine American NGOs to assist institutionalized children and to help demonstrate effective preventative programs.

As a result of the assistance effort and a large number of adoptions, the number of children in institutions dropped from well over 100,000 to about 80,000. Still a high and alarming number. But the economic conditions of the last few years have caused this number to start to rise again and it is currently estimated that the number is once again over 100,000. With the expected economic hardship associated with the governments new and more vigorous push on restructuring we expect to see this number go up significantly unless concerted action is taken.

Previous SO 3.2, Increased Use of Modern Contraceptive Methods, with an Emphasis on Private Sector Delivery Systems: The increased knowledge, acceptance, and use of modern contraceptive methods in Romania has exceeded our projections and greatly exceeds the average increase experienced around the world via donor-funded reproductive health efforts.

"The use of modern contraceptives" is one of the indicators for the previous SO 3.2. Although we do not have an updated figure for the use of modern contraceptives among contracepting women of all ages (due to the fact that the Mission has not yet duplicated the Women's Reproductive Health Survey of 1993), we do know that the use of modern contraception among youth aged 15-24 has doubled from 10 to 20 percent since 1993. This result derived from the 1996 CDC young adult reproductive health survey conducted by Centers for Disease Control in Atlanta. We also have anecdotal evidence (from private sector clinic reports) that the use of modern contraceptives among all women of reproductive age has increased significantly; we therefore estimate that the 23% target set for 1997 was very likely met.

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Regarding the other indicator for the previous SO 3.2, "Procurement of modern contraceptives," the results show an increase in procurement from alternative- to public-sector sources for youth aged 15-24. This age group of youth reported that they purchase 54% of their contraceptives from pharmacies, a 48% increase over 1993; and 4% from non-governmental organizations (NGOs) an increase of 2% over 1993; 14% from private doctors or clinics (increase of 5% over 1993). Purchases in the unofficial economy have declined.

These trends are consistent with the program objectives and indicate that the reproductive health program is on target and successful. Since the data reviewed provides country-wide averages, and we know that use of modern contraceptives in rural areas still remains quite low, we believe that use of modern contraceptives and procurement of such from the private sector in large urban areas such as Bucharest significantly exceed the numbers listed above.

5. COMMITMENT AND CAPACITY OF DEVELOPMENT PARTNERS

Sustainability is a critical issue for both the reproductive health and the at risk children intermediate results. In neither case does the Mission expect that within the time frame of this strategic plan, nor within the remaining years of the USAID/Romania program, that a single "National Program" type solution or institution will emerge to guarantee sustainability. Under both the reproductive health and the at risk children activities USAID will have developed a wide range of partners, most from outside the formal government establishment. These individuals, NGO's, advocacy groups, international organizations, private business, and professionals are already creating networks to push agendas which support both reproductive health and child advocacy.

USAID/Romania will continue this method of operation. USAID's direct interventions will insure that there are real results in the time frame necessary to have an impact on Romania's transition over the next five years. By approaching the problem through a private not public mix of cooperators and partners both, these programs will leave behind a network of support organizations which will be able to fit into continuing work on these problems. As the USAID program in Romania approaches graduation, more emphasis will be placed on supporting institutional linkages and organizational development within these networks to help them with their long term financial and political sustainability.

6. ILLUSTRATIVE APPROACHES

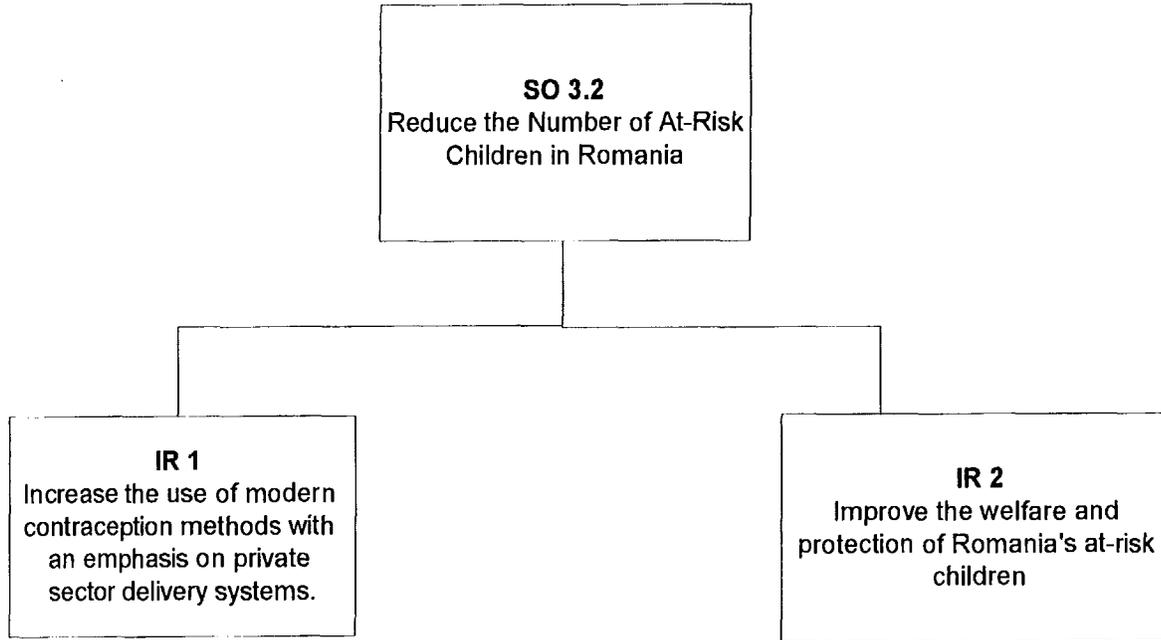
We propose to build on our success in aiding institutionalized children by continuing to support a wider and more diverse group of partners to carry out similar and new programs which test methods of addressing the root problems and causes of abandoned

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children. Issues like criterion for selecting partners, program focus, number of activities, institutional arrangements, and many others still need to be sorted out. One of our goals, however, in pursuing this activity will be to develop a network of traditional and new partners who will be capable of maintaining a sustained interest in the problems of Romanian Children post USAID assistance. Clearly this is a long term objective and will need to be balanced by short term results in the form of fewer Romanian children at risk.

7. SUSTAINABILITY

The Mission recognizes that the activities contributing to the reproductive health intermediate result and the preliminary ideas which could form the basis of an activity to improve the welfare and protection of Romanian at risk children have a long term development aspect which needs to be understood and managed. There are also however results which are highly relevant to the time frame of the Romania program. In short, we expect to see results from both sets of activities which will directly reduce the number of at risk children in the time frame of this strategy and will also help launch sustainable development efforts which will deliver benefits over the long term.

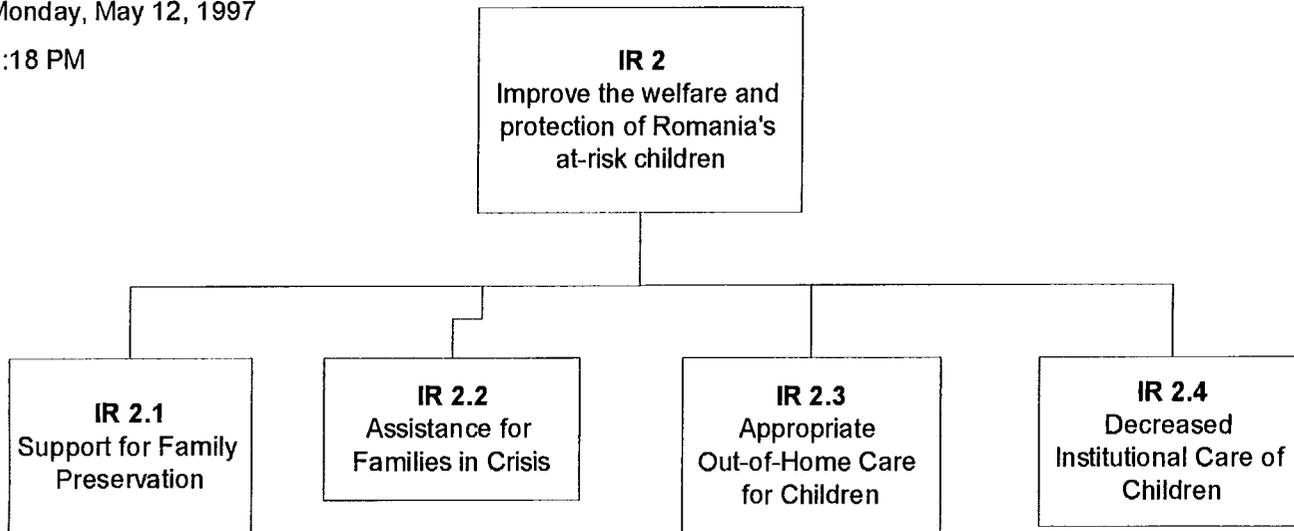


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Monday, May 12, 1997

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SP Framework (1997 and beyond)

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS
S.O.3.2: Increased Use of Alternative Family Planning Systems

RESULT/ YRL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 3.2	Increased use of alternative family planning services	Use of modern contraceptives	<p><i>Definition: Modern contraceptive (use) prevalence for women in union Assumes a 3% point increase per year</i></p> <p><i>Unit: % of women in union (age 15-24)</i></p>	1993	14% (all women) (based on 1993 Ro. Reproductive Health Survey) 10%	23%		26%		29%		32%		35%	
		Procurement of modern contraceptives	<p><i>Definition: Percentage of women who procure modern contraceptives through pharmacies</i></p> <p><i>Unit: %</i></p>	1993	38%	50%	TBD								
IR 1	Increased consumer demand for family planning	Potential demand	<p><i>Definition: For women at risk of unintended pregnancies. Decrease in women in need for any or more effective contraceptive method</i></p> <p>-women of reproductive age</p> <p>- women in union</p> <p><i>Unit: %</i></p>	1993	39%	30%	N/A	26%		23%		20%		17%	
					55%	46%	N/A	43%		40%		37%		34%	

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		Consumer intention to obtain or use alternative services or products	<p>Definition: Increased desire to change current method of contraception</p> <p>- non-users</p> <p>- traditional users</p> <p>Unit: %</p>	1993	18%	27%	N/A	30%	33%	36%	39%	
						16%	25%	N/A	28%	31%	34%	37%
IR 1.1	Increased consumer confidence in alternative family planning	Change of opinion toward modern contraceptive	<p>Definition: Decrease in women who believe traditional methods of contraceptives are more effective than modern methods</p> <p>Unit: % of women in union (15-24)</p>	1993	33%				16%			
		Change opinion re: provider/sites	<p>Definition: Increase in "other" category - "who would be most reliable person to provide information about modern contraceptives?"</p> <p>Unit: %</p>	1993	4.5	N/A	N/A					
IR 1.1.1	Consumers have increased knowledge about family planning benefits	Knowledge about health risks for contraception	<p>Definition: Women's change in knowledge regarding safety and effectiveness</p> <p>Unit: % of women age 15-24 who believe pill is:</p> <p>- unsafe</p> <p>- don't know</p> <p>- effective in preventing pregnancy</p>	1993	43%		N/A		20%			
					38%		39		20%			
					25%		34		50%			

		<i>Individuals who know where to get modern contraceptives</i>	<i>Definition: % of all women (15-24) who know where to get modern contraceptive methods</i> <i>Unit: % of total</i> <i>- Pills</i> <i>- Condoms</i>	1993	83%	87	95%							
IR 1.1.2	<i>FP services and products affordable and price transparent</i>	<i>Consumer satisfaction with the value of products-services</i>	<i>Definition: Decrease in % of women who specify cost being a reason for not using modern methods of contraception</i> <i>Unit: %</i>	1993	34%	N/A	23%							
IR 2	<i>Improved quality of alternative FP</i>	<i>Range of services-products</i>	<i>Definition: Range of modern contraceptive products in private pharmacies increased</i> <i>Unit: # with full range of products (pills, condoms, IUD, etc.)</i>	1996 (Profit Study)	100	-	100							
		<i>Consumer satisfaction</i>	<i>Definition: Consumer surveys indicate increased satisfaction with services and products among young adults</i> <i>Unit: Numbers of providers</i> <i>Number of consumers</i>	1996	6	-	6							

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IR 2.1	Increased technical competency of FP providers	Successfully fulfill requirements for competency based training, including consumer/provider communication	<p>Definition: private providers complete training</p> <p>Unit: number</p> <p>- of pharmacists</p> <p>- of manuals distributed</p> <p>- of NGO's</p>	1996	0	-	0	100	200						
IR 2.2	Improved management practices	Use of business management practices for decision-making	<p>Definition: private providers who implement improved practices (Financial, Marketing and Sales)</p> <p>Unit: Number of Pharmacists</p>	1995	12	-	-	100	200						
		Consumer education materials distributed	<p>Definition: Number of consumers provided educational materials at alternative sites</p> <p>Unit: Numbers distributed of:</p> <p>Flyers</p> <p>Brochures</p> <p>Posters</p> <p>Pharmacists' Guides</p>	1996	none	-	-	10K	10K						
								3k	30k						
								3k	6k						
								x	5k						

IR 3	Increased access to alternative FP	<p>Procurement of modern contraceptives (source)</p> <p>Note: The current FP strategy assumes that consumers will rely less on public sector for contraceptives. Shifts between alternative private providers will be tracked, but no specific targets set. It is assumed that there will be less reliance on the black market</p>	<p>Definition: Increase of contracepting women procuring contraceptive supplies from alternative sources.</p> <p>Unit: %</p> <ul style="list-style-type: none"> - pharmacies - NGOs - private doctor/clinic - black market - other -don't know 	1993	70%	75%	TBD	80%					
IR 3.1	Supplies and distribution system strengthened	Logistics management system in place	<p>Definition: Private providers who implement improved logistics mgmt. systems (inventory and ordering systems) in place</p> <p>Unit: # (%) of pharmacists</p> <p># (\$) of NGOs</p>	1996	2/2500	N/A	N/A						
IR 3.2	Incentives in place for FP providers	Profit levels of pharmacists	<p>Definition: Pharmacists who report increased profit from sale of products</p> <p>Unit: #</p> <p>%</p>	1996	TBD		** (see note)						

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		<i>Training in place for pharmacists</i>	<i>Definition: Private providers who indicate training as valuable to their business</i> <i>Unit: #</i>	1996	none	100	200								
IR 3.3	<i>Alternative delivery mechanisms established</i>	<i>Range of mechanisms</i>	<i>Definition: Increase in variety of mechanisms</i> <i>Unit: number</i> <i>NGOs, private pharmacies, kiosks, referral system, black market, private practice, supermarkets</i>	1993	3	7	4	8		10					
IR 4	<i>Alternative family planning systems supported by Legal/Policy/Regulatory</i>	<i>No unwarranted restrictive legislation or regulation for FP and authorising legislation passed</i>	<i>Definition: FP included in Health Insurance Law</i> <i>Voluntary sterilization included in Health Law:</i> -female -male <i>No restrictive legislation for pharmacists dispensing contraceptives</i> <i>Unit: yes/no</i>	1996	no law	-	no law	X			X				X
		<i>National standards established</i>	<i>Definition: Standards for GPs provision of Family Planning</i> <i>Unit:</i> <i>Developed and finalized</i> <i>Advocated for</i> <i>Implemented</i>	1996	no	-	no	X			X			X	

		<i>Expanded role for GPs, nurses</i>	Definition: <i>GP expanded FP role defined</i> <i>Accepted by College of Physicians</i> <i>Implemented in law</i> Unit:	1996	Yes	Yes	Yes	X								
IR 4.1	<i>International leverage applied</i>	<i>Import/export licence</i>	Definition: <i>Remove barriers to distribution</i> Unit:					X		X		X				
IR 4.2	<i>FP supported by key professional groups (GPs, pharmacists, OBGYN - cardiologists)</i>	<i>Associations develop recommendations for alternative FP issues</i>	Definition: Unit: <i>GP</i> <i>Pharmacist</i> <i>OB-gyns</i> <i>Cardiologists</i>	1996	None											
		<i>Associations actively lobbying for alternative delivery systems</i>	Definition: Unit: <i>GP</i> <i>Pharmacists</i> <i>OB-gyns (individuals only)</i>	1995	2	none	none	N/C	X			X				

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IR 4.3	Grassroots groups skilled in effective advocacy	Groups work together	Definition: Groups provide recommendations to policy makers Unit: number of groups: - SECS - Youth for Youth - Women's NGOs - "Policy" Coalition	1995	0	2	3	5							
		Use FP data and information	Definition: data and information developed to present to policy makers Examples: - maternal mortality - cost-benefit of FP - Young Adults - Reproductive Health	1995	X		No Yes No Yes	Yes X Yes X	X X X X						

Comments/Notes:

IR 3.2: "Profit levels" of pharmacists are expected to be depressed in 1997, due to the GOR's economic austerity program, and rapid liberalization of prices.

S.O.:3.2 ILLUSTRATIVE INDICATORS
Strategic Plan (1997 and Beyond)
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

RESULT VEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						1996		1997		1998		1999		2000			
				YEAR	VALUE	Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
SO 3.2	Reducing the number of at-risk children in Romania	Number of children in traditional institutions	Definition: Orphanages and other facilities for non- disabled children Unit: Number	1996	100K			TB D									
IR 2	Improve the welfare and protection of Romania's at-risk children	Number of children living in poverty	Definition: Int'l standards of poverty living Unit: number	1996	TBD												
IR 2.1	Support for family preservation	Increased access for job training for heads of households	Definition: formal networks of job training/retraining Unit: number of participants	1997	TBD												
		Increased access to social and health services	Definition: parent counselling and family planning services Unit: TBD	1997	TBD												
IR 2.2	Assistance for families in crisis	Increased crisis intervention and/or financial assistance offered	Definition: Unit: TBD	1997	TBD												

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<p>IR 2.3</p>	<p><i>Appropriate out-of-home care for children</i></p>	<p><i>Adoption network is strengthened</i></p>	<p><i>Definition: More children that cannot be reunited with their families are adopted by qualified candidates through transparent means</i></p> <p><i>Unit: number of adoptions</i></p>	<p>1997</p>	<p>TBD</p>										
		<p><i>Foster care and group home conditions are improved</i></p>	<p><i>Definition: ratio of children per bed is reduced</i></p> <p><i>Unit:</i></p>	<p>1996</p>	<p>TBD</p>										
<p>IR 2.4</p>	<p><i>Decreased Institutional Care of Children</i></p>	<p><i>Reintegration measures are expanded</i></p>	<p><i>Definition: TBD</i></p> <p><i>Unit:</i></p>	<p>1996</p>	<p>TBD</p>										
		<p><i>Alternate transition living opportunities are created</i></p>	<p><i>Definition: TBD</i></p> <p><i>Unit:</i></p>	<p>1996</p>	<p>TBD</p>										
		<p><i>Institutions are closed down permanently</i></p>	<p><i>Definition: Orphanages that are physically condemned or cannot offer a minimum standard of care</i></p> <p><i>Unit: # of institutions or number of beds</i></p>	<p>1996</p>	<p>TBD</p>										
		<p><i>Comments/Notes:</i></p>													

STRATEGIC OBJECTIVE 3.3: REDUCED ENVIRONMENTAL RISKS TO PUBLIC HEALTH

1. STATEMENT OF THE STRATEGIC OBJECTIVE

SO 3.3, Reduced Exposure to Contaminants in Severely Polluted Areas, has been refined to "Reduced Environmental Risks to Public Health". A new configuration of intermediate results (IRs) is also proposed to better capture the opportunities created by the new, reform-minded Government of Romania (GOR). USAID will continue to directly support the development of environmental laws and regulations which assure that important environmental considerations are included in the country's economic restructuring and growth strategy. However, instead of addressing environmental issues by targeting individual communities and firms ("hot spots") as in previous years, USAID will broaden its environmental assistance to businesses by training private service providers to support those businesses as they attempt to comply with new environmental regulations and policies.

2. PROBLEM ANALYSIS & USAID INTERVENTIONS

a. Problem Analysis

Pollution in Romania, as in other East and Central European countries, is generated mainly by industrial, energy, and urban sources. As the industrial sector's contribution to GDP declines, Romania continues to suffer the highest per capita emission of sulphur dioxide in the region. Past practices of treating the environment as a free good, subsidizing energy and other input costs, and allowing soft budget constraints, have resulted in significant environmental degradation.

There has been progress, however, on the environmental front in Romania over the last seven years. Environmental NGOs have launched education and monitoring campaigns that have raised public awareness of environmental issues. Even the previous GOR appears to have heeded the warnings of an impending environmental disaster by ending the era of "growth at any cost to the environment" and enacting laws that demonstrate a commitment to improved environmental management. For example, the 1996 Water Law introduced "beneficiary pays" and "polluter pays" concepts that are designed to ensure full cost recovery of water services. The Law also will create a system of River Basin Commissions, or "mini water parliaments," that will decentralize and democratize water management throughout the country.

Despite the progress that has been achieved, Romania still needs a more complete legal and regulatory framework to protect the environment and, at the same time, facilitate sustained economic growth. An environmental framework that is not economically sound could, in some cases, delay privatization and limit the growth of foreign investment in Romania because SOEs and private

companies must now make changes in manufacturing processes to comply with domestic laws. Romanian companies must comply with export oriented ISO 14000 and EU environmental standards and directives to gain access to western markets.

Laws and regulations address only part of the challenge to reduce environmental risks to public health. Two other important elements must be included in the overall strategy: enforcement and compliance.

The new Environmental Framework Law requires that new and existing businesses, including municipal utilities, obtain an environmental permit to allow them to continue to operate. To obtain a permit, businesses must submit an application to the Local Environmental Protection Agency (EPA). The local EPA reviews the permit application and authorizes the permit or negotiates a compliance schedule and time frame for full compliance (maximum of five years). Romanian Environmental Protection Agencies (EPAs) must be able to enforce laws and regulations that protect the environment. The local EPAs face considerable tasks because each is responsible for inspecting, certifying, or negotiating compliance schedules with each business within their judet (county). The EPAs will require significant training to build their capacity to meet the growing demands for permits.

Businesses, on the other hand, need technical assistance to help them comply with regulations and receive their environmental permits. At present, there is very limited capacity in the private sector for delivering the types of environmental services in demand by businesses. Only 27 companies have been certified by the Ministry of Environment to conduct environmental audits, even though 420 firms have requested certification. As privatization accelerates, demand for these environmental services will increase.

Finally, as in most countries, civil society will play an important role in reducing environmental risks to public health. Although their numbers have grown, environmental NGOs in Romania are mostly small, informal, and focused on local issues. The growth in numbers should begin to reflect both a national constituency and an ability to advocate for environmental issues on a broader scale. Romania needs environmental NGOs that are sustainable, have national outreach, and serve as partners to government and business.

b. Proposed USAID Interventions

To reduce environmental risks to public health, USAID will: (1) continue to help the GOR establish a legal and regulatory framework of incentives and disincentives aimed at pollution reduction; (2) strengthen the system charged with enforcing compliance; and (3) develop private sector capacity to deliver environmental services to the business community.

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Legal and regulatory framework of incentives and disincentives: USAID assistance will continue to concentrate on drafting and implementing environmental legislation in support of sustainable economic restructuring and growth. We will build on past successes such as: the concept of environmentally sustainable development in the Environmental Framework Law; a permit system based on certified environmental audits; and the market-based system for determining the true cost of water and rationalizing the use of water in the Water Law.

Enforcing compliance: USAID will develop a pilot activity with three to four local EPAs to provide training and build capacity to review business permit applications and environmental audits, negotiate compliance schedules, and follow up on compliance efforts. This activity will ensure "wholesaling" of national policies and regulations.

Private sector capacity to deliver services: USAID will train staff of a selected number of the 420 firms requesting certification to conduct environmental audits. The training will be designed to meet the certification criteria and will include on-the-job training at pilot sites.

This approach fits well with and supports other donor activities. The World Bank's program is focused on the Danube River Delta and industrial pollution abatement. EU PHARE is funding a pilot program in Baia Mare and will focus more intensively on preaccession activities. The European Bank for Reconstruction and Development (EBRD) is financing two municipal environmental infrastructure activities (water supply and waste water management). The UNDP and Regional Environmental Management Center (REC) are supporting environmental NGOs.

As Romania starts the campaign to reclaim its environment and natural resources through sustainable economic restructuring, USAID assistance will serve the important role of supporting the design of appropriate laws and regulations, training the local environmental service sector and government institutions to meet growing demands, and assisting firms meet environmental compliance schedules. Other donors will more directly target environmental clean up and NGO development.

3. RESULTS FRAMEWORK (see Attachment B)

4. JUDGING PERFORMANCE

IR 2, Appropriate laws, policies, and regulations implemented by national ministries (FY 1996 IR 4): USAID has supported GOR efforts to develop a sustainable legal and regulatory framework for over three years. USAID supported the GOR in developing the Environmental Framework Law, the Waters Law, and the Environmental Law Regulations. As a direct result of USAID's work in the policy area, the concept of environmentally sustainable development is prominent in the new legislation. Our

support was instrumental in encouraging public participation in the debate over and the development of the Environmental Law.

IR 1.1, Improved industrial operations and practices:

An investment of \$28,000 for installation of a new frequency converter at the Sidex Steel Mill was returned almost immediately with an estimated annual savings of \$86,000 due to lower energy consumption. Additional savings in the coming years are expected due to reduced maintenance costs and emissions from the coke plant. Sidex intends to purchase at least 14 more American frequency converters for similar applications.

5. COMMITMENT AND CAPABILITY OF DEVELOPMENT PARTNERS

Major donors focussing on environmental issues and working in areas closely related to USAID's programs include the World Bank, the EU PHARE, EBRD, and UNDP. The World Bank has an on-going \$4.5 million project for Danube River Delta and is in the process of developing a pollution abatement project in the order of \$50 million. The EU PHARE is funding an ECU 7 million environmental activity in Baia Mare and contributing ECU 2.5 million to the GEF program. EBRD is financing a municipal water supply project active in five towns, and a waste water infrastructure project active in 11 cities. The UNDP provides training and grants to environmental NGOs in collaboration with the national REC office.

6. ILLUSTRATIVE APPROACHES

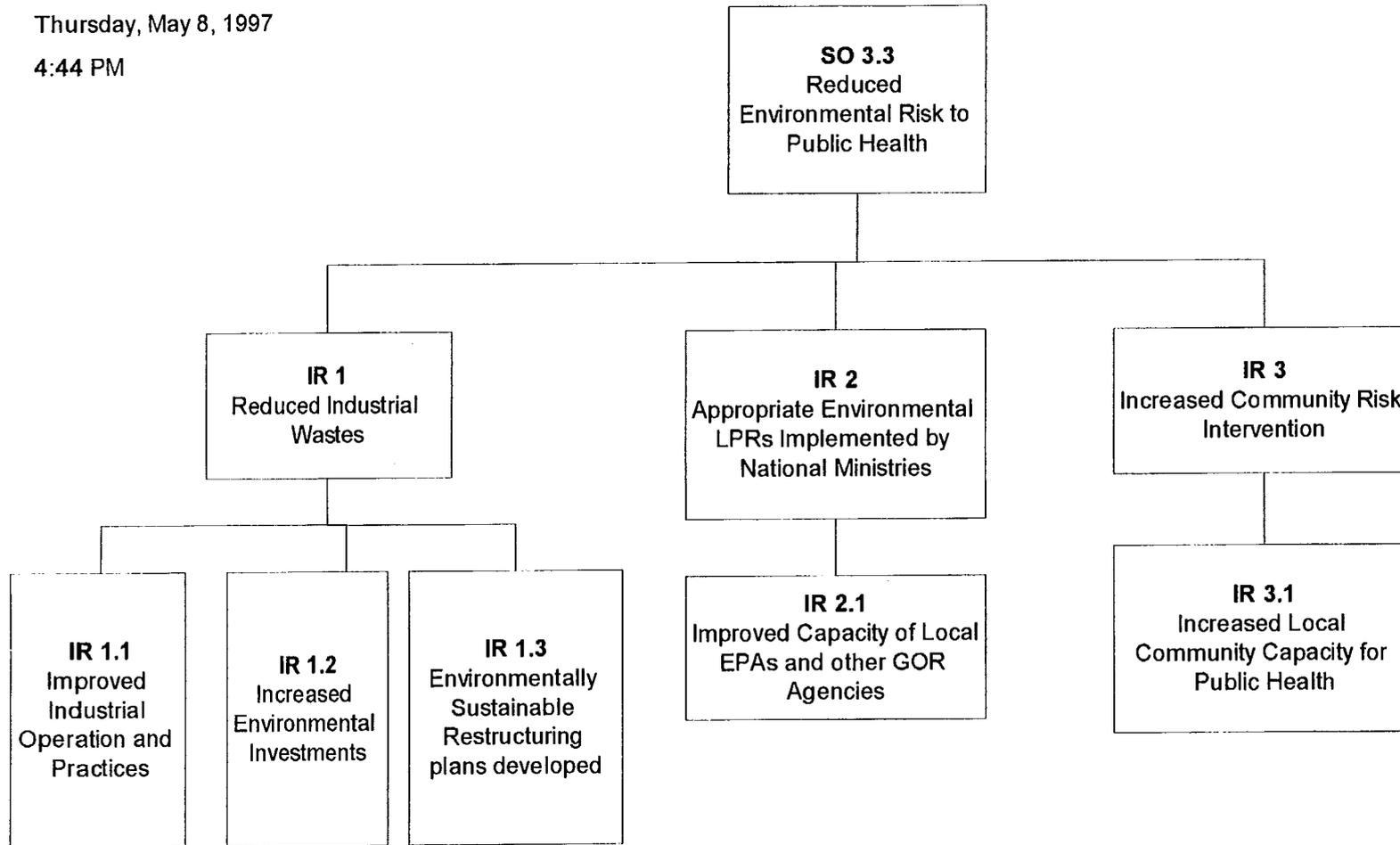
Capitalizing on the GOR's efforts to reform, USAID will help the GOR formulate environmental laws, policies, and regulations which will help economically sustainable industries reduce waste and pollution. USAID will also help develop the institutional capacity of the EPAs responsible for enforcing the environmental regulatory framework. Finally, USAID will strengthen the ability of environmental enterprises to aid firms seeking to comply with environmental laws.

7. SUSTAINABILITY

Romania is taking the steps needed to develop and enact an adequate legal and regulatory framework to make the environment economically sustainable. The GOR's commitment to EU accession and environmentally sound economic reform, the positive impact of growing public concern and awareness growing out of the still nascent environmental NGO sector, and an active donor community, all contribute substantially to creating the "political will" necessary to keep the GOR focused on utilizing the environment as a tool for reaching sustainable economic development and growth. The Environmental Law is in place and the GOR is planning to make the enforcement of the regulations a self-sustaining program financed through fees for service and penalties from the polluters. Although the move to clean up Romania's environment will outlive USAID assistance to Romania, the proposed strategy, if properly implemented, will result in reduced environmental

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risks to public health within limited the time frame. This plan, therefore, embraces phase-out of the country program presented in SO 3.3.



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**S.O.: 3.3 Illustrative Indicators
Strategic Plan (1997 and Beyond)
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

RESULT YEL (S.O. OR I.R.) AND NO.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1994		1997		1998		1999		2000		
				YEAR	VALUE	Target	Actual to Date	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
SO 3.3	<i>Reduced Environmental Risk to Public Health</i>	<i>Lead Levels in blood of affected workers and residents</i>														
IR 1	<i>Reduced Industrial Wastes</i>	<i>Levels of Pollutants in air emissions and water of assisted plants</i>	<i>Definition:</i> <i>Unit:</i>													
IR 1.1	<i>Improved Industrial Operation and Practices</i>	<i>Operational Savings in assisted plants</i>	<i>Definition:</i> <i>Unit:</i>													
IR 1.2	<i>Increased environmental investments</i>	<i>Investment in pollution control activities</i>	<i>Definition:</i> <i>Unit:</i>													
IR 1.3	<i>Environmentally Sustainable Restructuring plans Developed</i>	<i>Environmental assessments are made</i>	<i>Definition:</i> <i>Unit:</i>													
		<i>Compliance schedules negotiated</i>	<i>Definition:</i> <i>Unit:</i>													

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<p>IR 2</p>	<p>Appropriate Environmental Laws, Policies and Regulations implemented by national ministries</p>	<p>Drafting and approving of laws policy statements and regulations</p>	<p>Definition: Specific Laws drafted: Specific Laws passed: Policy statements issued: specific regulations drafted: Specific regulations approved:</p> <p>Unit:</p>										
<p>IR 2.1</p>	<p>Improved capacity of local EPA's and other government agencies</p>	<p>No. of permits issued and No. of schedules negotiated</p>	<p>Definition: Permits: Schedules:</p> <p>Unit: number</p>										
<p>IR 3</p>	<p>Increased Community Risk intervention</p>	<p>No. of risk reduction activities organized</p>	<p>Definition: (training, studies, clean-ups, recycling)</p> <p>Unit:</p>										
<p>IR 3.1</p>	<p>Increased local community capacity for public health</p>	<p>Widespread use of Environmental Action Plans (EAPS)</p>	<p>Definition: Number of EAPS in place in polluted areas</p> <p>Unit:</p>										
		<p>2.</p>	<p>Definition:</p> <p>Unit:</p>										

		<p><i>Comments/Notes: The IRs have been revised because of (a) shift in emphasis from assistance to a selected number of severely polluted industrial plants, the so called "hot spots," to assistance in formulating environmental policies and drafting environmental laws and regulations, and (b) helping a selected number of industries to meet the new environmental requirements and be model for others industries in their sub-sector. New baseline data will be developed for the revised performance indicators.</i></p>
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CROSS-CUTTING PROGRAMS

Gender and training are two key cross-cutting areas which USAID/Romania is pursuing in our strategic plan. Both these areas cut across all of our strategic objectives. The U.S. Department of Treasury activities are most relevant to SO 1.4 (financial markets) and SO 2.3 (local government) as described below and in those SO sections above. In previous years, the USAID program included health activities. In the interest of program focus and concentration, those activities will not be funded in future years. Finally, Audit, Evaluation and Project Support (AEPS) activities will become increasingly important as USAID/Romania intensifies efforts to measure for results.

1. Gender

USAID/Romania's gender strategy focuses on women's reproductive health, micro-enterprise development, and women's participation in civil society. The Mission may also work in the area of domestic violence. USAID/Romania will host a WORLD WID Fellow who will arrive in Romania in August, 1997 and who will further implement the above-described strategy. The initial gender strategy will focus on communicating with women regarding the above three areas; the WORLDWID fellow is a specialist in communication skills. The fellow will develop a strategy whereby basic concepts which apply to these areas can be disseminated to various group of women in Romania, both in urban and rural areas, and also to mainstream and ethnic groups. The first year will thus concentrate on consciousness raising to be followed by an implementation plan for policy dialog as well as actual gender-targeted activities in these areas. Romania will host the regional PROWID conference this June which will focus work with regional women's groups on advocacy skills and proposal writing

2. Training

USAID/Romania views training as an essential complement to and reinforcement for other activities in support of our strategic objectives. USAID/Romania has developed a training plan which relies on primarily group training to develop the expertise in critical skills areas determined to be in need of further development. To support strategic objective 1.3, "Development and Growth of Private Enterprises," the Mission will send approximately two directors of associations for training which will help them understand, develop, and improve the functioning of an industry association in a market economy. Since Romania is focusing this strategic objective on agriculture, we will include many directors of agricultural associations. In addition, twelve chief executive officers will be sent to the U.S. to improve management performance at the top levels of their organizations, again most likely agricultural-related firms.

In support of strategic objective 2.1, USAID/Romania will send twelve directors or those responsible for fund raising within the

NGO sector to be trained in fund raising as a necessary step in building the sustainability of NGOs. Also in support of this objective, we will send eight citizens and elected officials to learn how the citizen participation process works to solve problems at the local level. S.O. 2.3 will be supported through the training of ten local leaders and elected officials in fiscal responsibility and management.

Our objectives in family planning and child welfare will be enhanced through sending two groups for training, one comprised of media and health professionals in communication about women's reproductive health and the other of people involved in administering child welfare programs. Finally, S.O 3.3 will be enhanced by sending a group to learn methods for developing a specific funding base for environmental projects at the local level and municipal levels and for developing strategies for sustaining and advocating on behalf of the environmental fund.

During the strategic planning period, further training will be offered in support of our strategic plan in the areas of decentralization and the relationship between center and periphery; environmental policy formulation; Parliamentary process; gender issues; NGO development; and financial market development.

3. U.S. Department of Treasury Activities

U.S. Department of Treasury activities fall under a 632(a) agreement. Therefore USAID/Romania has no formal control over the planning, implementation, or results of Treasury activities. The U.S. Treasury contractors in Romania do not coordinate with USAID on a formal basis. They report directly to the U.S. Ambassador and Deputy Chief of Mission. Nevertheless, there have been instances of coordination which appear to mutually benefit the Treasury and USAID programs. There has been synergy between the activities of the Government securities advisor, who has achieved GOR issuance to the market of GOR bonds. USAID municipal finance advisors worked with the Treasury long term budget advisor and several short term advisors to draft the Local Government Debt Law, Local Budget Law, Patrimony Law and parts of other legislation related to local government.

4. Health Care Partnerships and Promotion of Health Markets

During last year's R4 process, USAID/Romania decided to place activities in support of Romania's health reform in Special Initiative and Crosscutting Programs, due to the fact that it was decided that USAID would never be major players in reforming the health care system and that our major focus should be on women's reproductive health. As argued under Strategic Objective 3.2, the Mission's reproductive health strategy has been enlarged to include child welfare and the strategic objective has been changed to reflect the GOR priority of reducing the number of children at risk of being abandoned. Given the need to assist

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the GOR in this ambitious and complex strategic objective, due to resource constraints and the need to focus and consolidate our program, and because of the highly-financed presence of the World Bank and the EU in health reform, USAID/Romania has decided to phase out of health system reform activities in the future, and to not provide any new funding for ongoing projects.

USAID/Romania, however, will remain a key player in donor coordination efforts in the health sector, continue to provide advice and policy guidance to the GOR in the area of health, and will provide targeted training to health decision makers through our World Learning PTPE project.

5. Audit, Evaluation and Project Support Project

As stated above, these support activities will enable USAID to measure for results. AEPS funding will be also used to for activities to enhance strategy planning, improving the functioning of SO teams and other efforts to improve planning and management of USAID's program in Romania.

ROMANIA COUNTRY PLANNING BUDGET FY 95- FY 2000:

FY 97 OPERATIONAL YEAR BUDGET
PROPOSED COUNTRY BREAKDOWN BY STRATEGIC OBJECTIVE
(in doIs. thousands)

Proprietary Procurement Information: Criminal and Civil Penalties Apply for Disclosure Outside the USG

Project No.		FY 95	FY 96	FY 97	FY 96	FY 98	FY 99	FY 2000
			\$25M	\$33M	Carry-Over	\$33M	\$30M	\$20M
SO 1.3 Development and Growth of Private Enterprises								
PACD								
180-0014	Privatization	700	700	800		2600	2600	1400
180-0023	Technical Assistance to Enterprises	1012	1825	1500		50	50	50
.07	* Peace Corps	75	100	50	50	50	50	50
.11	* Entrepreneurial Mgmt & Executive	300	300	300		0	0	0
.13	* New Small Business Activity (ATA)	137	425	400		0	0	0
.14	* CDC Business Enterprise Project	500	1000	750		0	0	0
180-0024	Restructuring Agriculture and Agribusiness	2285	500	800		2250	1700	1500
.01	* VOCA	1800	500	800		0	0	0
.07	* Dairy farming/LOL (Incl. \$970 DA)	485	0	0		0	0	0
XX	*New agribusiness devel. proj. - TBD					2250	1700	1500
180-0023	Technical Assistance to Enterprises-WOCCU	500	500	0		0	0	0
180-0029	MTEE Project (WSU Small Business Centers)	342	500	200		0	0	0
180-0010	Romanian American Enterprise Fund	7900	6000	6000		6000	6000	6000
SO TOTAL		12,739	10,025	9,300	60	10,900	10,360	8,950
SO 1.4 A More Competitive and Market-Responsive Private Financial Sector								
PACD								
180-0014	Capital Markets Development & Privatization Asst.	7228	7800	6650	1678	4800	3250	2000
12/97	(includes an additional \$1 M regional funds in FY 96)	7228	7386	5450	1578	4000	2500	1500
	PSC-USAIID capital markets advisor		114	250				
180-0014	*Bank Supervision and Training		300	950		800	750	500
180-0026	Competition Policy, Laws & Regulations	500	350	950		800	500	500
.05	*Commerce (Gov't to Gov't)	250	100	0		0	0	0
.17	* Bankruptcy	250	250	550		500	500	500
	* Competition (DOJ/FTC)			400		300	0	0
SO TOTAL		7,728	8,150	7,600	1,578	5,600	3,750	2,500
SO 1.5 A More Economically-Sustainable and Environmentally Sound Energy Sector								
PACD								
180-0030	Energy Restructuring and Efficiency	2000	1000	3000		2500	2500	2000
SO TOTAL		2,000	1,000	3,000		2,500	2,500	2,000
SO 2.1 Increased Better-Informed Citizens' Participation in Political and Economic Decision-Making Through Pluralistic Mechanisms								
PACD								
180-0020	Rule of Law * ABA Grant	400	400	400	26	350	350	350
.02								
180-0021	Political and Social Process (*95 includes \$200K for	1974	400	1634		750	500	0
.01	* educational refo	825	0	0		0	0	0
.05	* political orgs. (incl. elect. monitorin	949	400	0	0	0	0	0
.08	*Parliamentary Assistance			784	216	500	500	0
.13	*Reform T/A and training ("Quickstart")			850	107	250	0	0
180-0022	Independent Media	800	0	100		100	0	0
.02	* Media Training (USIA)	75	0	0		0	0	0
.03	* Professional Media Program	725	0	100		100	0	0
180-0032	Non Governmental Organization (NGO) Dev. Project	1333	0	800		800	800	0
SO TOTAL		4,307	800	2,934	349	2,000	1,650	350

ROMANIA COUNTRY PLANNING BUDGET FY 95- FY 2000:

FY 97 OPERATIONAL YEAR BUDGET
 PROPOSED COUNTRY BREAKDOWN BY STRATEGIC OBJECTIVE
 (in dols. thousands)

Proprietary Procurement Information: Criminal and Civil Penalties Apply for Disclosure Outside the USG

Project No.		FY 95	FY 96	FY 97	FY 98	FY 99	FY 2000
		\$25M	\$33M	Carry-Over	\$33M	\$30M	\$20M
SO 2.3 More Effective, Responsive and Accountable Local Government							
PACD							
180-0019	Democratic Governance and Pub. Admin ('95 include	1400	0	1000		1200	1000
.07	* Public Administration	1362	0	1000	0	1200	1000
180-0034	Decentralization/Municipal Finance	700	1000	800		1200	0
SO TOTAL		2,100	1,000	1,800	0	2,400	1,000
SO 3.2 Reduced Number of Children in Need of Protection							
PACD							
186-0002	Romanian Family Planning	1750	750	2250		2660	1350
.01	* Centers for Disease Control: Reprod Hlth Survey & F	100	120	200			
.03	* Population Interv/FP Evaluation	150	125	0			
.04	*Market Driven Contraceptive Distribution	1100	110	550			
.05	*Population Policy	400	395	200			
.07	* Targeting "at-risk" Population	0	0	800			
.08	*NGO Development			500			
180-0016.02	Romanian Child Health			600		2200	2000
SO TOTAL		1,750	750	2,850	0	4,860	3,350
SO 3.3 Reduced Exposure to Contaminants in Severely-Polluted Areas							
PACD							
180-0039	Improved Public Sector Environmental Services	1694	1500	2000		1600	0
.09	*Danube (GEF)	500	0	0		0	0
.10	*EAP Investments	700	1500	2000	9	1600	1500
	* Environmental Health Project	394	0	0		0	0
180-0004	Environmental Initiatives	1111	225	900		400	0
.01	* World Environmental Ctr	600	0	500		0	0
.11	* HIID	511	225	400		400	0
180-0041	Environmental Training	457	0	0		0	0
SO TOTAL		3,162	1,725	2,900	9	2,000	1,900
SO 4.1 Special Initiatives and Cross-Cutting Programs/Activities							
PACD							
180-0027	Business Service * TA/Finan Serv (Treas), including ta	0	0	1000		1000	0
180-0002	Human Resourc * English Teaching (USIA)	200	0	0		0	0
180-0045	Participant Training	900	700	950		850	850
.01	* Participant Training	400	600	700		600	600
.02	* Top Up - Academic Training (USIA)	300	0	0		0	0
.06	* Ron Brown Scholarships (USIA)	200	100	250		250	250
180-0037	Partnerships in Health Care (Thomas Jefferson Univ.)	1096	600	0		0	0
180-0038	Promotion of Health Markets (Univ. of Chicago)	394	500	0		0	0
180-0249	Audit, Evaluation, and Project Support	64	730	666		890	1000
.01	* Evaluation	0	100	200	68	200	200
.02	* Project Support	64	630	266	825	690	750
	*Data collection/Design			200			800
SI/CC TOTAL		5,097	2,550	2,616	893	2,740	1,850
COUNTRY TOTALS		38,883	26,000	33,000	2,879	33,000	30,000

NOTES:

1. (FY '96 includes \$1M in regional funds)
2. Special Initiatives and Cross-cutting Programs include \$2.15 million for Humanitarian Programs, a transfer to USIA for 250K and 43K in parking fines set asides for FY '95. In FY '96, 20K in parking fines were set aside.
3. Per FY 98 Congressional Presentation guidance, Romania's FY 98 budget has been established at \$33 million.
4. R4 Guidance sets Romania's FY 99 level at \$30 million and FY 2000 at \$20 million.

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ROMANIA COUNTRY PLANNING BUDGET FY 95- FY 2000:
FY 97 OPERATIONAL YEAR BUDGET
PROPOSED COUNTRY BREAKDOWN BY PROJECT
 (in dols. thousands)

Proprietary Procurement Information: Criminal and Civil Penalties Apply for Disclosure Outside the USG

Project No.		FY 95	FY 96	FY 97	FY 96	FY 98	FY 99	FY 2000
			\$25M	\$33M	Carry-Over	\$33M	\$30M	\$20M
A. STRENGTHENING DEMOCRATIC INSTITUTIONS								
1. Political Process and Governance								
180-0019	Democratic Governance and Pub. Admin ('95 includes 38k Frost)							
.07	* Public Administration	1400	0	1000	0	1200	1300	1000
180-0020	Rule of Law * ABA Grant	400	400	400	26	350	350	350
.02								
2. Democratic Pluralism								
180-0021	Political and Social Process ('95 includes \$200K for	1974	400	1634		750	500	0
.01	* educational refo	825	0	0		0	0	0
.05	* political orgs. (incl. elect. monitorin	949	400	0	0	0	0	0
.08	*Parliamentary Assistance			784	216	500	500	0
.13	*Reform T/A and training ("Quickstart")			850	107	250	0	0
180-0022	Independent Media	800	0	100		100	0	0
.02	* Media Training (USIA)	75	0	0		0	0	0
.03	* Professional Media Program	725	0	100		100	0	0
180-0032	Non Governmental Organization (NGO) Dev. Project	1333	0	800		800	800	0
180-0034	Decentralization/Municipal Finance	700	1000	800		1200	1200	0
	SUBTOTAL	6,407	1,800	4,734	349	4,400	4,150	1,350
B. ECONOMIC RESTRUCTURING								
2. Privatization and Assistance to Enterprises								
180-0014	Privatization	700	700	800		2600	2600	1400
180-0014	Capital Markets Development & Privatization Asst.	7228	7800	6650	1578	4800	3250	2000
12/97	(Includes an additional \$1 M regional funds in FY 96)	7228	7386	5450	1578	4000	2500	1500
	PSC-USAID capital markets advisor		114	250				
180-0014	*Bank Supervision and Training		300	950		800	750	500
180-0023	Technical Assistance to Enterprises	1012	1826	1500		50	50	50
.07	* Peace Corps	75	100	50	50	50	50	50
.11	* Entrepreneurial Mgmt & Executive	300	300	300		0	0	0
.13	* New Small Business Activity (ATA)	137	425	400		0	0	0
.14	* CDC Business Enterprise Project	500	1000	750		0	0	0
180-0023	Technical Assistance to Enterprises-WOCCU	500	500	0		0	0	0
3. Improving the Business Climate								
180-0026	Competition Policy, Laws & Regulations	500	350	950		800	500	500
.05	*Commerce (Gov't to Gov't)	250	100	0		0	0	0
.17	* Bankruptcy	250	250	550		500	500	500
	* Competition (DOJ/FTC)			400		300	0	0
180-0027	Business Service * TA/Finan Serv (Treas), including ta	0	0	1000		1000	1000	0
4. Investment and trade								
180-0010	Romanian American Enterprise Fund	7900	6000	6000		6000	6000	6000
5. Human resources								
180-0002	Human Resourc * English Teaching (USIA)	200	0	0		0	0	0
180-0045	Participant Training	900	700	950		850	850	850
.01	* Participant Training	400	600	700		600	600	600
.02	* Top Up - Academic Training (USIA)	300	0	0		0	0	0
.06	* Ron Brown Scholarships (USIA)	200	100	250		250	250	250
180-0029	MTEE Project (WSU Small Business Centers)	342	500	200		0	0	0

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ROMANIA COUNTRY PLANNING BUDGET FY 95- FY 2000:

FY 97 OPERATIONAL YEAR BUDGET
PROPOSED COUNTRY BREAKDOWN BY PROJECT
(in dols. thousands)

Proprietary Procurement Information: Criminal and Civil Penalties Apply for Disclosure Outside the USG

Project No.		FY 95	FY 96	FY 97	FY 96	FY 98	FY 99	FY 2000
		\$25M	\$33M	Carry-Over	\$33M	\$30M	\$20M	
6. Agriculture and agribusiness								
180-0024	Restructuring Agriculture and Agribusiness	2285	500	800		2250	1700	1500
.01	* VOCA	1800	500	800		0	0	0
.07	* Dairy farming/LOL (Incl. \$970 DA)	485	0	0		0	0	0
.XX	*New agribusiness devel. proj. - TBD					2250	1700	1500
8. Energy Efficiency								
180-0030	Energy Restructuring and Efficiency	2000	1000	3000		2500	2500	2000
SUBTOTAL		23,567	19,875	21,850	1,628	20,860	18,450	14,300

C. IMPROVING THE QUALITY OF LIFE

1. Humanitarian Aid

180-0016.02	Romanian Child Health			600		2200	2500	2000
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4. Health

180-0037	6/98	Partnerships in Health Care (Thomas Jefferson Univ.)	1096	600	0	0	0	0
180-0038	6/30/99	Promotion of Health Markets (Univ. of Chicago)	394	500	0	0	0	0
Romanian Family Planning								
186-0002			1750	750	2250	2660	2050	1350
.01	FY98	* Centers for Disease Control: Reprod Hlth Survey & F	100	120	200			
.03	1/94	* Population Intern/FP Evaluation	150	125	0			
.04	9/97	*Market Driven Contraceptive Distribution	1100	110	550			
.05	FY2000	*Population Policy	400	395	200			
.07	****	* Targeting "at-risk" Population	0	0	800			
.08		*NGO Development			500			

5. Environment

180-0039	Improved Public Sector Environmental Services	1594	1500	2000		1600	1500	0
.09	*Danube (GEF)	500	0	0		0	0	0
.10	*EAP Investments	700	1500	2000	9	1600	1500	0
	* Environmental Health Project	394	0	0		0	0	0
Environmental Initiatives								
180-0004		1111	225	900		400	400	0
.01	* World Environmental Ctr	600	0	500		0	0	0
.11	* HIID	511	225	400		400	400	0
180-0041	Environmental Training	457	0	0		0	0	0
SUBTOTAL		6,402	3,575	5,750	9	6,860	6,450	3,350

D. MISCELLANEOUS

180-0249	Audit, Evaluation, and Project Support	64	730	666	893	890	950	1000
.01	* Evaluation	0	100	200	68	200	200	200
.02	* Project Support	64	630	266	825	690	750	800
	*Data collection/Design			200				
SUBTOTAL		64	730	666	893	890	950	1,000

COUNTRY TOTALS	38,883	26,000	33,000	2,879	33,000	30,000	20,000
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NOTES:

- (FY '96 includes \$1M in regional funds for capital markets)
- Special Initiatives and Cross-cutting Programs include \$2.15 million for Humanitarian Programs, a transfer to USIA for 250K and 43K in parking fines set asides for FY '95. In FY '96, 20K in parking fines were set aside.
- Per FY 98 Congressional Presentation guidance, Romania's FY 98 budget has been established at \$33 million.
- R4 Guidance sets Romania's FY 99 level at \$30 million and FY 2000 at \$20 million.

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3. Supporting Narrative and Rationale

Romania's graduation date is 2002. Under current plans, funding for a consolidated set of about 13 management units will be provided in the year 2000. Even if funding for some of these activities is provided in the year 2001, there is enough time to expend funds by the current graduation date. Priority funding rankings by SO, from highest to lowest, are as follows: 1.3, 1.4, 1.5, 3.2, 2.3, 2.1, 3.3, and 4.1 (not considering AEPS).

A. SO 1.3 Development and Growth of Private Enterprises

•For the years 1998 through 2000, this SO will include funding for 180-0014 Privatization, 0023.07 Peace Corps, 0024.XX New Agribusiness Development Project, and 0010 Romanian American Enterprise Fund. Funding for all of these appear to be adequate for the levels of effort envisioned. Funding for the critically important Privatization activities includes future funding for the U.S. DOL Labor Redeployment activity. Funding for the effective Peace Corps small business activities (0023.07) is an exception to USAID/Romania's criteria for focus and concentration, but is included for interests of general cooperation between the two agencies. Peace Corps volunteers are also involved in child welfare activities.

•The Romanian American Enterprise Fund is straight-lined from 1998 through 2000. It is hoped that this level of funding will have the "wholesale" effect of leveraging much larger amounts from other sources.

•It should be noted that in FY 1997, the Privatization activity is seriously underfunded and that USAID/Romania will request approximately \$2 million in additional funding for Privatization activities. The entire 1997 budget has already been "scrubbed" and all available funding was shifted to Privatization.

SO 1.4 A More Competitive and Market-Responsive Private Financial Sector

•From 1998 through 2000, funding is included for 180-0014 Capital Markets Development, Banking Supervision and Training, 0026.05 Bankruptcy and 0026.17 Competition. Funding for Capital Markets Development will decrease gradually as initial heavy investment activities are paid for and Capital Mkts. institutions become completely self-sustainable.

•Banking Supervision and Training (0014) holds steady through the three years but pays for training activities as direct TA for supervision gradually decreases.

•Bankruptcy activities (0026.05) will be maintained at the same level throughout the planning period, while Competition (0026.17) will receive final funding in FY 1998.

SO 1.5 A more Economically-Sustainable and Environmentally Sound Energy Sector

•USAID's Energy effort in Romania is contained in only one project, which will receive steady funding from 1998 through 2000. Nevertheless, if new opportunities arise the planned amounts may not be enough for USAID to make the contribution to energy policy and privatization which it should. This SO may turn out to be underfunded.

SO 2.1 Increased Better-Informed Citizens' Participation in Political and Economic Decision-Making Through Pluralistic Mechanisms

•Five activities will be funded in FY 1998: 180-0020 Rule of Law, 180-0021.08 Parliamentary Assistance, 0021.13 Reform TA and Training, 0022 Professional Media Program, and 0032 Non-Governmental Organization (NGO) Development Project (DEMNET). Neither Reform TA and Training nor the Professional Media Program will receive funding in FY 1999 and only one activity, Rule of Law is scheduled to receive funding in the year 2000.

SO 2.3 More Effective, Responsive and Accountable Local Government

•Only two activities contribute funding to this SO: 180-0019.07 and 180-0034 Decentralization/Municipal Finance (aka Housing Assistance). Both remain steady through FY 1999. There is no funding for 0034 in the year 2000, but funding between the two activities is fungible; funds can be shifted from one to the other depending on needs and emphasis.

SO 3.2 Reduced Number of Children in Need of Protection

•In FY 1997 there were 5 reproductive health activities funded under this SO. Beginning FY 1998, USAID Romania will try to consolidate these activities into two or three. Only one child welfare project/activity is planned, beginning with start-up costs in FY 1997, but at substantial levels for 1998-2000.

SO 3.3 Reduced Environmental Risks to Public Health

•Only two activities will be funded in FY 1998 and 1999: 180-0039.10 EAPS Investment (or its replacement) and 180-0004.11 Environmental Policy (HIID or its replacement). This SO will be the first one to be phased out of as Romania approaches graduation. (It will not be funded in the year 2000).

SO 4.1 Special Initiatives and Cross Cutting Programs

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•180-0027 Treasury activities are funded in 1998 and 1999, and not 2000 because it is envisioned that Treasury program will not require funding in the year 2000. 180-0045 Participant Training (both USAID and USIA) are funded through 2000, because these activities are an important complement to all SOs.

B. Workforce Program Management Requirements

For 1998 and 1999, workforce levels are at 6 USDH, 16 OE-funded PSC/local, and 12 Program-funded PSCs. USDH and OE funded PSC/local levels should be adequate for managing the program, but 12 program-funded PSC positions will not. **The intensity of activities requires 3 more PSC positions.** Current program-funded PSC positions are as follows: **A) FSN:** 1) Democracy Project Assistant, 2) Local Governance Project Assistant, 3) Energy Project Assistant, 4) Environment Project Assistant, 5) Privatization Project Assistant, 6) Private Enterprise Project Assistant, 7) Health/FP Project Assistant; **B) US:** 9) Financial Advisor, 10) Energy/Environment Advisor, 11) Health Advisor (local resident hire), and 12) Privatization Advisor.

Three program-funded PSC positions (all US) are urgently needed this year: 1) USPSC local governance advisor, 2) USPSC Child Welfare Advisor, and 3) Evaluation/SO Monitoring Specialist.

The US PSC SO Team Leader for the Local Governance SO 2.1 currently is program-funded under the regional ceiling because more than 50% of his duties are regional. His contract runs out in early 1998, after which the position will be either moved or eliminated. Given the importance of this SO and the GOR's high priority for this sector, USAID/Romania will have to establish a position in FY 1997 to provide overlap and accommodate intensified activity in decentralization/local governance.

The US PSC Child Welfare Advisor is needed this fiscal year to begin the design of the important Romanian Child Health Program. The congressional and White House interest in this sub-sector, the problems Romania faces in at-risk children, and the complexity of working with a myriad of US and Romanian NGOs, requires that a masters level qualified Child Protection Social Worker (with extensive experience) manage the program.

Finally a USPSC position is required to plan and manage the evaluation process, SO results framework monitoring systems and other tasks related to SO process management. This position could be a US resident hire.

In summary, 6 USDH, 16 OE-funded PSC (local) and 15 program-funded PSCs (US and FSN) are required to adequately manage the Romania Program from 1997 (now) through 2000. USAID Romania request that ENI add 3 additional program-funded PSC positions to our staffing levels.

Totals by Staffing Category - FY 1997 Ceiling

Staff	Strategic Objective 1: Economic Restruct.	Strategic Objective 2: Democratic Transition	Strategic Objective 3: Quality of Life	Special Objective 1: (title)	Special Objective 2: (title)	Special Objective 3: (title)	Subtotal S.O. Staff	Support Offices							Subtotal Support Staff	Grand Total Staff
								Mission Mgt.	Controller	EXO	Contracts	Legal	Program	Other		
USDH	1	1	0	0	0	0	2	1	0	1	0	0	1	0	3	5
USPSC (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	1
USPSC (Program Funded)	1	2	1	0	0	0	4	0	0	0	0	0	0	0	0	4
Total USPSCs	1	2	1	0	0	0	4	0	0	0	0	0	1	0	1	5
FSN/TCN Direct Hire (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FSN/TCN Non Direct Hire (OE/TF)	1	2	1	0	0	0	4	0	0	9	0	0	0	0	9	13
FSN/TCN Non Direct Hire (Program Funded)	2	4	2	0	0	0	8	0	0	0	0	0	0	0	0	8
Total FSN/TCN Non Direct Hire	3	6	3	0	0	0	12	0	0	9	0	0	0	0	9	21
Total FSN/TCN (OE/TF)	1	2	1	0	0	0	4	0	0	9	0	0	0	0	9	13
Total FSN/TCN (Program Funded)	2	4	2	0	0	0	8	0	0	0	0	0	0	0	0	8
Total FSN/TCN Staff	3	6	3	0	0	0	12	0	0	9	0	0	0	0	9	21
Total Other (RSSA, PASA, IPA) (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other (RSSA, PASA, IPA) (Program Funded)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total FSN/TCN Staff	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total OE/TF Staff (includes USDH)	2	3	1	0	0	0	6	1	0	10	0	0	2	0	13	19
Total Program Funded Staff	3	6	3	0	0	0	9	0	0	0	0	0	0	0	0	9
Grand Total All Staff	5	9	4	0	0	0	18	1	0	10	0	0	2	0	13	31

Notes:

* TAACs and Fellows count against G ceilings only and thus are "below the line" for field operating units. Service in the capacity of TAACs should be reported as TAACs regardless of the hiring mechanism. They should not be reported under PSCs, PASAs, RSSAs, etc.

The data in the table reflects positions, NOT, on-board strength or FTEs. You can divide the positions of people working on more than one SO, but do not subdivide in units of less than a half (0.5).

Provide separate tables for FY 97, 98, and 99.

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Totals by Staffing Category - FY 1998 Ceiling

Staff	Strategic Objective 1: Economic Restruct.	Strategic Objective 2: Democratic Transition	Strategic Objective 3: Quality of Life	Special Objective 1: (title)	Special Objective 2: (title)	Special Objective 3: (title)	Subtotal S.O. Staff	Support Offices							Subtotal Support Staff	Grand Total Staff
								Mission Mgt.	Con-troller	EXO	Con-tracts	Legal	Program	Other		
USDH	1	1	1	0	0	0	3	1	0	1	0	0	1	0	3	6
USPSC (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	1
USPSC (Program Funded)	2	1	1	0	0	0	4	0	0	0	0	0	0	0	0	4
Total USPSCs	2	1	1	0	0	0	4	0	0	0	0	0	1	0	1	5
FSN/TCN Direct Hire (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FSN/TCN Non Direct Hire (OE/TF)	1	2	1	0	0	0	4	0	0	10	0	0	1	0	11	15
FSN/TCN Non Direct Hire (Program Funded)	2	4	2	0	0	0	8	0	0	0	0	0	0	0	0	8
Total FSN/TCN Non Direct Hire	3	6	3	0	0	0	12	0	0	10	0	0	1	0	11	23
Total FSN/TCN (OE/TF)	1	2	1	0	0	0	4	0	0	10	0	0	1	0	11	15
Total FSN/TCN (Program Funded)	2	4	2	0	0	0	8	0	0	0	0	0	0	0	0	8
Total FSN/TCN Staff	3	6	3	0	0	0	12	0	0	10	0	0	1	0	11	23
Total Other (RSSA, PASA, IPA) (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other (RSSA, PASA, IPA) (Program Funded)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total FSN/TCN Staff	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total OE/TF Staff (includes USDH)	2	3	2	0	0	0	7	1	0	11	0	0	3	0	15	22
Total Program Funded Staff	4	5	3	0	0	0	12	0	0	0	0	0	0	0	0	12
Grand Total All Staff	6	8	5	0	0	0	19	1	0	11	0	0	3	0	15	34

Notes:

* TAACs and Fellows count against G ceilings only and thus are "below the line" for field operating units. Service in the capacity of TAACs should be reported as TAACs regardless of the hiring mechanism. They should not be reported under PSCs, PASAs, RSSAs, etc.

The data in the table reflects positions, NOT, on-board strength or FTEs. You can divide the positions of people working on more than one SO, but do not subdivide in units of less than a half (0.5).

Provide separate tables for FY 97, 98, and 99.

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Totals by Staffing Category - FY 1999 Target

Staff	Strategic Objective 1: (title)	Strategic Objective 2: (title)	Strategic Objective 3: (title)	Special Objective 1: (title)	Special Objective 2: (title)	Special Objective 3: (title)	Subtotal S.O. Staff	Support Offices							Subtotal Support Staff	Grand Total Staff
								Mission Mgt.	Con-troller	EXO	Con-tracts	Legal	Program	Other		
USDH	1	1	1	0	0	0	3	1	0	1	0	0	1	0	3	6
USPSC (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	1
USPSC (Program Funded)	2	1	1	0	0	0	4	0	0	0	0	0	0	0	0	4
Total USPSCs	2	1	1	0	0	0	4	0	0	0	0	0	1	0	1	5
FSN/TCN Direct Hire (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FSN/TCN Non Direct Hire (OE/TF)	1	2	1	0	0	0	4	0	0	10	0	0	1	0	11	15
FSN/TCN Non Direct Hire (Program Funded)	2	4	2	0	0	0	8	0	0	0	0	0	0	0	0	8
Total FSN/TCN Non Direct Hire	3	6	3	0	0	0	12	0	0	10	0	0	1	0	11	23
Total FSN/TCN (OE/TF)	1	2	1	0	0	0	4	0	0	10	0	0	1	0	11	15
Total FSN/TCN (Program Funded)	2	4	2	0	0	0	8	0	0	0	0	0	0	0	0	8
Total FSN/TCN Staff	3	6	3	0	0	0	12	0	0	10	0	0	1	0	11	23
Total Other (RSSA, PASA, IPA) (OE/TF)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other (RSSA, PASA, IPA) (Program Funded)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total FSN/TCN Staff	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total OE/TF Staff (includes USDH)	2	3	2	0	0	0	7	1	0	11	0	0	3	0	15	22
Total Program Funded Staff	4	5	3	0	0	0	0	0	0	0	0	0	0	0	0	0
Grand Total All Staff	6	8	5	0	0	0	19	1	0	11	0	0	3	0	15	34

Notes:

* TAACs and Fellows count against G ceilings only and thus are "below the line" for field operating units. Service in the capacity of TAACs should be reported as TAACs regardless of the hiring mechanism. They should not be reported under PSCs, PASAs, RSSAs, etc.

The data in the table reflects positions, NOT, on-board strength or FTEs. You can divide the positions of people working on more than one SO, but do not subdivide in units of less than a half (0.5).

Provide separate tables for FY 97, 98, and 99.

Chl