

APPROACH PAPER
ROMANIA: COUNTRY ASSISTANCE EVALUATION

Country Background

1. Romania is a lower middle income country with a per capita income of US\$1,850 (Atlas method) in 2002 and a population of 22 million. The population has fallen over the last several years largely as a result of declining birth rates and emigration. The rate of poverty is estimated to be the second highest among the 11 Central Eastern European Countries (CEEC). Since the overthrow of the former communist regime in December 1989, Romania has also had one of the lowest growth rates, smallest per capita foreign investment inflows, and weakest structural reform performance records among CEEC countries. Since 1989 the industrial and agricultural sectors both shrank in real terms and as a percent of GDP. Of particular significance was the evolution in agriculture: while the share of the sector in GDP declined from 23 percent in 1990 to about 13 percent today, the share of the labor force in agriculture increased from 30 percent to about 40 percent suggesting that the sector functioned as a safety net, keeping large numbers of people out of extreme poverty.

2. The decision by the European Union (EU) Council of Ministers in December 1999 to open EU accession negotiations for Romania appears to have had an important catalytic effect on the momentum for reform. Since then good progress has been made in growth and stabilization and there was some progress in privatization. After falling by a cumulative 12 percent during 1997–99, GDP grew 0.6 percent in 2000 and around 5 percent per annum during 2001–03, driven by a strong investment and export performance. It is estimated that by 2004 per capita income will return close to its level in 1989–90. The budget deficit was reduced and inflation fell to 14 percent in 2003, the lowest level since the start of the transition. In October 2003, Romania completed a stand-by agreement with the International Monetary Fund (IMF) for the first time, after five previous failures in the 1990s. The EU, in its most recent report on Romania's progress towards accession (November 2003), did not yet grant Romania Functioning Market Economy status, a prerequisite for EU entry.

Bank Program

3. The Bank resumed lending to Romania in 1991 after a hiatus of almost a decade. Since then and through FY03 a total of \$3.8 billion has been committed for 38 projects, amounting to an average of \$290 million per year. But commitments were significantly higher during the 1990s, at a yearly average of \$335 million, than during FY00–03 when they averaged \$197 million. Adjustment lending made up 44 percent of the total. The Bank's financial assistance proved to be a major source of external funding for Romania, accounting for 34 percent of all net multilateral assistance over the 1992–02 period, and for 16 percent of all (public and private) net inflows. By the end of 2002 debt to the International Bank for Reconstruction and Development (IBRD) represented 15 percent of all external debt outstanding; the latter was the equivalent of 32 percent of Gross National Income.

4. The overriding objective of the Bank's strategy since 1991 has been to help Romania's transformation to a market economy, so as to generate sustainable economic growth. Starting in FY94 the strategy has been outlined in three successive country assistance strategies for fiscal years 1994–97, 1997–00 and 2002–04. On the whole the strategy in the country assistance strategies closely mirrored the Government's agenda except that external policy advice on stabilization issues was largely left to the IMF. All three country strategies contained a high case scenario, to be interpreted as the upper limit of lending, as well as a much reduced low case scenario, in the event of lagging reform efforts.

5. The main focus of all three country assistance strategies was on restoring growth through private sector development and privatization. The FY94–97 assistance strategy, in addition, aimed at pricing reform in the energy sector and the development of education, a land market, and infrastructure. The lending target of \$1.2 billion was reached, with some changes in composition. The FY97–00 assistance strategy placed increased emphasis on poverty reduction, rationalization of the role of the state, and environmental protection. There were major changes in actual versus proposed lending and only 40 percent of the lending target of \$1.4 billion was reached. The FY02–04 strategy was a continuation of the earlier one with relatively more weight given to institution building and governance reform.

Approach to the Evaluation

6. The review of the country assistance strategies suggests that the objectives driving Bank strategy can be grouped into three categories: the promotion of sustainable growth, poverty reduction and human development, and improvements in governance and institution building. Accordingly, the evaluation will be guided by a review of progress towards those three interrelated objectives, which encompass the most critical challenges facing the country.

- (i) *The promotion of sustainable private sector growth*, through the pursuit of macro-economic stability, exposure to world prices, increased competition in markets, privatization, improved financial intermediation, the growth of agriculture, the development of essential infrastructure and imposition of "hard budget constraints" at the enterprise level in both the private and public sectors.
- (ii) *Poverty reduction and human development*, through rural development, social protection, and improvements in health and education.
- (iii) *Improvements in governance and institution building*, through rationalization of the role of the state and strengthening public administration as well as local institutions.

Methodology

7. The evaluation will entail a review of all project and program documentation and economic and sector work since 1990, as well as past and ongoing Operations Evaluation

Department (OED) work such as the project performance assessment reports for Romanian projects, the Comprehensive Development Framework evaluation case study of Romanian experience, and work on health and agricultural policy reform in the Europe and Central Asia transition economies.

8. For each of the main objectives, the Country Assistance Evaluation (CAE) will evaluate the relevance of the objective, the relevance of the Bank's strategy towards meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This will be done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. In a third step, an assessment will be made of the relative contribution to the results achieved by the Bank, other donors, the Government, and exogenous factors.

9. In addition, the Operations Evaluation Unit (OEU) of the Multilateral Investment Guarantee Agency (MIGA) will provide an overview of MIGA's guarantee portfolio and technical assistance (TA) activities and summarize findings from its recent (guarantee and TA) evaluations in Romania, to be incorporated in the CAE. MIGA has a relatively large portfolio in Romania (the third largest host country for guarantees in terms of gross exposure), the majority of which is in the financial sector. The CAE will also include an Operations Evaluation Group (OEG)/International Finance Corporation (IFC) annex summarizing key commitment data and project evaluation relative performance data.

10. Major specific evaluation questions, roughly grouped by major program objective, would include:

Sustainable private sector growth

- A primary focus of the Bank's program was private sector development/privatization. Did the private sector reforms, to the extent that they were carried out, lead to sustained private sector growth? Was the strategy well-designed? Did it take account of the political realities and the institutional constraints? How successful were the reforms in attracting private sector investment?
- How successful were the Bank's efforts in persuading the Government to establish financial discipline in state enterprises and to reduce the practice of arrears build-up (especially in the energy sector)? What lessons have been learned? Have reforms in the financial sector enhanced financial intermediation in the economy?
- Did the Bank identify the key obstacles to agricultural sector growth? Did the Bank follow through with well designed programs and projects? What have

been the results? What obstacles still prevent the attainment of a Functioning Agricultural Market Economy, which is a condition for EU accession?

Poverty reduction and human development

- What progress has been made towards the Millennium Development Goals and what has been the role of the Bank?
- An important Bank objective was improvement in the delivery of key social and infrastructure services, especially in rural areas and to reduce inequities. The Bank also provided substantial assistance to strengthen social safety nets, including social protection policy, pension reform and retraining programs. Were the programs/projects well designed? How successful have they been? Has the Bank's program been successful in addressing the needs of vulnerable groups? Has the Bank assistance been able to help create sustainable institutions to manage the transition process?

Improvements in governance and institutions

- Major requirements for accelerated reform and growth in Romania range from strengthening public expenditure management, to regulatory and judicial reform, and to anti-corruption strategies. What has been the Bank's strategy to help advance this agenda and how effective has it been? Have the efforts to decentralize service delivery been effective, especially in view of institutional capacity at the local level? Has the business environment improved in response to regulatory and judicial reform efforts? How successful have the Bank's anti-corruption efforts been?

CAE Outputs and Timetable

10. The CAE will be issued to the Committee on Development Effectiveness (CODE) in mid-FY05, well before the country assistance strategy. The field mission will be in the fall of 2004. The OED team will produce background papers ahead of the field mission which will serve as a guide for discussions with the Government, other donors, and civil society. Peer reviewers are Lily Chu (OED, Country Evaluation and Regional Relations) and Sanjay Dhar (East Asia and Pacific PREM Sector).
