FAILURES OF THE ROMANIAN INSTITUTIONAL REFORM
AND THE ROLE OF INTERNATIONAL ASSISTANCE

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When we evaluate the impact of the international donors on the institutional reforms it is useful to distinguish two main categories of assistance programs, according to their functional purpose:

- **Institution building, mainly in the public sector**, with the aim of setting up new public agencies or reform the existing ones, provide training or equipment, implement new procedures, transfer best-practices, and so on. The target group here is the public sector or portions of it, and the ultimate goal is to improve its effectiveness, transparency and user-friendliness. For the purpose of this article let us call this assistance, type A.

- **Capacity building in the private sector**, which aims to increase awareness among the public and stimulate participation, whether we are speaking of non-profit forms of association or even profit-oriented activities. The fundamental idea here is that no matter how sound the institutions become through efforts of type A, there will always be communities who do not have the capacity, experience or resources to participate in democratic governance or take advantage of the economic opportunities when they arise. Institutional reforms of type A are, so to speak, similar to pushing a string: in order to get the desired effect, there should be someone pulling at the other end. When there isn’t, some intervention is necessary to show people how to do it or to capacitate them, which takes the form of grass-root activity, facilitation or micro-financing. In theory this works well and there is no doubt that some intervention of this kind is necessary in Romania, but by its very nature this complex of activities – type B – is much more difficult to design and implement than the domestic planners and well-meant donors let us believe.

Some preliminary observations should be made here. First, the types A and B are analytical categories rather than accurate descriptions that fit the reality perfectly. There are always border cases, as well as certain actors who can be targeted with both kinds of intervention – for example the local governments, part of the institutional reform as far as the budgetary process is concerned, but also part of the capacity building effort at the grass-root level in impoverished areas. Investments in infrastructure, like the ones financed by EU or World Bank, are complex projects which cut across categories: they improve the managerial capacity of domestic institutions by speeding up the transfer of skills to national institutions; but also represent a direct investment in communities who otherwise cannot finance the necessary improvements.
Second, the distinction between A and B has important practical consequences, because the design, implementation and evaluation of the two kinds of assistance are very different in terms of means, expertise involved and the participation of beneficiaries. When things are mixed up, undesired effects may occur – for example, an overemphasis on broad participation in, and ‘local ownership’ of, programs can easily block reforms of type A, especially in societies where corruption and clientelism constitute the rule rather than the exception. Listening to the beneficiaries, an increasingly popular idea in the international donor organizations, may be a good thing, but the process of listening should have structure, timeframe and very clear purposes, otherwise nothing more than endless complaints and long laundry lists will come out of a typical open-ended consultation (with the item ‘more money’ always towards the top). Making public choices in an organized and meaningful way is not something that occurs naturally in communities, organizations or professional bodies, but the result of a long and deliberate process of structured learning. Sometimes the confusion is increased deliberately by those who will try to turn programs of type A into B, with their own home-base as a prime beneficiary. There will always be domestic groups who will use the rhetoric of democratic consultation – no matter if broad participation makes sense or not in a particular program, and if it does, who should participate and in what forms – in order to appropriate resources or to block undesired changes. One such group, and very powerful, is the central bureaucracy.

Third, in the CEE countries the first priority of the foreign donors should be the assistance of type A. In the post-communist world, in spite of the current difficulties, most people do have the knowledge and material resources necessary to act in their own advantage once the right institutions are in place. When this does not happen, the main culprit is usually a wrong institutional framework or system of incentives. A certain passivism the in post-Communist societies is real, but much too often it is blamed on psychology, deep cultural cleavages along sexy Huntingtonian borders, or material deprivation, when in fact it is only the rules of the game which are skewed. When these are fixed, we usually see rational behavior and self-reliance emerging with remarkable speed.

Which is not to deny that there are pockets of poverty and destitution where an intervention of type B is required: certain isolated rural areas, small towns with ailing mono-industries, the Roma community, etc. But the intervention will not be sustainable and the unintended consequences will predominate as long as the problems of type A are not fixed in the first place. Briefly stated, the point here is that, given the relative magnitude of problems in these societies, for the same amount of resources committed by a foreign donor the quickest and biggest social impact by far is achieved with intervention of type A.

All these said, let us see how the international assistance effort worked in Romania in the last years. Our brief analysis will focus on three main donors who initiated and financed development programs with institutional reform components in the region: EU, World Bank and the US bilateral assistance through USAID.
The European Union

EU is the most important donor and its contribution is likely to increase in the future as Romania presumably makes further steps in the accession process. Unfortunately, it is also the most inefficient as far as the institutional reform is concerned. Brussels has not been able to use its leverage in order to speed up changes that everybody knew were necessary. Most of the time, the impression is that some measures are pressed on the Romanian government just in order to check boxes on a list; after some sketchy elements are implemented, the EU is happy to put up with any kind of nonsense coming from Bucharest. The whole story of ANDR-ADR mentioned above is one such example: even though substantial resources were invested in the creation of this institutional structure, there was no word from the EU when it was excluded from the Euro-sponsored development projects it was supposed to manage. The Law of the Civil Service was a condition for taking Romania in at the Helsinki summit in 1999; the fact that is openly broken today brings no reaction from Brussels, even though the Union invested money in training people who are now purged. Most of the time the EU Delegation in Bucharest tends to be extremely accommodating, to put it mildly, to the wishes of the Romanian cabinet in office. When the envoy of the European Parliament, Baroness Emma Nicholson, warned against politicizing of administration during its February 2001 visit, her statements found an echo only with the press.

Unlike USAID and, to some extent, the World Bank, EU has no staff in the field who could help with the design and administration of the programs it finances. This is a crucial point, since in the CEE countries there is a shortage of managing capabilities very often underestimated by the Western donors and analysts. Even when local people are well intended (which is not always the case) the rate of absorption of funds is small because the capacity to generate sound projects is very limited. Moreover, the EU is geared towards big programs which, once started, must move a lot of money within a specified deadline. There is little flexibility, room for feedback and the assessment tend to be made in terms of inputs rather than outcomes. Hence the obvious preference for projects of infrastructure, or big programs that make available to the existing Romanian public institutions substantial resources to play with, rather than use this resources in order to reform the institutions and make them more efficient – a tendency that suits well the Romanian authorities and aggravates the problem of clientelism. Therefore, even though the programs look fine because they were completed more or less in time and the administrative costs are small, the impact in terms of reforms is nil (or worse).

For example, little can be shown in the way of results for all the educational programs financed by EU in Romania in the last decade – Socrates, Erasmus, etc. Hundreds of students and teaching staff were toured around Europe, all in non-degree programs too short to make a difference to someone’s professional development. The main beneficiaries of this form of academic tourism were probably the second-rate Western European universities who were paid for hosting East-Europeans. With less money, the World Bank program of financing alternative textbooks or the Soros Foundation’s strategy of financing advanced
degrees in Western-type universities are likely to have a much more substantial and long-lasting impact on these societies.

Since EU has little professional staff in the field to monitor projects, no strategy for the transfer of managerial skills and no reliable system of measuring outcomes, both the A and B components of its aid tend to take the form of distributing handouts. These are easy to evaluate in terms of inputs, easy to administer in a centralized way and the spending capacity of the beneficiaries, once a program is approved, is never a problem. To be sure, there are rules and procedures to be followed and everything is subject to verification by the EU Court of Accounts. But most of the time the procedures refer to the strict following of budgetary lines or compliance with the intricate EU regulations – like rules of origin for equipment and supplies used in the projects¹. So that the institutional building effort (A) usually ends up in shopping sprees by public institutions (office technology most often) or short trainings abroad for those employees with the right connections to make it into the exchange team. The programs of type B are equally uncoordinated. Big designs and goals do not translate automatically into workable institutions able to keep the activity focused on achievable objectives. There is a real danger that the growing EU assistance, if not restructured, will create a culture of dependency in the public sector and parts of the private one similar to the cargo cult among the people of the Pacific islands. We have the bad experience of Southern Italy or Greece to witness that this kind of development is not a far-off perspective.

World Bank

The World Bank is generally more successful in enforcing its conditionality on the Romanian government. The results are mixed, but there is a strong sense that the overall vision that underlies the WB operations in Romania is correct and that big lending programs like PSAL (industrial restructuring and privatization) and ASAL (reforms in agriculture) have played a role in pushing the reform ahead. Technical assistance in areas like improving the business environment, strengthening the financial sector or restructuring the land market in rural areas is badly needed. WB also helped with the setting up and financing the most successful B-type project in Romania by now – the Romanian Social Development Fund. RSDF is a permanent body which recruits and train facilitators, and send them to work for longer periods in the poorest and most isolated rural communities. The facilitators encourage poor people to associate and initiate small productive activities or make partnerships with the local government in order to improve the local infrastructure, help them write applications for funds and develop basic management skills, and help them run the projects once a small grant is offered by RSDF or other donors. The chances are high that when the assistance ends in one village such projects will be

¹ These should be made in EU or a candidate country, even when there are similar products available manufactured in non-EU states which cost less; compliance with the rules of origin is not always simple, since in the new globalized economy there may be different locations where a product is made, assembled, sold or the brand registered.
sustainable, and it is the merit of RSDF that it forged the appropriate organizational culture which makes this kind of intervention, much more proactive and difficult to implement, successful, in spite of the limited funding available.

There are two threats facing the WB development programs, however. First, the same pressures mentioned above are present to transform the institution-building assistance into distribution of handouts. In 2000, the Bank came out with the idea of initiating a Rural Development Program (RDP) in Romania, with a size similar to a yearly installment of the EU Sapard program. As the government were dragging their feet over Sapard because of the turf wars between central agencies, and the EU aid was slow to come anyway, the idea was that the Bank’s program would offer the opportunity to move forward, put the institutional framework for running Sapard in place and test it. However, this original idea had to be abandoned due to the strong resistance of the Romanian authorities and the unpreparedness of the WB to press the issue too far. Instead, the RDP was turned into a annex component of Sapard with no strings attached and phased over the same period of seven years. What could have been an institution-building program is thus likely to end up as a supplement to a typical EU disbursement of money through the complicated and corrupt domestic channels patronized by the Ministry of Agriculture.

The second threat is of a more general nature, but it explains very well why such things happen with programs like RDP. The new overall strategy of the World Bank to promote inclusiveness, participation of beneficiaries other than the national governments, listen to the voices of the local communities and learn from them, can easily become a cliché void of any content. The people, both at the giving and receiving end of a program, learn very quickly that the keys of success in the new approach are not the sound organizational structure, clear objectives and measurable performance, but the right kind of rhetoric full of buzz-words like broad participation, empowerment, attention for the real needs of the people as opposed to those identified by bureaucrats, etc. What is important is to show that you care, not the actual impact you make in reality. In other words, we are witnessing a process of LadyDi-enization of the international assistance. The rhetoric of participation also contributes to the above-mentioned obscuring of differences between A- and B-programs. Very often the fact is overlooked that successful B-programs require not only careful planning, but also very flexible and professional implementation mechanisms and presuppose high administrative costs – when the purpose of the program is to stimulate profit-oriented activities and run micro-lending schemes, what we do practically is investment banking.

This rhetoric is all the more dangerous since it has strong natural constituencies:

- Various local groups who want to take part, whether they have a business or not, in order to gain prestige or access to resources.

- All the stakeholders involved, in order to shape as much as possible the intervention according to their needs. This is especially important in A-
programs: sometimes they will attempt to block any change, sometimes they will try to shift the focus towards a distribution of handouts.

- Local experts working as consultants, who have learnt that it is possible to make a decent living by running over and over again ‘need-assessments’ and provide at high cost the same predictable and mostly useless piece of advice: this and that community are poor and must be helped, making people cooperate is a good thing indeed, and that the list of needs is the following… (always more or less the same).

- The Romanian authorities, who have noticed very early on that, due to the high transaction costs and the lack of structuring, such broad consultations lead nowhere\(^2\). When everybody becomes exhausted with the exercise and the deadline draws closer, they know that the conditionality will be relaxed and the donors will become more yielding. Therefore the Romanian politicians and top bureaucrats have developed good role-playing skills, knowing that they attrition strategy will help them prevail in the long run.

- Finally, the staff of the donor organization itself. Instead of working hard on designing programs, documenting best-practices, finding the right experts and monitoring the implementation of programs, the rhetoric of empowerment and giving the beneficiaries a voice offers an easy escape: earmark some money, convene eclectic meetings in the recipient country and send there some staff with good intentions and a listening ear, but little else to offer in the way of expertise, in order to stir up things. And cross your fingers in hope that some meaningful plan will come out of that.

**US bilateral assistance**

Whether it is implemented through the US Agency for International Development (USAID) or not, this kind of assistance differs from those discussed above because is more tightly controlled by a foreign government, has clearer procedures and is much less accommodating to the wishes of the Romanian bureaucracy. The total amount of aid is much smaller than the one provided by EU or WB, so it is all the more surprising that the results are sometimes spectacular, especially in A-type programs, and can serve as a model to be followed by others donors. Only three examples.

The transfer of know-how in the area of tax reform: a team of American experts from the US Department of Treasury was brought to Bucharest and they worked in

\(^2\) A good example is the Comprehensive Development Framework (CDF) initiative, a two-year futile effort to bring together all the domestic stakeholders and sources of expertise on development and devise a strategy / document / action plan. It failed because it relied too much on the goodwill and skills of the domestic actors, public and private. Had they had the ability and determination to make such a loose structure work, they wouldn’t probably have needed the WB assistance in the first place – indeed, they could have become international providers, and not receivers, of institution-building assistance.
the Ministry of Finance for more than two years on drafting the Personal Income Tax Law and its implementation system. The law was adopted and it will become effective beginning with the fiscal year 2000. It is a good and clear statute, its impact will be substantial and long-lasting and the whole assistance effort was focused on a very narrow and urgent aspect of institutional reform where domestic expertise was scarce and the need was easy to identify without investing too much time and resources in the assessment process. ‘Ownership’ or the participation of beneficiaries did not raise special problems, since everybody understood what the whole thing was about. Moreover, an important component of the program consisted in training for the tax administration structures so that they will be able to carry on their duties under the new law.

In the area of local government reform, USAID has financed a program run by IRIS, an American think tank, which is meant to encourage the local administration to cut red tape and establish one-stop offices for dealing with the citizens and businesses. A series of workshops was conducted in some big Romanian cities, materials and case-studies were provided to the mayors and a system of ‘Five Star Cities’ awards was set up to reward the best performers. The strong backing of the American ambassador, who handed out the awards, secured media coverage and visibility. Thus a small and cheap program made an impact much above its financial weight and, though its continuation is by no means guaranteed, it contributed to an increased public awareness of certain best-practices and to the triggering of a positive demonstration effect. It is unlikely that such a program could have been initiated in the first place if somebody would have just gone around and run surveys asking people what are their ‘most urgent needs’.

Another set of programs of institutional capacity building financed by USAID were run by the Urban Institute (also an American think tank) and some domestic private partners. UI consultants spent a substantial amount of time in Romania doing institutional audits in local government structures. The main focus was the budgetary process, which had just been considerably decentralized by a law passed in 1998. They produced the best institutional assessments of the budgetary practices in local government available so far, designed a strategy for improving the procedures based on the previous CEE experiences and developed good training materials. They provided valuable inputs to the newly reshuffled Ministry of Public Function – the Local Governments component (see the discussion above).

**Conclusion: best practices for assisting the institutional reform**

Based on the assessment of the Romanian institutional structure provided in the first parts of this material, and the experience of the three donor organizations presented above, a sketchy guideline for assisting the institutional reform in Romania can be put forward.

- There should be a clear focus on the most urgent part of the reform process, which is institution-building. Therefore, most of the effort should go into A-
type programs. The first priority is to encourage the stabilization of Romanian central coordination agencies, and assist their professionalization through a well-balanced mixture of aid and conditionality. The point is not, of course, for the aid donors to take over the act of governing, which is neither possible nor desirable, but to provide know how based on international best practices, and encourage the beneficiaries rethink the structures themselves and make them more rational and effective. At least some components of the assistance effort should involve both the current top public officials and the opposition (the shadow bureaucracy who will replace the former after elections, if we are to be realistic).

- The goals of assistance need to be more narrowly defined, expressed in plain language and the progress towards them measured.

- It is a good idea to contract out assistance activities to private organizations once an agreement is reached with the Romanian representatives. They possess the human resources and experience necessary to design and carry out sound programs. These are usually Western organizations with lean and transparent management structures and strong credentials in the field of public policy. The involvement of local experts should be much more carefully assessed in countries where professional reputations and social recognition are still poorly correlated with the actual level of expertise, to a degree hardly imaginable in Western societies.

- The Romanian actors, public or private, can be involved gradually as the project develops, so that they have the time to learn the technical and managerial skills by seeing and doing. The foreign contractors are thus in a much better position to see which domestic partners are reliable in the long run, and pass this information on to the main donor. Also, the situation is avoided when around programs administered directly by a big donor or put to open tender from their inception a whole network of domestic clients emerge with no capability to carry out the project but with a strong determination to monopolize the access to resources. This is an important point to remember, since there is a marked tendency for some domestic groups to colonize formal institutions and programs and divert them from their original purpose.

- Do not rely on the cooperation of local bureaucracies, who are heterogeneous, unstable and have a very distorted hierarchy of motives. Most of the time they should be regarded as subjects, rather than instruments, of reforms, although assistance should remain fundamentally cooperative in nature.

- General purpose trainings meant to improve qualifications in the public sector do not always help. Actually, they rarely help. Even when they are well designed, the impact is insignificant on public officials who had not developed basic skills during their years of formal education. Participation in such events can bring them prestige, or small material gains when the seminar is held abroad, so they are always eager to come and behave co-operatively if they can pass the selection hurdle in their institutions (the selection process, too, usually reinforces clientelism and factionalization). On the other hand, executive
training for the few top officials who are really able to benefit from it is an exercise of shooting at a moving target – as it was said before, they are likely to leave after short spells in office. Therefore the best thing to do is to include training as a component in institutional reform programs with clear goals and deadlines, aimed at improving specific procedures rather than the general professional capacity of various individuals. The latter can only be achieved in the long run, by reforming the education system, which should of course be a legitimate target of international assistance itself.

- The effort should aim at raising incrementally the performance of existing institutions, rather than encourage the creation of new structures, and thus aggravate the fragmentation and fluidity that was identified before as source of problems. The best way to do this is by implementing changes that increase democratic accountability through transparency and simplification, make the functioning procedures as fool-proof as possible, and so limit the damage done when a new administration reshuffles the civil service.

In the end, a word of caution. The examples discussed above do not suggest that the EU assistance in Romania has been a total failure, and the American aid an unqualified success. The reality, of course, is more nuanced, with good and bad things to be said about each donor, and a final picture in shades of gray rather than clear-cut black and white areas. The differences in purpose and size of assistance, which are considerable when we discuss about EU and USAID, for example, suggest that these comparisons should be taken with a pinch of salt. Moreover, there are other sources of assistance, most of them bilateral, which were not mentioned – for example, the British Know-How Fund, who made a substantial contribution, among other things, to the re-establishment of the stock-exchange in early ‘90s. The aim of this brief overview was only to offer a framework for understanding the contribution the international assistance can make to the institutional reform in Romania, identify some patterns of action and typologies, and draw some conclusions about the means to increase its effectiveness.