



EVALUATION OFFICE

**EVALUATION CAPACITY
DEVELOPMENT AND
INSTITUTIONAL REFORM IN**

ROMANIA

EVALUATION CAPACITY DEVELOPMENT AND INSTITUTIONAL REFORM IN ROMANIA

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FOREWORD

Since the early 90's the Evaluation Office (EO), of the UNDP has conducted and sponsored a number of studies on evaluation capacity development (ECD), in various developing countries. Many of these studies have become "Country Monographs" summarizing different experiences and lessons learned on evaluation practice. More recently, the EO has focused on exploring the critical linkages between results, budgets and management as part of a strategy to enhance the effectiveness of ECD activities. To date, most of these studies have focused on developing countries, not on "transition economies" which presents a particular modality of evaluation challenges. This ECD study of Romania is particularly interesting in this respect.

All country evaluation capacity studies are somewhat different, if not in theory, certainly with regard to the different institutional arrangements and policy environments within which evaluation of a government's performance takes place. Those conditions make Romania a truly "special" case, different from most developing countries. The basic reason for this distinctiveness is that Romania is now facing the enormous double challenge of (i) making the "transition" from a centrally planned economy to a more market oriented one, and (ii) meeting the requirements for "accession" to the European Union (EU).

Thus, while traditional mainstream micro-sectoral and project evaluation may not be Romania's first policy priority, the basic principles and postulates of evaluation theory and practice are fully applicable and useful to its unique circumstances. Romania is a country where macroeconomic and structural reforms, as well as obtaining accession to the European Union, are key priorities. However, it is also a country where evaluation-related activities, including results-based-management approaches, are becoming an integral part of its public sector policy, and the emphasis is more on the evaluation of macroeconomic and structural reforms - and results - than on sectors and projects. This institutional realm permeates all policy making in Romania and, directly and indirectly, affects all activities related to evaluation capacity development.ⁱ While in the short term this complex environment may limit ECD, it at the same time offers the potential to enhance evaluation capacity development in the country, if such activities can be placed strategically within the ongoing reform process.

At the end, what comes out of this evaluation of Romania is the confirmation of the close interdependence between macroeconomic evaluation, on the one hand, and micro-sectoral, project and program evaluation, on the other. The study shows not only that

ⁱ Hauge, Arild (1.998), rightly states that "ECD approaches must be tailored to the individual and unique circumstances of each country", "Evaluation Capacity Development: Lessons Learned by the UNDP", Evaluation Capacity Development in Africa, World Bank, OED.

macro and structural reforms generate an "evaluation spill-over effect" over the sectoral level, but that evaluation function and ECD activities end up mainstreaming themselves into the reform process at both levels.

The Evaluation Office of UNDP is pleased to present this publication to all those interested in the theory and practice of evaluation. We hope it will be particularly useful to the Romanian authorities as its conclusions and recommendations appear relevant and pertinent to the country's present situation and, future policy challenges.

Khalid Malik
Director
Evaluation Office

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INTRODUCTION

*We never have had a good theory of transition."
Zvi Griliches¹ , (2000)*

The study of evaluation capacity development in Romania is of particular interest because it reveals unique interdependencies between (i) evaluation principles and instruments (ii) macroeconomic policy reform (iii) structural and sectoral restructuring (iv) results-based budget management and (v) institutional economics. All these elements and processes come into play in this country when developing a strategy to enhance the effectiveness of its overall reform effort. The challenge is to integrate these elements into a comprehensive framework and a consistent strategy. The purpose of this paper ² is to examine the interplay of these processes and to offer the broad outlines of that strategy.

As it will be seen, a consistent strategy combines mainstream theory and the practice of evaluation capacity development together with some key principles of neo institutional economics. Interestingly enough, it will also be appreciated that the basic postulates of evaluation theory and practice remain fully valid even when the overall policy and institutional framework is oriented more toward macroeconomic and structural reform than to specific project and program evaluation. All these factors make the study of evaluation capacity development in Romania a truly unique case.

¹ Krueger Alan and Taylor Timothy (2000), "An Interview with Zvi Griliches", *Journal of Economic Perspectives*, Vol.14, No.2, Spring 2000.

² This article summarizes the Final Report on a study conducted in Romania in the second half of 2000 under the auspices of the Evaluation Office (EO) of the UNDP at New York.

1

ROMANIA'S EVALUATION POLICY SETTING

At the end of the year 2000 Romania's main policy priorities were not so much evaluation capacity development (ECD) as the strengthening of its macroeconomic and structural reforms and completing the transition to a market economy. An integral part of these objectives, but with wider ramifications, was obtaining accession to the European Union (EU) by the year 2007. These remain the chief policy priorities of Romania today. Together, they pose a daunting challenge for a country that was perhaps one of the most centralized³ in Eastern Europe both in economic⁴ and political terms. Furthermore, Romania had little institutional infrastructure to make a cogent transition to a market economy and to democratic governance.⁵

While traditional mainstream micro-sectoral and project level ECD may not be at the top of Romania's reform agenda, it is extremely important when examined from the perspective of macroeconomic and structural reforms. Indeed, the monitoring and measurement of the results of these reforms⁶ is a highly evaluation-intensive activity. Not only do macro and structural reforms generate an "evaluation spill-over effect" at the sectoral level, but ECD is also evolving as an integral part of the reform process at both levels. In fact, it is spreading across the entire spectrum of Romania's public sector.

³ According to the World Bank (1999), "The Romanian economy was more centralized and isolated than other Eastern European economies in 1989", Report No. P7313-RO.

⁴ At the end of the 80's Romania's private sector represented barely 12% of its GDP. See *Medium Term Strategy* (2000).

⁵ For an insightful summary on Romania's economic developments in the 90's, see Osiatynski Jerzy (1997), "Economic Reforms and their Social and Political Implications", *Democracy in Romania*, International IDEA, Stockholm, Sweden.

⁶ Toulemonde Jacques (2000), distinguishes between policy evaluation and project evaluation. In the case of Romania, the first would relate to macroeconomic policies while the second would refer to sector and project evaluations. What is of special interest is to see the interdependencies between these two sorts of evaluations. See his "Evaluation Tools and Methodologies: Case Studies", *Proceedings from the Beijing (1999) Conference on ECD*.

This analysis confirms the close interdependence ⁷ between macroeconomic evaluation and micro-sectoral, project and program evaluation ⁸. In brief, there is significant "ownership" and demand ⁹ for evaluation at the "macroeconomic" level. At the micro-sectoral project and program level that demand is not yet as strong but the authorities are growing conscious of its relevance for enhancing the effectiveness of their overall reform effort.

A. MAIN INSTITUTIONS IN CHARGE OF REFORMS

The National Bank of Romania has protected domestic savings, thus preventing severe monetary and exchange crisis;

The key governmental institutions supporting macroeconomic and structural reforms are the National Bank of Romania, the Economic and Financial Coordination Council, the Ministry of Finance, the State Ownership Fund (SOF), the Ministry of Foreign Relations and the Ministry of Education. All these institutions fall under the jurisdiction of the Primer Minister who, as former head of the National Bank, has given not only political support to these reforms, but technical direction as well.

On the whole these institutions have done a commendable job under very difficult circumstances. The National Bank of Romania has protected domestic savings, thus preventing severe monetary and exchange crisis; the Economic and Financial Council has strengthened intersectoral policy coordination; the State Ownership Fund has given a new impetus to the privatization process; the Ministry of Finance has kept the fiscal imbalance largely within the agreements with the World Bank (WB) and the International Monetary Fund (IMF); the Ministry of Foreign Relations, through its relationship with the EU, has met the basic schedule of the Acquis Communetaire and, finally, the Ministry of Education is implementing fundamental reforms in its area.

B. ROLE OF MULTILATERAL INSTITUTIONS, THE EU AND BILATERAL DONORS

The WB, the IMF, the EU and bilateral donors¹⁰ play a decisive role in the direction and depth of the reform process. It would be difficult to exaggerate the fundamental contribution that these institutions are making in supporting Romania's efforts to overcome severe internal, external and institutional imbalances. Not only are they assisting in terms of financial support, but they are also imparting technical assistance in a wide array of fronts.¹¹ They provide support at practically every turn of the difficult reform path.

⁷ The June 2000 crises, when the National Investment Fund, due to a flawed "micro" supervision, posed a risk for macro financial management, is a good example of this interdependence.

⁸ For the interrelationships between the aggregate level of spending, the composition of public spending and the evaluation of such spending, see Pradhan Sanjay (1996), "Evaluating Public Spending", World Bank Discussion Paper No. 323.

⁹ According to Mackay Keith (1999), "the main precondition for evaluation capacity development is country demand". See "Evaluation Capacity Development: A Diagnostic Guide an Action Framework", World Bank, ECD, Working Paper Series No. 6, page 12.

¹⁰ The U.S. Treasury Department is supporting a Planning Budgeting, Programming System, PPBS.

¹¹ The IMF has provided 20 technical assistance missions since 1991.

The role of the EU is of long-term importance . This is true not only in terms of financial assistance, which is very significant,¹² but also in terms of providing a breakthrough for the centuries old aspiration of Romania to be an integral part of Europe and to attain economic prosperity and political freedom. It will be a difficult and protracted process covering fundamental transformations in many sectors, ranging from strengthening market competitiveness, developing political liberties, designing sustainable income policy, enhancing democratic governance structures, protecting the environment, to having legislation on gender preferences.¹³

If there is one vision that unites Romania it is its aspiration to become an EU member by the year 2007. This deeply shared aspiration has critical economic policy implications as it may be the catalyzing ¹⁴ factor needed to generate political support to accelerate and deepen the current reform process.

At the macroeconomic policy level and at the macro-institutional arrangement level, it is the markets (domestic and external) that are the evaluators and the providers (or with-holders) of resources.

The role of bilateral donors is also very significant. In the specific area of budgeting, evaluation and monitoring, the US Treasury Department has been able to put in place, in collaboration with the Ministry of Finance, a pilot project whereby eight ministries and agencies have begun to use a "Planning, Programming and Budgeting System, PPBS."

C. THE DEMAND FOR EVALUATION AT DIFFERENT POLICY LEVELS

It is not difficult to appreciate that the linkage with budget allocations is what determines the existence of effective demand for evaluations, especially in the interplay between Ministries of Finance and Budget Offices on the one hand, and line ministries and agencies on the other. But how is this condition applicable to macroeconomics and to the macro-institutional level of government? How would that link with resources work in these cases? Who would be the "evaluator" and who would provide (or withdraw) the resources? In other words, where would the incentive be?

At the macroeconomic policy level and at the macro-institutional arrangement level, it is the markets (domestic and external) that are the evaluators and the providers (or with-holders) of resources. They are, in fact, more rigorous evaluators than other agents at the sectoral level or within the ministries of finance because they run higher risks if they make mistakes in their assessment of macroeconomic performance. That is why, in many cases, countries may have a precarious system of evaluation of budget resources but a "good" or less fragile macroeconomic policy. They need to protect aggregate policy objectives, like monetary and exchange stability. But this may be short sighted, as there are clear interdependencies between sectoral budget efficiency and macroeconomic stability.

In the particular case of Romania, the macroeconomic level of linkage with resources is very relevant as this country is in the midst of a macroeconomic and structural

¹² PHARE programs for Romania in the year 2000 amount to about \$600 million euros.

¹³ The EU legal framework for homosexuality is quite different from that of Romania.

¹⁴ This is the view of some eminent scholars like professor Constantin Ionette.

restructuring process precisely to maintain a flow of resources from the international markets and from multilateral institutions .

a) The Demand for Evaluation at the Macroeconomic Level

At the macro-economic and structural level, the demand for evaluation and for the assessment of performance through results is strong. At this level, the demand for evaluation meets the two key requirements of (i) being "owned" by the government and by society in general and (ii) linking evaluation results with access to budget resources or to the financial markets. The first requirement has largely been met through, inter alia, the work conducted under the World Bank's "Comprehensive Development Framework" (CDF), and by the "Declaration" of March 16, 2000, a document signed by the main sectors of Romania's society.

The second requirement has been met by the provision of funds by the WB, the IMF, the EU and by the markets. If this basic condition of reform and effectiveness had not been met, if no evaluation had been demanded to verify performance, few resources would have been available. This is the key condition for effective demand and for evaluation to exist, i.e., that resources are forthcoming if the evaluation of results so warrants it.

The demand for evaluation and monitoring at the micro-sectoral and project level is not as strong as the demand at the macroeconomic and structural level.

b) The Demand for Evaluation at the Micro-Sectoral and Project Level

The demand for evaluation and monitoring at the micro-sectoral and project level is not as strong as the demand at the macroeconomic and structural level. Nevertheless, it must be pointed out that important micro-sectoral and micro project evaluation activities are now being demanded and flow out as "externalities" of the more global reforms. Evaluation-intensive activities have taken place in, inter alia, the financial sector, the agriculture sector, in customs management, in the civil service sector, in wage determination, in the Transportation Ministry, in the Ministry of Health and in the Ministry of Education. In brief, it can be said that substantial ECD is taking place at the micro-sectoral and program levels of the reform processes.

c) The Demand for Evaluation at the Subnational Public Sector Level

At the regional and municipal level of Romania's public sector there is large potential for demand for ECD. The administrations of Bucarest, Timisvara and Constanza, and their respective mayors are fully aware of the demands of their citizens for improved local public sector performance. These cities seem to have the absorptive capacity to enhance their supply side of evaluation. Furthermore, there is a new decentralization law (155 of 1998) which, in its implementation and through the action of the "National Agency for Regional Development, NARD", will result in a growing demand for the local evaluation of programs and projects. While federation and the deepening of decentralization may not be a major priority in Romania at this time, even within the present legal framework, evaluation capacity development has a place within regional and local priorities.

D. The Interplay of ECD at Different Policy and Institutional Levels

The interdependence between macroeconomic reforms and sectoral and project evaluations is evident in many areas of Romania's current agenda. When it reduces its fiscal deficit (a macroeconomic imperative) to meet market and multilateral conditionality, it introduces a hard budget constraint at the sectoral program and project level. When it tries to privatize State Owned Enterprises (SOE's) to increase the role of markets, it has to build evaluation mechanisms and strengthen its regulatory institutions. When it aims at resolving structural imbalances in its banking and non-banking sector (again a macroeconomic and macroinstitutional concern) it has to focus on enhancing bank supervision and has to look at the micro-institutional arrangements in the financial and credit markets. Table A summarizes the intergovernmental sources of demand for ECD and the areas where effectiveness is restricted.

TABLE A: AINTERGOVERNMENTAL SOURCES OF DEMAND FOR ECD AND POLICY AREAS FOR ENHANCED EFFECTIVENESS		
	Intergovernmental	Diagnostic of Restrictions
	Level	on Effectiveness
A	National and Central	A. Flawed macro-institutional arrangement
B	Decentralized State Owned Enterprises	B. Lack of market competitiveness
C	Sectoral and Intersectoral	C. Insufficient intra and intersectoral coordination and policy consistency. D. Weak incentive structure to reward results
D	Regional and Municipal	E. At some cities and regions there is potential for greater autonomy and responsibility

E. THE SUPPLY OF EVALUATION

The supply side of evaluation at the macro-economic level is largely satisfactory and strongly supported by multilateral and bilateral institutions. Here, the National Bank of Romania plays a key role and appears well prepared to meet the remaining challenges. At the micro-sectoral level, particularly in terms of assuring policy consistency, the "in house" supply capacity of evaluation may be somewhat weak. However, as stated before, the "learning curve" ¹⁸ of the authorities has proven to be steep and there are several examples of "good" supply response in some ministries.¹⁹ The overall institutional arrangement, comprising the macroeconomic and structural frameworks together with sectoral and specific agencies, lacks sufficient cohesion. But this may be the result of the fact that the government represents a political coalition in a country with considerable political fragmentation.²⁰

The research capacity of "think tanks" at university and academic levels appears strong ²¹ as suppliers of evaluation. Romania's human resource base is strong and technically competent. This "supply side" can grow on its own and has ample potential to develop further given the proper long-term incentive and a propitious institutional environment.

¹⁸ Rist Ray, (1994), *"The Preconditions for Learning: Lessons from the Public Sector"*, *Can Governments Learn?*, Edited by F. Leeuw, R. Rist, R. Sonnichsen, Transaction Publishers.

¹⁹Such is the case of the Ministry of Education, the Ministry of Health and the Ministry of Transport.

²⁰The specific institutional governance structure of any country is somewhat idiosyncratic; while needing to follow some basic analytical and universal principles, it is conditioned by history, culture and constitutional factors. Douglas North (1986) calls this "path dependency."

²¹It's primary and secondary education levels appear to be better than the average at the EU.

2

CONCEPTUAL FRAMEWORK AND THE DEMAND FOR EVALUATION

Evaluation is about the measurement and assessment of the effectiveness of public spending and of public policies, programs and projects. It is also about meeting the requirements to gain sustainable access to resources.²² In the case of the private sector, markets, while imperfect, are still able to conduct effective evaluations and conclude whether a given firm, project or activity of any sort should have access to continued financing. However, this is hardly the case in the public sector. Here, budget resources flow somewhat autonomously within ministries and agencies, hopefully within an overall budget restriction. Performance based on results is not normally an endogenous part of the process. There is little need for evaluating whether objectives were met or not, or for examining the reasons why they were or were not met.

If the availability of resources is hardly contingent on performance and on results, then why have evaluations? Why measure inputs, processes, outcomes and impacts? In brief, why demand evaluation? As Pablo Guerrero (1999) has pointed out, there are three reasons why the demand for evaluation is now emerging as an integral²³ part of public sector reform:

- i) In many countries, both civil society and opposition parties are increasingly realizing that it is their right to expect better performance from their governments.
- ii) As budget constraints become tighter, governments themselves understand that evaluation of performance is a way to stretch budgets and improve effectiveness.
- iii) Domestic and external markets demand and expect results before providing financing to governments. Hence, they induce and demand an evaluation prone environment within public sectors.

²² Reid Gary (1997), rightly warns that evaluation is also about the causality between actions and results. Otherwise the critical element of learning many end up being neglected. See his "Making Evaluations Useful", World Bank Working Paper.

²³ Pablo Guerrero (1999), "Comparative Insights from Colombia, China and Indonesia", The World Bank Operations Evaluation Department, Working Paper No. 5.

Whenever one speaks of results-based performance, whether it be applicable to public sector managers, to regulatory policies, to the effectiveness of social spending, or to the outcome of a privatization program, what one is actually saying is that one demands evaluations. And in order to have evaluations, one needs to develop one's evaluation capacity. From then on it is a question of how, within what policy context, with whom, with what sequencing and, fundamentally, within which institutional arrangement.

The response to the "how" to enhance evaluation involves both supply and demand side considerations.

The response to the "how" to enhance evaluation involves both supply and demand side considerations. For years considerable attention was given to the "normative" supply side of evaluation, i.e., the provision of supply inputs (like training, technical assistance, subsidies to encourage institutional development) and financing in general, to support the supply of ECD. However, experience shows that without effective demand and without real incentives for ECD development, most supply programs prove to be insufficient or just wither away.

Demand-driven evaluation capacity development has the added attribute that it gives "market" signals to the supply providers of evaluation and guides them - actually gives them the incentives - to seek the most efficient response to the particular situation at hand. Without effective demand for evaluation how could the supply side of that market know how to develop and how to adjust efficiently to changing circumstances?

A. EFFECTIVE DEMAND AND ITS LINKAGE WITH POLICIES AND RESOURCES

The final, ex post test for the emergence of effective demand for evaluation lies in its linkage with budget resources and with financing in general. There may be a "nominal demand" for improved public performance and significant "ownership" of evaluation awareness but if, at the end, resources continue to flow without being conditioned to the results of evaluations, then "effective demand" for evaluation will prove to be limited.²⁴ In sum, two conditions seem indispensable for the full emergence of effective demand for evaluation:

- (i) A hard budget constraint forcing public managers to seek more effectiveness out of limited resources
- (ii) Strong political pressure or leadership to respond to the demand for better public sector performance.

These two conditions are interdependent and they both need to be met for effective demand for evaluation to emerge.

²⁴ Eduardo Wiesner (1999), "La Evaluación de Resultados en América Latina", CEPAL, ILPES, Santiago de Chile.

B. EVALUATION AS A DEMAND INCENTIVE

If the overall policy framework and macro-institutional arrangements reward improved performance with access to additional resources, then the evaluation of results becomes an incentive²⁵ for ministries and for other public agencies to demand evaluation. Furthermore, it will be an incentive to demand the "right" kind of evaluations, not just any evaluation.²⁶ Essentially, only those evaluations that pass the test of securing a change in policies or additional resources will be, in principle, credible evaluations.

The incentive will work more effectively if the evaluation of results confirms improved performance.

C. EVALUATION OF RESULTS AND THE RESULTS OF EVALUATIONS

The incentive will work more effectively if the evaluation of results confirms improved performance. If no improved performance is evident or technically convincing through the evaluation of results, then those interested in obtaining additional resources will go back to the evaluation methodologies and to the sources or suppliers of evaluation and "demand" better performance. Thus, they will put pressure on the supply side of evaluations to be credible and effective. This is one of the reasons why it is preferable to seek ECD through the demand side rather than through the supply side. In sum, the evaluation of results has to meet technical standards and be effective in assessing results.

There is also a second condition that needs to be met for the linkage-incentive to work. The results of evaluation should actually trigger access to more (or less) resources, or trigger changes in policies, which is tantamount to obtaining resources. If the budget process and the policy and political decision-making process do not link the results of evaluations with resources, then the scheme will probably come to a halt or become ineffectual.

In brief, from the demand side it is critical that (i) the evaluation of results confirms improved performance and (ii) the results of that evaluation trigger the availability of resources to whomever responded to the linkage-incentive and demanded the "right" kind of evaluation.²⁷

²⁵ Stiglitz Joseph (1998), "Evaluation as an Incentive Investment", *Evaluation and Development: The Institutional Dimension*, edited by Robert Picciotto and Eduardo Wiesner, Transaction Publishers.

²⁶ Wiesner Eduardo (1997), examined the case of "spurious evaluations" in "Evaluation Markets and Institutions in the Reform Agency of Developing Countries", *Evaluation for the 21st Century*, edited by Chelimsky Eleanor and Shadish William, SAGE Publications.

²⁷ The interplay between incentives, results, outcome evaluations and resource availability is much more complicated than this stylized framework. Many other elements intervene like measurement and methodological problems as well as possible counterfactuals. However, the broad parameters of the interplay are those here summarized. See Chelimsky Eleanor (1997), "The Coming Transformations in Evaluation", *Evaluation for the 21st Century*, edited by Chelimsky and Shadish, SAGE Publishers.

3

ROMANIA'S GLOBAL ECONOMIC ENVIRONMENT

Over the last few years Romania's main reform priorities have been directed at the following three interdependent objectives:

- (i) Correcting severe internal and external imbalances emerging from accumulated macroeconomic and fiscal distortions
- (ii) Conducting sectoral and structural reforms to make the transition from a highly centralized economy to a market oriented one
- (iii) Transforming major areas of private and public policy to meet accession requirements to the EU by the year 2007

These have proven to be formidable challenges for a country, which at the end of the 1980's, had perhaps the most centralized and rigid economy in all of Eastern Europe.²⁸ However, the record shows that Romania has responded commendably, and appears to have turned around the rapid decline in growth experienced continuously since 1997. In fact, GDP growth in the year 2000 was 1.8%, and 5.3% in 2001.

According to the IMF the external adjustment has exceeded the original programming.²⁹ The "overall" fiscal deficit has declined from 5.0 % of GDP in 1998 to 3.5% in 1999 and it appears that it will remain at this level in the current year. Reflecting this correction, the current account deficit, which was -7.2% of GDP in 1998, has declined to -3.8% in 1999 and will most likely remain at this level in the year 2000. Finally, the export sector has been rebounding since mid 1999, suggesting competitive gains (Table No. 1).

²⁸ According to Ilie Serbanescu (1999) "The Romanian economy is the product of the most orthodox communism of Eastern Europe... from this point of view that legacy made the path to a market economy the most difficult in the area". See "Can the Vicious Circle be Broken?", in *Economic Transition in Romania, Proceedings of the "Conference Romania 2000, 10 years of Transition"*, edited by Christoph Rühl and Daniel Dainau. World Bank and Romanian Center for Economic Policies.

²⁹ International Monetary Fund, IMF, (2000), "Romania, First Review of the Stand-By Arrangement", EBS, 00-87, May 17, 2000, page 7.

According to the WB,³⁰ there have been important advances in sectoral and structural reforms. These have been most pronounced in (i) the enterprise sector and in the privatization of State Owned Entities (SOE's) (ii) the banking and financial sector (iii) the agricultural sector and (iv) the public sector in general.

Year	GDP Growth	Overall ¹ , Fiscal Deficit % GDP	Current Account Deficit % of GDP
1996	3.9	-3.9	-7.4
1997	-6.1	-4.6	-6.2
1998	-5.4	-5.0	-7.2
1999	-3.2	-3.5	-3.8
2000	0.9	-3.5	-3.9

According to the EU, the process towards accession is evolving in the right direction and significant progress has been achieved. However, "The Commission on Romania's Accession" has warned that, while the country fulfils the Copenhagen political criteria, "this position will need to be re-examined if the authorities" do not make additional progress on several fronts.³¹

Source: IMF, World Bank and Romanian Authorities
¹ General Government Budget (includes State Budget)

A. THE COSTS OF ECONOMIC TRANSITION

However, the "costs of transition" have been high in terms of GDP growth, inflation, real wages and employment. GDP fell for three consecutive years between 1997 and 1999; inflation has been high and remains at about 30%; real wages which fell by more than 20% in 1997, have remained stagnant and unemployment has risen continuously over the last four years (Table No. 2).

Behind these figures, there were enormous social and political tensions as well as several crisis, such as the failure of the country's largest Investment Fund (FNI) in early 2000 and the discovery of basic financial supervision flaws.

Year	Real Wages ¹	Unemployment	CPI, end of Period
1996	9.3	6.5	
1997	-21.9	8.9	
1.998	0.7	10.4	40.6
1.999	-0.7	11.5	54.8

Source: IMF, WB and Romanian Authorities

³⁰ World Bank operations have included policy-based, Balance of Payments support, infrastructure development, social sector projects and technical assistance.

³¹ See the 1999, "Regular Report from the Commission on Romania's Progress Towards Accession", page 70.

B. THE COSTS OF DELAYED ECONOMIC TRANSITION

Not only have the costs of transition have been high, but Romania has also suffered from the "costs of delayed transition". That is, by delaying transition in the early 90s, it further raised the costs of transition. According to Professor Constantin Ionette, these costs have had an "exponential rate of growth" suggesting that a more determined effort should have been made in the early 90's.³² It is worthwhile to point out that at the beginning of the decade, domestic and economic conditions may have been more favorable, as external debt was minimal and external financial support was considerable.

Although there are not many rigorous estimates of the "costs of delayed transition", Nina Budding and Sweder Wijnberger (2000) have concluded that such delay substantially increased the adjustment process. They observe that during 1992-1994 fiscal problems "were masked through shifting government expenses to the National Bank of Romania."³³ This disguised the real fiscal problem and postponed adjustment through a higher debt than there otherwise would have been.

C. THE EVALUATION IMPLICATIONS OF THE REFORM PROCESS

a) ECD Implications at the Macroeconomic Level

On the whole, the public sector in Romania remains excessively large in terms, inter alia, of public expenditure and direct governmental intervention in many markets. Table No. 3 shows that the consolidated public sector budget was over a third of GDP in 1998 and 1999.

Table No. 3 also suggests that "Special Funds" and other less transparent expenditures account for significant shares of GDP, even after social security transfers are taken into consideration.³⁴ For the year 1999 for instance, the

CONCEPT	1998		1999	
	CONSOLIDATED BUDGET	STATE BUDGET	CONSOLIDATED BUDGET	STATE BUDGET
Expenditure	35.6	21.1	36.8	20.9
Revenues	32.0	18.3	34.8	18.1

Source: Ministry of Finance, Budget for the year 2000, pages 26 and 27

Consolidated Budget is 16.7 points of GDP higher than the State Budget. This is a huge amount. In terms of the use of ECD to enhance expenditure effectiveness, these somewhat "non-budget" expenditures probably mask large inefficiencies and inconsistencies. Most likely the best strategy to deal with this large "black box" is to change the macro-institutional

³² Ionette Constantin (1999), "Introduction", National Human Development Report, Commissioned by the UNDP.

³³ Budina Nina and Wijnberger Sweder (2000) "Fiscal Deficits, Monetary Reform and Inflation Stabilization in Romania", World Bank, Policy Research Working Paper No. 2298, page 22.

³⁴ A large GDP share of public expenditure has adverse effects, inter alia, on the exchange rate, as it tends to appreciate it by changing the relative prices and incomes of the tradable and non-tradable sectors.

arrangement rather than to focus on micro procedures, measurements and supervisions. This is a key strategic consideration for the long run.

With regard to the macroeconomic reforms in the specific areas of fiscal, monetary, interest rates and exchange rates, the main ECD implications and consequences are linked to three major sources of demand for higher effectiveness.

- i) Compliance with requirements arising from agreements with the WB, the IMF, the EU and some bilateral donors.
- ii) The government's own political commitment to effectively accelerate the economic, political and institutional transition to a market economy.
- iii) The global markets in general which appraise the outcomes of the reform processes.

These broad sources of demand have specific "micro" ECD implications at the lower level of subsectors, institutions, projects, programs, management decision-making and monitoring functions, as well as on all sorts of performance measurements. In subsectors like the financial and banking one, or in the area of fiscal policy, numerous demand and supply ECD implications arise as the reforms are put in place and the respective stakeholders assume their role. The response from the authorities has by and large been a blend of changes in macro-institutional arrangement and specific changes in budget procedures.

In subsectors like the financial and banking one, or in the area of fiscal policy, numerous demand and supply ECD implications arise as the reforms are put in place and the respective stakeholders assume their role.

In the area of banking, for instance, the strengthening of prudential supervision, the tightening of accounting standards and the more rigorous supervision of prudential regulations have all led to demands for better information, for explicit and transparent incentives and for the measurement of performance.

In the area of fiscal correction, the macro-institutional reforms translate themselves into demands for micro assessments at the revenue and expenditure sides of the fiscal balance. This may mean better tax revenue administration and collection and a more rigorous evaluation of expenditure outcomes.

Another example of an ECD implication in this area is the case of arrears, which are a subterfuge to mask fiscal imbalances. Here, the search for a way to circumvent tight budget constraints leads some State Owned Enterprises to forgo transfers or to delay payments.

b) The "Demand" for Strategic Evaluations

While the reforms in process generate specific evaluation demands from different sources, it is important to keep in mind that such "assignment" of ECD implication does not mean that those demands or implications come exclusively from one par-

"One of the most important policy implications for evaluation is that its effectiveness is determined largely by how quickly and accurately it can link policy, project and program outcomes, to specific public sector characteristics".

ticular sector. Evaluation capacity development is about the effectiveness of the public sector as a whole and the way in which evaluation policies are able to enhance this result is something that can not be, ex ante, and minutely "designed". It is rather a "spontaneous order" that gradually emerges and evolves if the overall economic and political environment is propitious to that outcome. And such a propitious environment usually arises when the markets are the predominant allocators of resources.³⁵ But beyond this point of the integrality of the public sector market and of the economy in general, there is a key ECD implication of the current reform process in Romania, which must be underlined as it has direct relevance to the specific strategy that may be chosen. That policy implication is the demand for what could be called "strategic evaluations." These evaluations would respond to needs for enhanced effectiveness in relatively new areas, in particular where performance and effectiveness depend on the "right" articulation of policies, instruments and institutional arrangements.³⁶

This demand for strategic evaluations is of particular relevance to Romania where there is insufficient institutional capacity to respond to new cross sectoral problems, such as a social security system that is not exclusively governed by the public sector; or the privatization of State Owned Enterprises, where complex regulatory issues emerge; or a decentralization process based on transfers as policy instruments; or understanding the role of public sector labor unions as "rent-seekers"³⁷; or dealing with political economy restrictions as a positive input in public policy design and implementation.

These and other examples point to the very concrete need to evaluate specific "institutional packages". Eduardo Wiesner (1998) observes that: "One of the most important policy implications for evaluation is that its effectiveness is determined largely by how quickly and accurately it can link policy, project and program outcomes, to specific public sector characteristics".³⁸

c) The ECD Implications of the Pending Reforms

Just as the reform processes in place generate demand and supply responses for the enhanced use of evaluation as instruments of public sector restructuring, the pending reforms also send signals about what strategy should be used to have a

³⁵ The concepts of "human action" and "spontaneous order" were used respectively by Ludwig Von Mises (1949) and by Hayek Frederick (1945), to refer to the market processes and to the role of information and prices in delivering efficient and "spontaneous" outcomes.

³⁶ On the application of "strategic evaluations" to social spending see Wiesner Eduardo (1994), "La Eficiencia del Gasto Público Social en Colombia", *Hacia una Gestión Pública Orientada a Resultados*, Departamento Nacional de Planeación, DNP, Bogota, Colombia.

³⁷ On the role of public sector rent-seekers in thwarting reforms see Wiesner Eduardo (1997), "Transaction Cost Economic and Public Sector Rent-seeking in Developing Countries: Toward a Theory of Government Failure", in *Evaluation and Development: The Institutional Dimension*, edited by Robert Picciotto and Eduardo Wiesner, Transaction Publishers.

³⁸ Eduardo Wiesner (1998) "Introduction", *Evaluation and Development: the Institutional Dimension*, edited by Robert Picciotto and Eduardo Wiesner, Transaction Publishers.

public sector where evaluation has a greater role. As it will be seen, the public's broad demand for better results from the government leads to two more specific demands. The first is the need for better overall policy consistency and for an improved macro-institutional arrangement. The second is the need for a performance-based budget management system between the Ministry of Finance and line ministries.

Generally speaking, most of the technical literature and policy assessments of the policy performance in Romania over the last few years illustrate the costly and deleterious consequences of the lack of coherent and integral policy implementation covering both macroeconomic and structural reform. This emerges from WB policy documents, from the EU reports on progress on the accession process and from numerous academic papers.³⁹

³⁹ See, for example, Daianu Daniel (2000), "Structure, Strain and Macroeconomic Dynamic in Romania"; Stolojan Theodor (2000), "Policy Making in Romania"; and Negrescu Dragor (2000), "A Decade of Privatization in Romania". All in *Economic Transition in Romania. Proceedings of the Conference. "Romania, 10 years of Transition"*, edited by Christoph Rühl and Daniel Daianu, World Bank and Romania Center for Economic Policies.

4

THE APPRAISAL SYSTEM

The appraisal system in Romania is largely determined by the country's macroeconomic priorities. What seems to be most important at this juncture is lowering the fiscal and quasi-fiscal deficits. This overall policy framework affects the appraisal system in very direct ways. Firstly, it encourages the monitoring⁴⁰ and legal accounting of expenditures, rather than the appraisal of project or program efficiency,⁴¹ or of performance in processes. Secondly, while macroeconomic adjustment takes place, there is volatility in the budget process and large "information problems" that hinder multiyear project preparation, execution and evaluation. Thirdly, it is not easy to finance incentives to reward line ministries for rigorous appraisal procedures and for the attainment of expected results.

All this raises complex issues. If the evaluation of results is what should matter the most,⁴² then what "result" should be the priority on which evaluation should focus? Should it be on the correction of the fiscal imbalance? Or on the need to strengthen the inner appraisal system? Or on both? Although at the theoretical level the Romanian authorities probably agree that these questions are not mutually exclusive, in the short run, macroeconomic fiscal correction comes first⁴³ in terms of priorities. What is appraised is not the budget's inner project appraisal system, but the effectiveness of the external macroeconomic and overall fiscal correction.⁴⁴

But if these appraisal issues are examined from the perspective of the policy (not the project or program) level then it can be said that the macroeconomic fiscal policy objective is pursued within a solid appraisal system. This system is firmly anchored in the fiscal and

⁴⁰ See Hauge O. Arild (1998), "Evaluation Capacity Development: Lesson Learned by the UNDP", *Evaluation Capacity Development in Africa, Selected Proceedings from a Seminar in Abidjar*, World Bank and African Development Bank, page 33.

⁴¹ Efficiency refers to minimising costs while effectiveness deals with the achievement of objectives in terms of the specific or broad results expected. Other dimensions of performance deal with relevance, timeliness, value added, sustainability, equity and impact or long-term effects. See, UNDP (1997), *Evaluation Findings, 1996*, page 3. See also, Khan Adil (1991) "Monitoring and Evaluation in Malaysia", Central Evaluation Office, UNDP.

⁴² For the interface between results-based management and evaluation see, Malik, Khalid (2000) "The New Dimensions in Evaluation and Evaluation Capacity Development", *Proceedings of the Beijing International Conference, October 27-28, 1999*.

⁴³ On the importance of including the fiscal impact on project evaluation see Devarajan, S., L. Squire, and Suthivart-Narueput, (1995), "Reviving Project Appraisal at the World Bank", *Policy Research Working Paper No. 1946*.

⁴⁴ On these complexities, see Toulemonde Jacques (1999) "Evaluation Tools and Methodologies", *Proceedings of the Beijing Conference on Evaluation Capacity Development*.

monetary models of, inter alia, the IMF, the EU and the WB. It has its own inherent⁴⁵ "performance monitoring indicators" on, for example, net domestic assets, external borrowing and quasi- fiscal liabilities.

⁴⁵ On the use of performance monitoring indicators at the project level see (1996) "Performance Monitoring Indicators, A Handbook for Task Managers", Operations Policy Department, World Bank, Washington D.C. See also Cook Thomas, Van Sant Jerry and Steward Leslie (1995), "Performance Measurement: Lessons Learned for Development Management", World Development.

5

THE EVALUATION AND MONITORING SYSTEM

The analysis of the evaluation and monitoring system has to be conducted from the perspective of the main policy priorities of Romania and through the main sources of demand for reform effectiveness. As has been indicated before, those priorities are located at the macroeconomic and structural levels and are being supported principally by the WB, the IMF and the EU. This is the policy and operational context that determines the specifics of the monitoring and evaluation activities. This distinguishes, in relative terms, the particular case of Romania vis a vis other countries. It is a characteristic that has to be kept in mind throughout the examination of ECD activities in Romania.

This means, inter alia, that such important aspects of ECD as data collection, decentralization, debt monitoring, participatory issues and use of evaluation findings to change policies, are more relevant at the macroeconomic and structural levels than at the line ministry level or even with regard to the budget relationship of these ministries with central ministries. In terms of the sources of demand for ECD this means that multilateral institutions play a major role together with central ministries and overarching institutions like the National Bank of Romania, the "Economic and Financial Coordination Council" and the Ministry of Finance.

But awareness of this policy framework is not tantamount to condoning it fully, as the main source of internal and external imbalances has been budget mismanagement at the sectoral levels. Analytically it is clear that overall public sector performance is the combined result of effective management both at the macroeconomic level and at the micro-sectoral line ministry level.

⁴⁶ For a comparison with Latin America countries, see Wiesner Eduardo (1993), "ECD and Public Sector Reform in Latin America", Regional Seminar in Monitoring and Evaluation, Quito, Interamerican Development Bank.

⁴⁸ Wiesner Eduardo, (1993), examines the relationships between public sector reform, macroeconomic correction and ECD in his "From Macroeconomic Correction to Public Sector Reform: The Critical Role of Evaluation", World Bank, Discussion Paper No. 214.

Precisely for these two reasons, the strategy for ECD that is recommended focuses not only on the macroeconomic and structural levels but also on the micro-project and program evaluation dimensions. In brief, the review of the monitoring and evaluation system has to start at the macroeconomic and structural level and proceed from there to the line ministries, to sectoral levels and conclude at the local decentralized level.

A. MONITORING AND EVALUATION AT THE MACROECONOMIC LEVEL

At the macroeconomic level there is substantial demand for the monitoring and evaluation of the key variables that determine results in terms of fiscal and monetary corrections. Because of its own particular nature, this macroeconomic evaluation of performance is more the responsibility of central ministries and organizations like the National Bank of Romania, the Economic and Coordination Council and the Ministry of Finance, than that of line or sectoral ministries. Data collection, integration of evaluation findings with decision-making processes and participation of different actors, emerges from and converges to macroeconomic processes and results.

B. MONITORING AND EVALUATION AT SECTORAL AND LINE MINISTRY LEVEL

At the sectoral and line ministry level there is also substantial demand for monitoring and evaluation as it is clear to most policy makers involved that structural reforms are the complement to macroeconomic corrections. Here, the micro-evaluation of projects and programs is often more specific than at the macroeconomic level. When privatization targets are agreed, or when civil service reform is designed, or when the reduction of "special funds" is implemented, then there is widespread and in-depth utilization of monitoring and evaluation techniques.

C. MONITORING AND EVALUATION AT THE LOCAL DECENTRALIZED LEVEL

The utilization of monitoring and evaluation methodologies at the decentralized level is taking place largely under the "National Agency for Regional Development", NARD,⁴⁸ and through the EU's PHARE programs. As was indicated in Chapter IV, the contribution of the EU is very positive, and it has built into all its projects the key elements of project preparation, execution and evaluation.

⁴⁸ The National Agency for Regional Development is the central body supported by eight regional Development Agencies. The National Agency for Regional Development is a legal entity subordinated to the Government under the authority of the National Board for Regional Development chaired by the Prime Minister. Romania is divided into eight 'development regions' in order to create the appropriate framework for the implementation of regional development policies. Within each of the eight regions both a Regional Development Board and a Regional Development Agency have been established. The Regional Development Boards decide on the regional development plans, programs and projects including the allocation of funds. The Regional Development Agencies are non-governmental bodies which implement the regional plans and the decisions of the Development Board.

6

BASIC POLICY DIAGNOSTIC

The underlying thread running through most of the technical studies conducted on the reform process in Romania is the lack of policy consistency in the implementation of macroeconomic corrections and structural reforms. This is a permanent theme found in WB reports,⁴⁹ in IMF reviews,⁵⁰ in EU documents,⁵¹ in academic papers by Romanian and non Romanian scholars ⁵² and in interviews with key public officials ⁵³ at all levels of government. Also, within the Romanian civil, technical and political population this same assessment has emerged formally in documents like the "Medium Term Strategy 2000-2004" and in other policy papers.

This basic diagnostic surfaces in several forms. It often comes up directly, as when the need for a more consistent design, implementation and evaluation of policy effectiveness is demanded. At other times, it appears indirectly or tacitly, as when experts and scholars clamor for different policy results and outcomes, but without explicitly identifying the original source of the results observed. Notwithstanding the different analytical causalities involved, or assumed, most observers conclude that more "policy coordination" is needed.

⁴⁹ Several World Bank loan documents and policy papers.

⁵⁰ See IMF Reviews and government of Romania Letters of Intent.

⁵¹ See (1999) EU "Progress Report on Accession".

⁵² See Daniel Daianu (2000), "Structure, Strain and Macroeconomic Dynamic in Romania"; Sandor Dorel (2000), "Politics Versus Policies"; Stolojan Theodor (2000), "Policy Making in Romania"; Negesen Dragos (2000), "A Decade of Privatization in Romania". All in *Economic Transition in Romania*, edited by Rühl and Daianu, *Proceedings of the Conference: "Romania 2000, 10 year of Transition."* The World Bank and the Romanian Center for Economic Policies.

⁵³ At the ministerial level officials like Valentin Lazea, M. Ciumara, and others, are fully aware of the importance of this problem. Just in September 2.000 a new Directive from Economic and Financial Coordination proposed a "Commission for the updating and the monitoring of the application of the National Strategy for Economic Development".

While it is true that more policy coordination and consistent implementation is needed, one must ask whether this really is the main problem. Or is it rather that there are numerous interpretations of what "policy coordination" means and, as a result, a number of measures to correct this flaw turn out to be insufficient, short lived and fail to deliver the expected outcomes.

Without delving into the specifics of the relationships between policy consistency, policy coordination and institutional arrangements to configure a policy framework, it can be said that "policy coordination" is much more than the resolution of interministerial conflicts through "coordination" committees. It includes a detailed policy context where explicit budget, policy, institutional⁵⁴ and even constitutional⁵⁵ restrictions have been agreed upon before the specific conflicts and adjustment needs arise.⁵⁶ The emphasis must fall more on the restrictions that need to be reconciled than on the objectives that may seem desirable. It must also include a policy framework in which the costs of policy trade-offs are quantifiable and where information on "transmission mechanisms" and counter-factual scenarios can be derived.

While commendable reform efforts have been made in Romania and this issue of "policy consistency" has not been neglected,⁵⁷ one of the basic conclusions of this Report is that a different institutional approach is needed. This will involve moving away from incomplete perceptions of the "coordination problem" and coming to grips with the determinants and specifics of the relationships between macroeconomic corrections, structural reforms and financial programming.

⁵⁴ Chibber Ajay (1998), "Institutions, Policies and Development Outcomes", *Evaluation and Development: The Institutional Dimension*, edited by Picciotto and Wiesner, Transaction Publishers.

⁵⁵ Buchanan James (1991), "The Economics of Constitutional Order", The University of Michigan Press.

⁵⁶ Rawls John (1971), in "A Theory of Justice", develops the concept of the "veil of ignorance" behind which welfare enhancing results are the more likely policy outcome.

⁵⁷ See, for example, the initiative of the "Economic and Financial Coordination Council" in September of 2000 (Annex No. 9).

7 THE DETERMINANTS OF THE STRATEGY

The design of the strategy for the enhancement of evaluation capacity development in Romania emerges from a combination of the following four elements: (i) the demands for improved public sector performance (ii) the specific sources and characteristics of those demands (iii) the restrictions affecting both public sector performance and the development of effective evaluation of that performance (iv) the feasible options which flow out of the broad policy and institutional context.

In the particular case of Romania, the aggregate demand for improved government performance comes from three major sources: (i) the government itself (ii) the multilateral institutions and the markets (iii) a wide spectrum of civic society which wants to see the economic transition completed and accession to the EU move forward on schedule. More specifically, this broad demand content translates itself into derived demands for more effectiveness at (i) the macroeconomic level (ii) at the micro-sectoral program and project level and (iii) at the regional and municipal local levels.

Since these last three levels are configured in an institutional and a policy reform context, there is also demand for improved performance and for more effective evaluation capacity from the macro institutional arrangement.

In a country like Romania where about 80% of its GDP used to be allocated through public choices rather than through markets choices, there was little room for evaluation and for the measurement of performance. But under the current process of public sector downsizing, evaluation can play a major role and contribute to that restructuring process. It can also be an outcome of it. In fact, evaluation can become an active input and output of the whole macro-economic and structural reform process.

⁵⁸ Markets or proxies of markets can be used within public sectors. It is not then a question of the size of the public sector but of the modalities through which resources are allocated.

⁵⁹ According to Hayek the public market's main limitation would be information. For an interesting review of the relationships between knowledge, economics and markets see Horwitz Steven (2000), "From the Sensory Order to the Liberal Order: Hayek's non-rationalist Liberalism", *The Review of Austrian Economics*, Vol. 13, No.1, page 29.

The strategy for the enhancement of public sector effectiveness and of ECD has to be designed from the perspective of this interaction. It has to find its strategic place to enhance the overall reform process, and it has to flow out of it with growing strength and applicability.

8

EVALUATION AS A MARKET SURROGATE IN THE PUBLIC SECTOR

Within public sectors, budget resources flow somewhat autonomously within ministries and agencies, hopefully within a fiscal restriction or a hard budget constraint. The evaluation of results and of performance in general is not a pre-condition for that flow of resources to take place. In the private markets, that evaluation is conducted autonomously by competition. The challenge then for a strategy to enhance governmental effectiveness is to develop a market surrogate within the public sector.⁶⁰ That surrogate could be (i) a macroeconomic and institutional framework that induces competition for resources and (ii) specific micro-institutional arrangements where the evaluation of results (and the results of evaluation) render access to resources.

⁶⁰ Picciotto Robert (1995), observes that "evaluation is to the public sector what accounting is to the private sector. It displays a bottom line". See his "Participation and Evaluation".

9

THE INSTITUTIONAL DIMENSION OF EVALUATION

It is now widely accepted that institutions and collective rules "matter" in fundamental ways in explaining long-term economic prosperity and social development in countries with different factor endowments.⁶¹ Within this context two questions arise for the specific case of Romania:

- a) What macro-institutional arrangement would be more conducive for enhancing the effectiveness of public policies?⁶²
- b) What specific ECD configuration would improve sectoral, program and project effectiveness, as well as feed back performance information⁶³ to the macro-institutional arrangement?

The answer to the first question is that such macro institutional arrangement should contain: (i) a market-oriented overall macroeconomic policy framework and (ii) a hierarchy⁶⁴ of decision-making rules to enforce the application of consistent public policies.

The answer to the second question is that specific and significant incentives have to be built into the overall budget process to induce performance evaluations and to reward results and effectiveness at the sectoral, project, program and public entity level. This may already be starting in the form of the "Planning, Programming and Budgeting System" that the Ministry of Finance and the U.S. Treasury have agreed to develop.

⁶¹ Several Nobel prize winners in economics argue that they do "matter". See, for example, Coase R. (1960), Buchanan James (1990), North Douglas (1981,1990,1993).

⁶² This question flows from Oliver Williamson (1996) and many others who assert that the macro institutional arrangement is the main determinant of efficient outcomes. "The Mechanisms of Governance", Oxford University Press.

⁶³ See Annette Binnendijk (2000) for insightful clarifications on the nuances between performance budgeting, performance information and managing for results. "Results Based Management in the Development Cooperation Agencies: A Review of Experience", Proceedings of the Being Conference on Evaluation Capacity Development, October 27-28, 2000.

⁶⁴ On the role of hierarchies in assigning resources, see Oliver Williams (1975), "Markets and Hierarchies", The Free Press.

⁶⁵ Most experts agree on the importance of incentives in ECD systems. A group of high-level experts (May Ernesto, Holmes Malcolm, Peter Scott, Graham Matry Harry, Andersson Neil) when examining the evaluation system of Colombia (called SINERGIA), insisted in the critical relevance of incentives. See "Colombia: Paving the way for a Results Oriented Public Sector", World Bank, Report No. 15300-CS, October 22, 1996.

10 THE OVERALL INTEGRATING REFORM STRATEGY

The strategy for enhancing ECD starts by recognizing the intensive reform context that is currently taking place in Romania and aims at becoming an integral part of it. This involves responding to performance enhancement needs at the macro-economic and structural level as well as at the micro-sectoral and program level. The ultimate objective of this comprehensive strategy is for these two processes to reinforce each other, to inform each other, and to interact to nurture a self regulating interplay between markets, institutions and organizations. This is the key trilogy ⁶⁶ needed for the successful implementation of the strategy.

At the macroeconomic level the strategy proposes an institutional arrangement ⁶⁷ that, by its own configuration, induces assessments and various modalities of evaluation related activities. At the micro-sectoral and program level the strategy proposes the further development of mainstream evaluation methodologies particularly in the budget relationships between the Ministry of Finance, line ministries and some subnational public sector entities.

In brief, evaluations would emerge "spontaneously" from the macro-institutional arrangement. They will also flow "upwards" from the sectoral and project level to that macro-institutional framework to feed it specific sector, program and project performance information. The critical element is the interaction between these two processes.

This strategy combines principles of institutional economics ⁶⁸ with specific evaluation techniques and instruments. The underlying and organizing principle is that incentives and

⁶⁶ This trilogy concept is a tight synthesis of a vast academic literature that distinguishes between (i) macro-institutional arrangements, (ii) organizations and (iii) institutions as rules and hierarchies. On these topics see North (1986) Williamson (1996) Buchanan (1991).

⁶⁷ A world authority in institutional economics Oliver E. Williamson (1996) defines institutional arrangements as "the contractual relation or governance structure between economic entities that defines the way in which they cooperate or compete". See his "The Mechanisms of Governance", Oxford University Press.

⁶⁸ This strategy takes Northian postulates one step further and applies them to the specific case of evaluation. See Wiesner Eduardo (1998), "Transaction Cost Economics and Public Sector Rent-seeking in Developing Countries; Toward a Theory of Government Failure", Evaluation and Development, edited by Picciotto and Wiesner, Transaction Publishers.

"performance information" at both levels will reward their interaction and gradually strengthen evaluation of effectiveness across the public sector as a whole.⁶⁹

TABLE No. B THE COMBINED STRATEGY FOR ENHANCING ECD AND PUBLIC SECTOR EFFECTIVENESS			
Sources of Demand for Enhanced effectiveness	Targeted Policy Areas	Combined Strategy	
		Institutional A	Budget Specific B
A. Government of Romania	A. Macroeconomic and structural reforms	A. Elevate current Economic Council to the Prime Minister's Office and create a permanent Technical Secretariat to design consistent short and medium term macroeconomic programs and oversee its implementation	A. Expand PPB system to the whole public sector
B. World Bank	B. Sectoral consistency		B. Introduce explicit incentives for budget effectiveness
C. International Monetary Fund	C. Fiscal correction		
D. European Union	D. Budgeting for results		C. Hold courses, seminars and workshops to enhance the supply side of "in-house" evaluation capacity within the Ministry of Finance and line ministries
E. Bilateral Donors	E. Decentralization		
F. Global Markets	F. Social safety net	B. Create a Program of Strategic Evaluations	

Note: Columns A and B are interdependent

⁶⁹ See Wiesner Eduardo (2002), for a discussion on the linkages between incentives and demand-driven evaluation capacity development. See his "Incentives and Evaluations in Incomplete Poverty and Decentralization Markets: Some Cross-Cutting Issues", UNDP-DFID, Oxford Conference, September 25-26. Forthcoming

11

RECOMMENDATIONS TO IMPLEMENT THE STRATEGY

In order to effectively implement the strategy, certain recommendations should be followed. Firstly, elevate the current "Economic and Financial Coordination Council" to the Prime Minister level. Within the institutional framework of an "Enhanced Economic Council", create or strengthen a Technical Secretariat to conduct, on a permanent basis, the following four main tasks:

- (i) Formulate the overall macro-economic short and medium term policy framework.
- (ii) Determine the "Yearly Operational Work Program" in terms of fiscal, monetary, interest and exchange rate parameters.
- (iii) Exercise surveillance over intersectoral consistency in policy implementation.⁷⁰
- (iv) Conduct or contract through outsourcing arrangements, on a regular basis, studies on medium term strategic problems related to the economic transition and to EU accession.

Secondly, within the institutional framework of the Ministry of Finance and mainly through its Budget Department, expand to all line ministries and main public agencies the current "Planning, Programming and Budgeting System", PPB, that is being developed with the support of the U.S. Treasury Department.

Thirdly, establish a 3-5 year "Program of Strategic Evaluations" in critical policy areas where policy problems are most complex and where political economy restrictions are most severe.⁷¹ This program would be designed with the collaboration of and carried out

⁷⁰ The markets will conduct the ultimate evaluation of policy results. This surveillance function is a previous phase similar to a self-evaluation of performance.

⁷¹ It is interesting to observe that Ray Rist (2000), recommends that the Peoples Republic of China should have a central organization that "would carry out independent evaluations for state financed key projects ... report evaluation findings ... and disseminate evaluation results". See his "Evaluation Capacity Building in the Peoples Republic of China: Trends and Prospects", Proceedings of the 1999 Beijing Conference.

by an independent "Research Advisory Board"⁷² composed of universities, research centers and academic organizations both inside and outside Romania. These three recommendations seek to convert public demand for more government effectiveness and for enhanced evaluation into a legal mandate and to strengthen the supply side of evaluation. Research centers and universities would be able to program for at least 3 years, retain or obtain highly qualified professionals and become more involved in public policies from an academic, teaching and research perspective.⁷³ Given these characteristics, it is reasonable to assume that multilateral institutions and the EU could become interested in supporting and participating in this strategy.

This combined macro-institutional and sectoral approach does not exclude local governments. There is certainly ample room for ECD in their respective realms.

⁷² The Chilean experience could offer valuable insights in this area. See Marcel Mario (1998).

⁷³ The World Bank is already pioneering in this approach of evaluating broad and complex issues, like poverty reduction. See Feinstein Osvaldo and Picciotto Robert (2000), "Evaluation and Poverty Reduction", World Bank, Operations Evaluation Department, OED. Proceedings from the World Bank Conference, Washington D.C.

12 THE POLITICAL ECONOMY RESTRICTIONS

It would be naive to assume that all this strategy needs to become effective policy is to be technically solid. This would hardly occur even in the best of circumstances.⁷⁴ In the case of Romania, the existing circumstances are very restrictive. The "losers" and "winners" of the reform and accession processes are interacting in a very fluid political context which at best has yielded coalition governments⁷⁵ and at worst, ambiguous and contradictory measures and policies.⁷⁶

Political fragmentation within even the government's coalition has been blamed for the lack of sufficient policy consistency and this may be true to some extent. What remains in doubt is whether the consistency flaw also comes from an institutional frailty, namely, the lack of a full fledged "Technical Secretariat" at the Prime Minister's level to conduct, on a permanent basis, the overall macroeconomic and structural programming and to oversee and enforce its implementation. In other words, while the technical solution for improved policy effectiveness may not be sufficient, it is possible that the political constraints may have been unwittingly exaggerated, and thus little opportunity has actually been given to a better institutional arrangement.

Nevertheless, it would be a mistake to underestimate the deleterious effects arising from the current constitutional framework, which since the early 90's have restricted the convergence of the political and economic markets. This is a key factor that should always be kept in mind. Since 1990 Romania has had eight Prime Ministers.⁷⁷ This raises the obvious questions of "how could a consistent economic policy be implemented within such political instability? "What political incentives could be perceived by politicians and by

⁷⁴ Anthony Downs (1956) "The Economic Theory of Democracy", Harper Collins Publishers. Rodrik Dany (1996), "Understanding Economic Policy Reform", *The Journal of Economic Literature*, March. Alesina Alberto and Drazen Allen (1991), "Why are Stabilizations Delayed?", *The American Economic Review*, 81.

⁷⁵ For an excellent analysis of the interaction between politics and policies see Sandor Dorel (2000), "Politics versus Policies: How to Succeed in Blocking Reforms" *Economic Transition in Romania*, edited by C. Rühl and Daniel Daianu.

⁷⁶ The importance of the interplay between "losers" and "winners" of the reform process was underlined by Secretary of State Valentin Lazea. For the specific case of economies in transition see, Fischer Stanley, and Sahay Ratna (2000) "Economies in Transition: Taking Stock", *Finance and Development*, September.

⁷⁷ Petre Roman (1990-1991), Teodor Stolojan (1991-1992), Nicolae Vacaroiu (1992-1996), Victor Ciorbea (1996-1998), Radu Vasile (1998 December 1999), Alexandru Atanasiu (interim, 10-25 December 1999), Mugur Isarescu (December 1999 end 2000) and Adrian Nastase, current Prime Minister.

political parties to support technical solutions that do not yield results in the very short term?"

This suggests that a macro-institutional change may need to be contemplated to reform the Constitution and to assure that a government and a president which have obtained political legitimacy through the polls, are also given the minimum political stability and support to maintain consistent policies throughout their four year mandate. Perhaps the time has arrived for Romania to move away from the fear of losing democratic governance and to deal with the need to protect democracy through faster economic growth and rising income and employment.

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