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US\$1	=	ROL 32,070

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ABBREVIATIONS AND ACRONYMS

CEB	:	Budgetary Execution Center
EU	:	European Union
GDP	:	Gross Domestic Product
JEI	:	Judets Education Inspectorate
JHIH	:	Judets Health Insurance House
JSIPH	:	Judets State Inspectorates for Persons with Handicap
LLPF	:	Law on Local Public Finance
LSSD	:	Local Social Services Delivery
MAP	:	Ministry of Public Administration
MIG	:	Minimum Income Guarantee Program
MMSS	:	Ministry of Labor and Social Solidarity
MOE	:	Ministry of Education
MOF	:	Ministry of Finance
MOH	:	Ministry of Health
MTSAB	:	Means Tested Social Assistance Benefit
NGO	:	Non Government Organization
PHD	:	Primary Health Directorates
RSDF	:	Romanian Social Development Fund

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Chapter 1: Introduction and Context

1.1. Local Services and Decentralization in Romania

Local governments in Romania are increasingly involved in the delivery of social services. They are financiers of education and social assistance services, direct providers of cash benefits, property owners and managers of health facilities, soup kitchens and institutions for the elderly, employers of participants in public works programs and contractors of social assistance services. Implicit in these roles, local governments are responsible for critical decisions affecting social services, including setting policy priorities through the allocation of resources across and within sectors, defining the types of services offered in the locality, and determining eligibility of beneficiaries to receive benefits or participate in programs.

Increasing involvement of local governments in social service delivery is closely related to the overall process of decentralization which has been unfolding in Romania. Throughout the mid-nineties, Romania has remained one of the most centralized states in Central and Eastern Europe. However, recent developments, including the adoption of new legislation on intergovernmental fiscal relations and property ownership have accelerated the decentralization process. In particular, the adoption of a new Law on Local Public Finance in October 1998 provided for a significant restructuring of fiscal authority of public service provision. The Law fundamentally changed local public administration in Romania by expanding local financing and administrative responsibilities. The Law transferred authority for the financing of aspects of many social services, including education, social assistance, and social services such as housing and community services to local governments.

Romania's new government, which took over in December 2000, identified public administration reform across levels of government as a central objective. The government's program calls for an acceleration of public administration reforms and decentralization, and plans for further allocation of responsibilities for the delivery and financing of public services to local governments. Specific policy measures include strengthening and simplification of the legislative framework for financing local governments, measures to professionalize the civil service and changes to administrative arrangements (Government of Romania, 2000).

Objectives of the Study

In light of the potential for further decentralization in Romania, this study was initiated to understand the implications of increasing local government autonomy for social service provision in Romania, and to document early developments in the process to identify areas where course corrections may be necessary and possible. It examines the changing institutional context for service delivery, fiscal trends and reforms in the social sectors from different perspectives: including local government administrations, central government agencies at the national and local level, social service institutions, NGOs, as well as the beneficiaries themselves. The study is based upon analysis of diverse data sources, including national level survey and administrative data, and in-depth case studies of local governments in five judets and Bucharest.

The study seeks to identify institutional and procedural factors which may facilitate or impede the effectiveness of social services and intergovernmental fiscal arrangements. Existing

research on decentralization indicates that the success of decentralized service delivery depends on an important set of factors including:

- (i) the quality of intergovernmental institutions, including clearly defined roles and responsibilities, incentives, accountability, public participation and transparency;
- (ii) a stable fiscal framework, including well aligned expenditure and revenue raising responsibilities, feedback mechanisms between the central and local governments, and local government capacity; and
- (iii) civil society and social structure.¹

Data for the study were collected for this study between June and November 1999, a period which coincided with the first year of the implementation of the Law on Local Public Finance. As a result, the study took place in a dynamic policy context, with some aspects of decentralization moving faster than others, and the entire administrative organization of the country under review. This naturally complicated analysis and required a creative mix of quantitative and qualitative approaches.

New developments in local public finance, and more specifically within the social sectors, have taken place since the data collection and fieldwork for the study were completed. The analysis included in the report is restricted to the period addressed by the study, and the recent changes are largely not included. Lessons from the first phase of decentralization have implications for the future and provide guidance for subsequent reforms.

The study is divided into two volumes. Volume 1 provides an overview of the issues, summarizes the major findings, and presents policy options.² Volume 2 includes the detailed discussion and analysis, and presents the empirical underpinnings of the report. Volume 1 begins with a discussion of the current status and future of decentralization in Romania, and then discusses issues and potential actions. Although there is substantial overlap among the main themes, the discussion centers around three strategic objectives: (i) stable intergovernmental institutional arrangements; (ii) an effective fiscal framework; and (iii) improved service delivery.

***How decentralized should Romania be?*³**

A central question facing Romania and other countries in Central and Eastern Europe is how far decentralization can and should proceed. Although there are many arguments for and against decentralization, stemming from political and economic theory, there are no easy answers and analysis of the impact of decentralization to date is inconclusive and country specific.

¹ See Afzar and others, 2000.

² Many of the policy recommendations discussed below emerged from discussions with government officials and donors during the LSSD workshop held in Bucharest in July 2000. The findings are summarized in a policy matrix which follows the chapter.

³ "Decentralization" in this report is defined as involving the shift of authority and/or financial resources from higher- to lower-tier governments. There are different types of decentralization, including (i) deconcentration, in which lower levels of government (e.g. regional or municipal) execute functions on behalf of the central government without having decision making authority; (ii) delegation which occurs when the central government transfers decision making over certain functions to relatively autonomous local governments, which have limited autonomy and are ultimately responsible to the central government; and (iii) devolution which involves the complete transfer of decision making over finance and management of public services to quasi-autonomous local government units. Further discussion is included in Volume 2 of the study.

Ultimately, decisions regarding the degree of decentralization will be made at the country level. Experience from other countries, as well as lessons from Romania to date indicate the importance of having an overall strategic vision for decentralization.

The strategy should address the key factors related to the creation of stable institutions and an effective fiscal framework which have the potential to influence the success or failure of decentralization. The recommendations following from this report focus on the implications of increasing decentralization for the social sectors. However, the overall success of decentralization must be considered in a broader context, including the institutional and macroeconomic context and the quality of public administration in general.

Decentralization in Romania is likely to proceed in coming years for a number of reasons. First, based upon physical and demographic characteristics, Romania has a proclivity toward greater decentralization. Another important force driving decentralization in Romania and neighboring countries in Central and Eastern Europe is the European Union accession process. EU policy on the role of local governments is contained in the European Charter of Local Self-Government, which was adopted in September 1988. The Charter emphasizes the role of local governments in public policy. It requires that the powers of local governments be recognized in national constitutions and establishes the principle of 'subsidiarity,' by which public responsibilities are to be carried out by those officials closest to the people. The Charter also calls for local governments to have access to adequate financial resources to carry out their responsibilities, and provides for fiscal equalization across local government entities (Wetzel and Dunn, 1999). Outside of the Charter, EU policy on decentralization and regional development is also driven by aspects of *the acquis communautaire* which address local issues in different sectors, as well as the distribution of EU structural funds.

A coherent and effective approach to decentralization is also central to Romania's overall development agenda.⁴ Stable intergovernmental institutions, enhanced governance and an effective public administration are essential for a well functioning market economy. Institutions provide the framework for market reforms and are critical for ensuring macroeconomic stability. To date decentralization has largely been employed as a fiscal management tool to offload expenditures from the central government budget to lower tiers. The central government has also attempted to manage potential fiscal risks of decentralization by maintaining controls on local government financing, through frequent changes to the State Budget Law and to the process for allocating intergovernmental transfers. While these measures may be necessary during times of fiscal crisis when institutions are not well developed, over the longer-term Romania needs to have a stable intergovernmental fiscal framework with clearly defined rules and incentives which ensure predictable fiscal practices for central and local governments alike.

⁴ See the World Bank Country Assistance Strategy (CAS) for Romania, June 19, 2001.

Box 1.1: Local Governments in Romania

Local governments in Romania consist of judets (counties), and local councils which are comprised of: municipalities (*municipiu*), towns (*oras*) and communes (*communa*), consisting of one or more villages. In 1996, there were 41 judets, including the General Municipal Council of Bucharest, 79 municipalities, 182 towns and 2,682 communes in Romania. Municipalities, towns and villages all have the same legal authority and administrative structure, the distinction between these different types of local councils is historical and geographic.⁵

Legislation passed in 1999 puts all forms of local government on an equal footing. There is no hierarchical relationship between judets and local councils, other than for the distribution of specified budget transfers which are made by judets to local councils. Throughout this report 'local governments' refers to all judets, municipalities, towns and communes, 'judet councils' refers to county administrations, and 'local councils' refers to the administrations of municipalities, towns and communes.

Local Government Involvement in Social Services

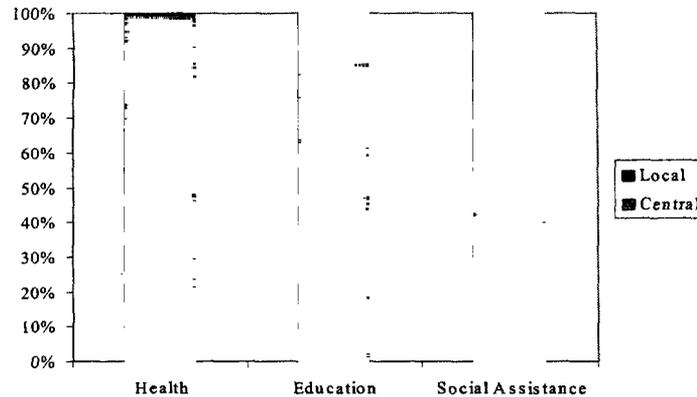
Social services are affected by the new legislation and the decentralization process in general. Local governments have become responsible for financing nearly all social assistance benefit programs and services, including orphanages and homes for the elderly, as well as an increasing share of education expenditures. Local governments also have responsibility for delivering benefits, managing social assistance institutions and contracting services with NGOs.

The shifting of authority over financing to local governments implies changed incentives in budgeting and system management, such as personnel policy and capital investments, for central and local governments, sectoral ministries and the service agencies themselves. Changed incentives and accountabilities also require a need for greater administrative capacity at the local level, as local governments assume responsibility for processes which were formerly under the jurisdiction of the central government.

The level of local government involvement in financing social services varies across sectors (Figure 1.1). Social assistance and education, have been most notably affected by the transfer of financing and administrative responsibility to local and judet councils. Social assistance cash benefits and services are financed out of local budgets and local governments retain responsibility for establishing and managing services. Local government financial involvement in the education sector is also increasing. Local governments have been responsible for most expenditures in the sector, the main exception being personnel costs – which were transferred to local governments in 2001.

⁵ The only distinction is that municipalities may include elected bodies in sectors, as in the case of Bucharest, which is subdivided into 6 sectors. However, the implementation of this provision requires adoption of a special law. Other than Bucharest, none of the other municipalities are organized in sectors.

Figure 1.1: Responsibilities for Financing the Social Sectors, 1999
 (% of total spending in the sector)



Sources: LSSD database; IMF

Of the three areas of social service provision, the direct role of local councils in health care is the most limited, because of the introduction of national health insurance in 1997. Health insurance funds at the judet level now finance the majority of health care costs through contracting arrangements with physicians in local clinics. The future role of local councils in health care is likely to be limited, but may emerge in certain areas including ownership of local health facilities and recruiting physicians into the locality.

This study focuses on the public social services where local governments play the greatest role – social assistance and education. The study addresses those cash benefits which are delivered and financed by local governments. This includes birth grants, emergency assistance, and most importantly, the main poverty alleviation program, the means-tested social assistance benefit (MTSAB).⁶ It does not address social insurance benefits such as pensions and unemployment benefits, or universal benefits paid centrally such as family allowances. In education, the study focuses on primary and secondary education, but does not address specialized secondary education which is under the purview of central ministries, or post-secondary and university education. Because of the limited role of local governments in health care, health receives more limited attention throughout the report.

All of the reforms discussed above have significant implications for intergovernmental institutional relations and the roles and the responsibilities of central and local government in service provision. Indeed, the success of the reform efforts will depend on the effectiveness of institutional arrangements, the presence of clearly defined roles and responsibilities, functioning incentive structures and smooth information flows across levels of government. The next three chapters describe the changes underway, in the context of the overall increase in local government autonomy, the implications for service delivery and the salient policy recommendations.

⁶ Throughout the paper the current version of the means-tested social assistance benefit program is referred to as MTSAB. New legislation approved by the government in 2001 will restructure the program and rename it as the Minimum Income Guarantee program (MIG). This term is used to describe the future program.

Chapter 2: Strengthening the Fiscal Framework

2.1. Fiscal Context for Decentralization

The autonomy of local governments in Romania has increased notably since the fall of the communist regime. A package of legislation related to local governments adopted beginning in 1998 expanded the responsibilities of judet and local councils in finance, property ownership and other areas. However, in many respects fiscal decentralization in Romania has been incomplete. Although local governments have received increased responsibilities, aspects of the intergovernmental system remain centralized, and local governments lack the capacity, or authority, to perform their new functions. The highly centralized nature of the Ministry of Finance and other government agencies also limit local authority and perpetuate subordinate relations between the national and local levels of government.

Recent legislative reforms have fundamentally changed intergovernmental fiscal relations and the structure of the finances of communes, cities, municipalities and judets. In particular, the Law on Local Public Finance, adopted in 1998, put local finances and the local budget process on an equal legislative basis with those of the national government. The law addresses basic principles of fiscal decentralization including:

- (i) the alignment of expenditure responsibilities between the various levels of government;
- (ii) taxation responsibilities (setting, collection, administration) of local governments;
- (iii) transfers from the central government to local governments; and
- (iv) the borrowing power of local governments.

Amendments to the Law on Local Taxes and Fees authorized in 1997 and 1998 greatly expanded local control over their own revenues and authorized local councils to administer their own taxes. The Law on Public Patrimony, also adopted in 1998, created the basis for ownership by the local and judet councils of property associated with the functions they perform. This chapter provides an overview of the impact of these legislative changes – and particularly the adoption of the new Law on Local Public Finance (LLPF).

Developments in Local Finance

Fiscal decentralization in Romania has progressed for a number of important reasons: including the overall shift from centralized planning, and the commensurate transfer of increasing political and economic responsibility to lower levels of government. Fiscal decentralization has also been driven by the severe fiscal crisis associated with transition. Macroeconomic decline during the past decade in Romania has been dramatic. Aggregate GDP fell 18.9 percent between 1991 and 2000, among the deepest in Central and Eastern Europe. Following an initial drop in the early 1990s, GDP growth resumed between 1991 and 1996, and fell again in 1997 with delays in structural reforms (Table 2.1.). These declines have been accompanied by a persistent fiscal deficit.

Table 2.1: Main Macroeconomic Indicators

	1995	1996	1997	1998	1999	2000
GDP growth (%)	7.1	3.9	-6.1	-5.4	-3.2	1.6
GNP per capita (US\$-Atlas method)	1,400	1,450	1,420	1,430	1,520	1,640
Current Account Balance (US\$ million) ¹	-1,732	-2,611	-2,360	-3,112	-1,302	-1,200
Current Account Balance (% of GDP)	-4.9	-7.4	-6.7	-7.5	-3.8	-3.4
General Government Budget Balance (% of GDP)	-3.4	-4.8	-5.2	-5.5	-3.8	-3.8
Inflation (CPI, y-o-y % change)	32.3	38.8	154.8	59.1	45.8	45.7
Unemployment rate (%) ²	9.5	6.6	8.9	10.4	11.5	10.5

1) Excluding non-convertible currencies.

2) As percent of total active civil population.

Source: World Bank, 2001a; Romanian National Commission for Statistics, 1999.

The need to confront the budget shortfall provided an incentive for the government to shift increasing expenditure authority to lower levels of government. The LLPF, in particular, expanded local fiscal responsibilities in the areas of social assistance and education.

Implementation of these changes has been difficult, as local governments have lacked the fiscal capacity to assume their new responsibilities. Transfer of expenditure responsibilities has taken the form of unfunded mandates – especially in cases when responsibilities for financing budget items have been introduced during the fiscal year – after the State Budget Act was already passed. An example in 1999 was the shift of student scholarships for low income students – which were then transferred back to the central government in 2000.

Although local government fiscal responsibilities have increased, between 1996 and 1999 local expenditures and revenues have fallen as a share of GDP and in real terms (Table 2.2). During the same period, real local government revenues decreased at a faster rate than GDP. Funds received by local governments from the state budget decreased in 1998 relative to 1996 and 1997. Amendments to the Law on Local Taxes and Fees – which adjusted tax rates to inflation – attempted to address this imbalance, and revenues from local taxes and fees increased in real terms in 1998 relative to 1997.

The need to confront the budget shortfall provided an incentive for the government to shift increasing expenditure authority to lower levels of government. The increase in local government fiscal autonomy has taken place in a context of macroeconomic decline, and local government revenues declined steadily between 1996 and 1998, both in absolute numbers as well as a share of GDP (Table 2.3). Central government transfers to local governments budget decreased in 1998 relative to 1996 and 1997. However, revenues from local taxes and fees increased in real terms in 1998 relative to 1997. This reflects the initial impact of the amendments to the Law on Local Taxes and Fees adopted in 1997 and 1998, that adjusted rates to inflation.

Table 2.3: Selected Fiscal Indicators					
	1996	1997	1998	1999	2000
billion lei					
GDP	108,391	252,926	368,261	521,736	796,534
Total Government Expenditure	36,810	85,639	131,123	193,567	283,566
Local Government Expenditure	4,955	10,370	13,382	21,599	33,217
Local Government Revenues	5,000	10,469	13,454	22,246	33,394
Transfers to Local Governments	3,821	8,436	10,052	4,308	4,308
Own Revenues of Local Governments (includes shared taxes)	1,130	1,984	3,328	17,935	17,935
% GDP					
Total Government Expenditure	34.0	33.9	35.6	37.1	35.6
Local Government Expenditure	4.6	4.1	3.6	4.1	4.2
Local Government Revenues	4.6	4.1	3.7	4.3	4.2
<i>Transfers to Local Governments</i>	3.5	3.3	2.7	0.8	0.5
<i>Own Revenues of Local Governments</i>	1.0	0.8	0.9	3.4	2.3
% Government Expenditures					
Local Government Expenditure	13.5	12.1	10.2	11.2	11.7
Local Government Revenues	13.6	12.2	10.3	11.5	11.8
<i>Transfers to Local Governments</i>	10.4	9.9	7.7	2.2	1.5
<i>Own Revenues of Local Governments</i>	3.1	2.3	2.5	9.3	6.3
1996=100					
GDP	100	93	95	87	132
Total Government Expenditure	100	93	100	95	139
Local Government Expenditure	100	84	76	78	121
Local Government Revenues	100	84	75	80	120
<i>Transfers to Local Governments</i>	100	88	74	20	20
<i>Own Revenues of Local Governments</i>	100	70	82	286	286

Sources: IMF, LSSD Database

This trend stabilized in 1999, when total local government expenditures rose to 4.1 percent of GDP from 3.6 percent in 1998. Local expenditures also increased as a share of total government expenditures. Revenues in 1999 were 20 percent lower than those in 1996, in real terms. The reduction in revenues occurred in all categories. In the case of “own” revenues the decline reflects the fact that the valuation of the local property tax base and the value-added tax (VAT) rates were not adjusted for inflation. These trends have been maintained in 2000.

Revenues. The LLPF has significantly transformed the structure of local government revenues in Romania (Box 2.1). Most importantly, the Law introduced tax sharing across levels of government. Local governments now receive – and are responsible for collecting – a share of revenues from the wage tax. As a result, the main source of local government revenues in 1999 shifted from state budget transfers to own revenues.⁷ Although in principle these changes led to an increase in the fiscal autonomy of local governments, in reality the effectiveness of this transfer of responsibility was constrained by important factors including:

⁷ “Own revenues” in this study refer to local taxes and fees, and shared taxes.

- **Lack of administrative capacity.** Although increased local fiscal responsibility implies the need for greater local capacity in fiscal management, tax collection, and budgeting, limited training and guidance were provided to local governments. Not surprisingly, rural communes have the least capacity for revenue raising. While in 1999, staff from the deconcentrated judets-level offices of the MOF, the General Public Finance Directorates (GPFs), continued to assist local councils with tax collection responsibilities, this assistance was absent in some smaller communes.
- **Unpredictability of revenue sources.** Despite the specification of local revenue sources in the LLPF, local fiscal autonomy remains constrained because the central government retains authority to change the amounts of revenues allocated to different levels of government. In the case of the wage tax, the actual shares received by the judets and local councils can be modified in the annual state budget law, limiting predictability of revenues for local councils and their capacity for multi-year budget planning.

Box 2.1: Local Government Revenues

Local government budgets in Romania are comprised of three main sources: (i) own revenues, (ii) transfers and (iii) borrowing.

Own revenues include local taxes and fees and revenues from other financing sources, such as revenues from property (capital income). Until 1998 the most important local taxes were the personal and corporate property tax and the vehicle tax. Following the introduction of the LLPF in 1999, revenues from the wage tax (a payroll tax), became the most important source of local revenues. Own revenues now account for over 50 percent of total local revenues, one of the highest percentages in Central and Eastern Europe.

Transfers. Under the new system introduced by the LLPF, the 'equalization grant' became the most important intergovernmental transfer. It is allocated directly by the central government to the judet councils for redistribution by them to the local councils in their area of jurisdiction. The total amount of funds that was distributed to the judets as the equalization grant in 1999 was ostensibly based upon projections of the shortfall between estimated local government revenues and expenditures. However, in practice it was based upon available resources.

Borrowing. One of the most significant changes included in the LLPF was the provision for local governments to obtain credits from domestic and international credit markets, through loans and issuance of bonds. Experience to date with local government borrowing has been extremely limited. In 1999 budgeted revenues from borrowing of judets and local councils were 0.7 percent of total local government revenues. Very few local governments have taken advantage of the new provisions for borrowing, largely because of current weaknesses in the banking and financial markets, high borrowing costs and unclear ownership rights on property which could be used as collateral.

Transfers. The weakness of the intergovernmental transfer system has further limited the fiscal capacity of many local governments. While local financing reforms implemented in 1999 greatly simplified the transfer system, they reduced its redistributive capacity substantially. A much smaller share of revenues are distributed to equalize fiscal conditions across local governments than prior to the reform. Most importantly, those funds that are available are not allocated according to criteria, but are subject to discretion and negotiation between judets and local councils.

Under the LLPF, the importance of central government transfers in local government budgets declined substantially. In 1999 transfers accounted for 19 percent of total local government revenues in comparison with 75 percent in 1998. The new legislation greatly simplified the transfer system, and reduced the amount of discretion applied in allocating revenues across local governments. All dedicated transfers for operating subsidies of public service companies and investment subsidies to the judet and local councils were eliminated.⁸

The general transfer was replaced with an 'equalization grant' which aims to correct for differences in fiscal capacity across judet and local councils. The equalization grant is funded through a transfer from the state budget that is allocated directly to the judet councils for redistribution by them to the local councils in their area of jurisdiction. The effectiveness of the transfer system in meeting its equalization objectives has been limited by the following:

- **Limited transparency and predictability in the allocation of transfers from the central government to judet councils...** The total amount of funds that was distributed to the judets as the equalization grant in 1999 was ostensibly based upon projections of the shortfall between estimated local government revenues and expenditures. However, in practice it was based upon available resources. The grant is allocated among the judets based upon a formula defined in the state budget. The formula can be changed annually with the state budget law.
- **...And from judets to local councils.** The allocation of the equalization grant from judets to local councils was to be based upon the same criteria used to allocate funds from the state budget to judets. However, none of the judet councils included in this study followed the formula. Most judets devised their own criteria, in some cases based upon norms (e.g. population size), and in others on the revenue raising capacity of the municipality or commune. As a result, transfers have been subject to negotiation between mayors and judets councils.
- **Poor targeting of resources.** The equalization grant is not meeting its objectives. Resources are not allocated to judets with the lowest fiscal capacity. Local governments with higher levels of own revenues per capita received greater amounts of transfers per capita in 1999. Rather than having an equalizing effect, transfers are allocated to those judets which had greater capacity in raising their own revenues and/or a stronger tax base.

Expenditures. The LLPF provided clear authority to local governments to adopt and amend their own budgets independently of the state budget and clarified expenditure responsibility across levels of government for the first time. However, pending issues in expenditure assignment remain, including:

- **Central controls over expenditures.** Although the new legislation expanded the scope of local government autonomy over public spending, in certain areas expenditure management remains tightly proscribed. In addition to on-going central government reviews, if the state budget is not approved until after the beginning of the fiscal year,

⁸ Only the funding for local investments obtained from foreign donor loans made directly to the national government remain as dedicated investment subsidies in the new system of local finances. Heating and transport subsidies that had been funded through transfers are now funded by local and judet councils from their general revenues.

local governments – even those that do not receive transfers from the state budget – are subject to controlled spending. Under the LLPF, judet and local councils should be able to adopt their budget effective January 1 of each year, using their own estimates of local revenues and the estimates approved by the MOF of transfers from the state budget, regardless of whether the state budget has been approved. However, this has not yet occurred. Finally, and most importantly, expenditure decisions are controlled within sectors by central government norms on service provision.

- **Lack of clarity in expenditure assignment.** The 1998 Law on Local Public Administration is largely silent on the issue of the functions and responsibilities of local governments at all levels.
- **Frequent changes to expenditure assignments.** Each year since 1991 the state budget law has added, modified, or removed local responsibility for specific services or for certain aspects of these services. Local governments have also moved certain expenditures off budget by shifting them to local entities under their authority. This has led to mismatches between expenditure responsibilities and revenue raising capacity. Some financial responsibilities were transferred to local councils once the local budget had been already approved (this occurred in case of infrastructure spending for some local governments). The expectation of frequent changes in financial arrangements induces wait-and-see attitudes among local officials and reduces incentives for long term planning and prudent financial management.

2.2. Financing the Social Sectors

The changes to local government finance have affected the fiscal position of local governments, and consequently, the level of services they are able to provide. This has had implications for both the adequacy of resources allocated to social services, and the equity of service provision across localities. Local governments have addressed resource constraints in different ways including cutting current expenditures, off-loading responsibility to other local governments (e.g. from judets to municipalities), and raising additional resources as allowed by the LLPF.

Some local councils have stopped providing certain services altogether. The services which were most commonly threatened were welfare programs – leading to a situation in which some of the poorest local governments with the greatest needs have been unable to fund redistributive programs, such as means-tested social assistance benefits (MTSAB). In other cases, local governments restricted access to benefits, mostly social assistance, by introducing new eligibility criteria.

Given limited public resources, local governments and service providers, including schools, have increasingly turned to households and civil society organizations for funds. Donor organizations and NGOs have become involved in financing child protection activities and services for the poor and disabled. In education, schools have relied increasingly on parents for support. In many of the local governments in our study, parents have become involved in financing school expenditures, or providing in-kind labor to support schools. These developments have substantial implications for equity, as the poorest local governments have more limited alternative funding sources and increasing costs of services to households have the greatest impact on the poor.

Relative to the other policy areas, the health sector has been unaffected by changes in local finance, as responsibility for nearly all health financing was shifted to the health insurance system in 1998. In contrast, local finance reforms have had a direct impact on financing of social assistance and education. Both are now dependent upon local budgets for a substantial share of their resources.

In addition to increasing the role of local governments in revenue raising and budgeting, the Law on Local Public Finance transferred new expenditure responsibilities for capital expenditures in education and social assistance institutions to local budgets. As a result, local governments are responsible for financing all social assistance cash benefits and services for poor households, and an increasing share of services for children at risk and the elderly. In education, local governments assumed responsibility for all capital and for some current education expenditures.⁹ The following sections detail developments in financing of the three social sectors in turn.

Social Assistance. Expenditures on cash benefits and services have been greatly affected by the increase in local financing responsibility, and the greater dependence on local resources. The allocation of resources to the sector has been inadequate in some cases, and the targeting of resources to poor localities – which have the greatest need for social assistance – has been limited. Total social assistance expenditures represent a relatively small share of public expenditures, amounting to 0.8 percent of GDP and less than two percent of government expenditures in 1999. However, they consumed over seven percent of total local government expenditures in the same year.

Local social assistance expenditures have fallen dramatically in real terms since 1996. Cash benefits, including the main poverty alleviation program, the Means Tested Social Assistance Benefit (MTSAB), plummeted to 16 percent of 1996 levels by 1999. In contrast, expenditures on institutions for the elderly and disabled have decreased less. Total expenditures on social assistance were 66 percent of 1996 levels in 1999.

Expenditures on social assistance are not well targeted to the poorest judets. Although poorer judets spend a higher share of their local budget on social assistance, their per capita spending is not necessarily higher. There is no correlation between the level of poverty in a judet and the amount of resources allocated to social assistance. This highlights the need to improve targeting of social assistance spending. The analysis documented the following developments:

- **Cash benefits have been most adversely affected by budget constraints.** Local councils have stopped funding the MTSAB program in many cases, or have adopted measures to limit the number of beneficiaries of the program, such as introducing supplementary eligibility criteria.
- **Some local councils have not allocated sufficient resources to maintain social assistance institutions.** This has particularly been the case for institutions for the elderly which are completely financed out of local budgets. In localities where funds are paid, budget cuts are most frequently made for current expenditures such as maintenance, medicines and salaries.

⁹ In 2001, responsibility for financing personnel costs was transferred to local governments.

- **There has been a general shift in expenditures from social assistance cash benefits to in-kind services.** Local expenditures on means tested benefits have eroded in real terms as local councils have ceased paying benefits. Local officials expressed a preference for supporting in-kind services over cash benefits, because of the fixed costs associated with institutions, and aversion to dependency associated with cash benefits. In contrast, expenditures on services and institutions have been relatively protected.

Education. Overall education expenditures in Romania fell in real terms between 1996 and 1999, however local spending has fallen further relative to central government spending. This occurred despite the fact that the responsibilities of local governments in financing education have increased. As a result there has been a severe mismatch between local expenditure responsibilities and revenue raising capacity. The erosion of local education expenditures has serious implications for the future sustainability of the sector, as local governments assumed responsibility for financing personnel costs in 2001. To date, the impact of this shift is not known, but it will be critical to monitor to ensure alignment of revenues and expenditures at the local level. The following trends emerged:

- **Personnel expenditures have been protected relative to other categories of spending.** Personnel spending – financed by the central government until 2001 – has been maintained relative to capital expenditures and other recurrent costs such as maintenance and utilities, which fell under local responsibility. The erosion of capital investments and spending on maintenance is particularly problematic, as much of the school infrastructure in Romania is in poor condition.
- **Poorer local councils have scaled back education services due to budget constraints.** Some local governments included in the study stopped financing recurrent costs, including scholarships for low income students and subsidies for school transportation.
- **Unit costs of education services are higher in rural areas.** Because of higher fixed costs in rural areas, it is more expensive for rural communes to provide education than towns. Rural areas have a higher ratio of schools per capita than urban areas, as well as more smaller schools.
- **Schools have diversified their funding sources.** Because of the tight fiscal situation, some schools have been encouraged to diversify and increase their financial resources through specific activities such as consultancies, renting school halls, school festivals, or collection of user fees.

Health. Financing of primary health care has been transformed significantly since 1998, as responsibility for funding health has shifted from the state budget to the health insurance system. Local councils have residual responsibility for financing health services – amounting to less than one percent of total health spending in 1999.

The introduction of health insurance led to a real increase in aggregate public resources to the health sector, as a share of GDP and total government spending. This increase was due to the influx of additional revenues from insurance contributions. In 1998 the main source of revenues for health became a 10 percent payroll tax, divided evenly between employers and employees. In 1999 the total taxation rate was raised to 14 percent. Local health spending declined in real terms, and as a share of total local spending, as responsibility for financing health was shifted out of local government budgets.

An important policy issue which has emerged in the transition to contribution-based financing is the equity of resource allocations across judets. According to the new legislation, a share of revenues from insurance contributions are to be redistributed across judets to equalize revenues. Analysis conducted prior to the reform suggested that redistribution of 22 percent of revenues would ensure that health care revenues in all districts would be at least 95 percent of the national average (World Bank, 1999). In practice, 25 percent of resources have been redistributed, however the effect has not been as intended. In 1998 spending in over half of the judets was below 95 percent of the national average. This has been due to the lack of adequate criteria for reallocating revenues according to priorities.

2.3. Policy Implications

The ad hoc nature of the decentralization process has led to significant imbalances in fiscal responsibilities across levels of government. In social assistance and education, expenditure mandates have not been matched by adequate local revenues or transfers from the central government. This has had significant implications for both the effectiveness and equity of service delivery across Romania, as the poorest local governments are least able to raise revenues – because of more limited tax bases and weaker administrative capacity. Policy measures are required to address unfunded mandates and strengthen the fiscal capacity of local governments.

Local Governments

The legal framework established in the LLPF and other recent legislative reforms has expanded the financial autonomy and authority of judet and local councils in Romania. Positive developments in this regard include increasing clarity in intergovernmental fiscal roles and responsibilities, as well as strengthening local governmental fiscal accountability. The experience of the first year of implementation in 1999 identified issues which require monitoring and policy attention. While the establishment of the new legal framework for intergovernmental finance represents a significant achievement, there is a need for clear legislative language describing not just the functions of local government, but also the authority they have to carry them out.

Analysis of the early experience with the LLPF highlighted the weak fiscal position of local governments. As further decentralization of public functions is considered, the government needs to make sure that local revenues are sufficient to assume expenditure responsibilities. Specific actions include legislative changes and assistance with implementation as follows:

- **Strengthening local capacity for fiscal management.** Technical assistance and training are needed in the areas of tax policy, as well as financial management and budgeting. Local governments need training on how to make use of new provisions for revenue raising included in the LLPF. The Ministry of Finance and Ministry of Public Administration need to coordinate in the development and implementation of this assistance. In addition, greater coordination is needed between international donors, including USAID and the EU which are active in support of building local capacity.
- **Developing a training strategy.** A first step in this regard would be to formulate a coherent training strategy to help local government officials develop the knowledge and skills that would allow them to take full advantage of the new legal provisions. In preparation, an institutional assessment should be undertaken at the local level to

determine the skills needed within local and judets councils and appropriate staffing levels.

- **Improving tax collection.** The capacity of local governments to collect taxes should be strengthened through increased local capacity and improvement of information sources on taxpayers. Tax collection activities by different levels of government require close coordination.
- **Diversifying local revenue sources.** The diversification of local revenue sources envisaged in the LLPF should be implemented over the longer term by improving awareness regarding the use of local revenues such as local taxes and fees and borrowing, and expanding local government access to credit markets.
- **Clarifying expenditure responsibilities:** There is a need to distinguish between functions that are solely a local responsibility, and those that are delegated to local governments. This also should include clear procedures for implementing delegated responsibilities, including advance notification and consultation with local governments and full funding of these functions from the state budget.
- **Reducing modifications to the State Budget Act.** Rules of the game need to be developed on how local functions and responsibilities can be modified. This should include provisions to end the current practice of adding, deleting, or modifying local expenditure responsibilities in the annual State Budget Law, as well as changes to revenue sources (e.g. taxation rates).
- **Revising the formula for allocation of the equalization grant.** The current formula needs to be reviewed and adjusted to ensure that the objectives of addressing fiscal disparities across regions are being met. Subsequent assistance will be needed to ensure that the formula is applied at the local level and that results are monitored.

Box 2.2: Shared Taxes: Advantages and Disadvantages

With the reforms, own revenues, composed mostly of the wage tax, which is shared by the central and local governments, have become the most important revenue source for local governments. In Romania, shared taxes comprise a substantial share of total local revenues, higher than some neighboring countries in the region (Table 2.3)

Table 2.3: Shared Taxes (% of total local revenues)

	%	Year
Bulgaria	52	1998
Czech Republic	42	1999
Hungary	15	1998
Poland	24	1997
Slovak Republic	24	1999
Romania	41	1998

Source: Wetzels, 2001

Tax sharing has distinct benefits including: administrative simplicity and continued central government control over fiscal balances. Tax sharing may also provide incentives for local governments to increase revenue collection. However, there are substantial drawbacks, including:

(i) *Weak capacity and incentives*: local governments may lack administrative capacity to mobilize their own revenues, as well as incentives. The latter is especially true if transfers are designed to address fiscal disparities across regions. Local governments will not face incentives to increase tax collection, if the size of central transfers is linked to the local revenue base (e.g. local governments with lower own revenues get higher transfers). This has implications for the design of the transfer formula, as well as the need to incorporate incentives into tax sharing arrangements.

(ii) *Unpredictability*: shared taxes may be more susceptible to changes than other types of revenues. Rates for tax sharing can change annually, limiting the ability of local governments to plan. This is the case in Romania, similar to other countries in the region (e.g. Bulgaria, Ukraine, Georgia).

(iii) *Weak distributional impact*: Because shared taxes are allocated based upon the local tax base where they were collected, regional disparities are reinforced in revenue collection. The poorest localities with the weakest revenue base will have the fewest resources.

(iv) *Discretionary nature*: Finally, shared taxes can increase discretion within intergovernmental fiscal relations, as they encourage lobbying and negotiation over tax rates.

These factors underscore the risks of increasing reliance on shared taxes. As has been the case in Romania, shared taxes can increase regional disparities and reduce incentives for local tax collection.

Source: Wetzel, 2001.

Social Assistance The vulnerability of social assistance expenditures to local fiscal conditions needs to be reduced. There is a strong rationale for centralizing the financing of social assistance benefit programs, particularly means tested social assistance, which is intended to be the national safety net. Current experience with the MTSAB program illustrates that without centralized financing, payment of benefits is subject to local conditions and the poorest local governments – which have the greatest need for social assistance – are least likely to pay benefits.

Eligibility criteria should also be established nationally, to ensure equity of access to welfare benefits across the country. However, local involvement in the delivery of benefits can improve targeting, as local officials have better information about the needs of the population. This balance between local and central responsibilities is discussed further in the next chapter.

In the case of social assistance services – including institutions and social care services – greater attention is needed to ensure the adequacy and sustainability of funding levels. Institutions for the elderly and disabled have been transferred to local government budgets without additional budgetary allocations. As a result, local governments have been ill prepared and unable to maintain services. Specific recommendations are as follows:

- **Centralizing financing of poverty relief benefits.** Pending legislation on the Minimum Income Guarantee Program (MIG) should be passed, the Law should include ear-marked financing for the program through a direct transfer from the central government budget to local governments – specifically for use on the MIG. The MMSS should have a clear role in monitoring implementation of the program. The application of clear national criteria for assessing benefit eligibility would help to ensure that local officials would not increase coverage to include non-poor households, because funds to pay benefits come from the central – rather than the local government budget.
- **Increasing funding levels for social assistance.** Current levels of funding for means-tested benefits are inadequate. Separate analyses by the World Bank, MMSS, and statistical institute, estimate that at least between 0.3 and 0.4 of GDP is necessary to

supplement the income of the bottom deciles of the population. In early 2001 the government took an important step toward strengthening the fiscal viability of social assistance by committing 0.4 percent of GDP to the new Minimum Income Guarantee (MIG) program. This important step needs to be implemented and the results monitored.

- **Monitoring financing of social service institutions.** In order to ensure sustainability of services for the elderly, disabled and children, the ability of local governments to finance institutions needs careful monitoring and evaluation. Mechanisms for financing some social assistance institutions are being modified. Affordability of social service services can also be addressed through the overall shift from high cost residential care to more affordable and effective community based programs. Financing for child protection is also in the process of being centralized. This policy change should be evaluated to determine lessons for other services.

Education. Lessons from early experience with fiscal decentralization in the education sector have important future implications. Poorer areas, in particular, have had difficulty maintaining services. In some of the case study sites expenditures were ceased entirely, including those for school scholarships and transportation. In addition, there has been an overall decline in expenditures for maintenance and investment which threaten long-term sustainability. These developments have hit poorer rural areas the hardest. In rural areas, the low population density results in low pupil per school ratios and, consequently, in structurally higher unit costs. At the same time, rural local councils usually have lower local revenues, as they are on average poorer. These developments are consistent with experience from other countries (Box 2.3).

Box 2.3: Financing Education in EU Countries

Local governments play a significant role in financing education in many European Union countries. Municipalities in the UK and the Nordic countries (Denmark, Finland, Norway, Sweden) are the most autonomous, as they are responsible for financing most recurrent and capital expenditures, including personnel.

As limited evaluation has taken place, little is known about the drawbacks and merits of different arrangements for financing education across levels of government – and particularly the impact on educational outcomes. There is some evidence, from evaluations in France and Denmark, that decentralization has led to increased spending on education, and leveling off of spending in Sweden. These developments could be the result of a number of factors. Local governments may attach more importance to education, relative to other sectors, and increase spending, or loss of economies of scale could increase costs as expenditure responsibility is transferred downward.

Another important outcome identified in studies on France and Norway found that decentralization of financing responsibilities led to widening disparities in expenditure levels between municipalities. Increasing reliance on local funding sources can increase disparities because of differences in the tax base across localities and variation in administrative capacity for collecting taxes. Countries have attempted to address regional disparities in education financing in different ways including per capita grants and transfers to municipalities based on socioeconomic criteria.

Sources: Eurydice, 2000. World Bank, 2000.

These developments reinforce the need to strengthen the fiscal capacity of local governments to ensure that expenditure responsibilities are matched with adequate revenues. Local governments and individual schools require greater fiscal autonomy in order to increase accountability and improve effectiveness of resource use. Monitoring by the central government

is essential to ensure equity of service provision across Romania. Strengthening the ability of the transfer system to allocate resources to poorer areas is critical to establish the overall framework for decentralized financing. Additional measures include:

- **Earmarking resources for capital investments.** The reduction in capital spending for schools is particularly problematic and has led to a substantial under funding of education, since the stock of existing infrastructure is in poor condition. Due to the new revenue arrangements, poorer local councils, although more likely to have schools in need of repairs and investment, have the least resources to face these needs. Because investment expenditures are ‘lumpy’ there is a strong rationale for central government involvement. Provision of a central fund for capital expenditures which would provide direct transfers to local governments in need of investment could address this gap. Such a fund could be managed by the Ministry of Education, with clear criteria for allocating resources to local governments.

Such a facility for capital expenditures should be part of an overall strategy and approach toward public investments. Some countries, such as Hungary, have rules in place which provide for the submission of applications from local governments, feasibility studies, and evaluation of projects. Local governments should be required to provide a matching component to ensure local involvement – the amount could be related to the fiscal capacity of the locality such that poorer local governments receive assistance.

- **Strengthening redistributive mechanisms within the education sector.** As local governments have increased responsibility for education expenditures it is important to have mechanisms in place to ensure that poor local governments are able to maintain services. This requires careful monitoring of expenditures and service delivery by the central government, as well as instruments for addressing disparities. A possible approach could be a central fund which provides targeted transfers to local councils with low fiscal capacity.
- **Increasing efficiency within the education sector.** Rationalization within the education sector could help reap the benefits of economies of scale. There are about 1,370 small schools in Romania with very low enrollment levels. If some of these schools could be closed or combined with gymnasias, alternative solutions to getting children to schools, such as improving transportation within communes and to schools in neighboring communes and municipalities, and use of multi-grade classrooms could be implemented. This requires involvement of central, as well as local education officials, to ensure that appropriate incentives are in place for school consolidation.

Health Issues in health financing generally fall outside the jurisdiction of local governments. However, these issues are related to the equity of resource allocation across judets. It is not clear to what extent emerging imbalances are due to limited local capacity for revenue raising and inadequate redistributive mechanisms, or to what extent they reflect divergent needs across local governments.

- **On-going monitoring of health expenditures across judets.** In this regard it will be essential to track the allocation of resources for health across judets to ensure equity of service provision. Some judets may have lower health care expenditures, because of lower concentration of regional hospitals and other facilities shared across regions.

The shift of financial responsibilities to local governments and the higher sensitivity of local revenues to local resources have important implications for efficiency and equity. This is all the more so in a country where differences in fiscal capacity are very accentuated. Similarly, local councils with a higher percentage of people below the poverty line have fewer resources to support the poor and are also more likely to resort to cutting social assistance programs in favor of more pressing or politically rewarding spending. The next chapter addresses further implications of the new institutional and financial arrangements for social service delivery at the local level.

Chapter 3: Building Stable Intergovernmental Institutions

3.1. Institutional Arrangements for Service Delivery

A stable, effective and well-functioning institutional framework is critical for the success of decentralization and the overall performance of the public sector. Essential components of the institutional context include:

- laws and regulations which establish clear roles and responsibilities for institutional actors at all levels of government;
- well-defined incentives, accountability and transparency of decision-making, and
- administrative capacity to implement legislation and regulations.

Romania has made substantial progress in establishing the legislative framework for intergovernmental relations with the introduction of legislation on local governments in 1998. In addition, systemic reforms in each of the social sectors have led to a rethinking of the organization of public social service delivery across levels of government.

Local governments and social services

Social assistance cash benefits and services are the most decentralized policy areas among those covered in this report. The discussion in this chapter focuses on the social assistance programs that entail a substantial involvement of local governments: cash benefits, particularly the means tested social assistance benefit (MTSAB), emergency aid, and birth grants, child protection, services for the disabled, and a number of in-kind services. Local councils are direct providers of cash benefits for low income households. They oversee the implementation of benefit programs including budgeting, screening eligibility of beneficiaries and actual payment of benefits.

Local governments also have important responsibility for in-kind social assistance including programs and institutions for children and the disabled. Child protection is the only social service which has been completely decentralized to the judet level.¹⁰ All decisions regarding provision and financing of programs are undertaken by judet level institutions. Local governments are also responsible for coordinating policies and projects with NGOs and donors, including developing and implementing projects, and contracting out services. Local governments also have critical responsibilities for determining eligibility of beneficiaries and allocating resources for social assistance programs and institutions.

In contrast, the role of local governments in education is mostly confined to financing. In the health sector the role of local governments has decreased with the reform process. However local councils do have involvement in areas such as property ownership and aspects of personnel policy, such as setting incentives for providers. In many respects, the process of institutional reform has been incomplete. Implementation of recent reforms has highlighted gaps in the existing legislative framework and the challenge of putting new arrangements into practice. The following discussion identifies issues which emerged from the analysis and makes policy recommendations.

¹⁰ Child protection financing and administration was recentralized in 2000-01.

3.2. Clarity of Roles and Responsibilities

Lack of clarity in the new legislation and the dynamic institutional context have led to unclear roles and responsibilities across levels of government and among social service institutions. In some cases there are gaps in institutional responsibilities, while in other areas public functions are fragmented across numerous institutions and there is duplication of effort. These conditions lead to risks of gaps in coverage, or conversely – if numerous agencies are involved – raise administrative costs of delivering services and undermines efficiency in decision making and service delivery.

Unclear roles and responsibilities impact the fiscal status of both local governments and service institutions. Responsibility for tax collection is fragmented and uncoordinated. For example, local and judet councils collect their own revenues, the Inspectorates for the Handicapped at the judet level collect funds for the Social Solidarity Fund, the Judet Education Inspectorates collect the two percent tax for public education and the Judet Health Insurance Funds collect insurance contributions. These arrangements increase administrative costs and raise opportunities for evasion.

Unclear authority over property ownership has created significant ambiguity between levels of government regarding responsibility for managing services. Until 1998 there were no laws dealing with public property, at both the national and local levels. Effectively the national government was in control of all public property, including the property directly associated with functions performed by the local governments. This made it easier for the national government to modify local responsibilities by shifting responsibility for property ownership. For example, a specific health facility might become a municipal responsibility at one point, that of a judet the next, and finally a national responsibility. Shifts of responsibility have occurred in the middle of the fiscal year. Lack of clarity over property ownership has created uncertainty and reduced incentives for local governments to invest in maintenance of facilities and capital improvements.

The implementation of the Law on Public Patrimony passed in 1998 was intended to clarify and secure property ownership. Once a specific property, a school building for example, has been registered in the name of a local government, it will not be possible to shift responsibility for maintaining and improving this property to another level of government through the state budget law. In effect, the process of registering the titles of specific properties will help clarify and stabilize local functions and responsibilities. This will strengthen the value and usefulness of the local budget as a financial management tool. However, more than one year after Parliament adopted the Law on Public Patrimony, no transfer of property had occurred. Reviews of the ownership of some health and education facilities have recently been completed, and a similar analysis for social assistance offices and institutions is underway.

The institutional analysis, and interviews with local officials and social service providers identified a number of examples of blurred roles and responsibilities within the specific social sectors:

- In **social assistance**, responsibilities for delivering services are fragmented across institutions and levels of government, limiting coordination, increasing administrative costs and creating gaps in coverage. Responsibility for managing social care institutions falls under the Department for Child Protection, the State Secretariat for the Handicapped, as well as local councils. No single agency is responsible for policy on social assistance as a whole. For example – no institution is responsible for

children leaving institutions at age 18, as they no longer fall under the jurisdiction of the child protection, or education system.

- In **education**, the lack of clear guidelines for budget allocation and information sharing at the level of budget allocating institutions (CEBs), limits transparency and creates disincentives for schools to multi-year financial planning.¹¹ CEBs act as budget intermediaries between Judet Education Inspectorates, local councils and schools, and also provide schools with administrative and accounting services. There are no guidelines for budget allocation, and information on budget levels are not shared with schools. As a result, CEBs often operate in a discretionary and non-transparent manner that weakens incentives for schools to develop much needed financial planning. The presence of the additional administrative layer between the sources of funds and the service provider also substantially reduces accountability.
- In **health**, lack of clarity of the roles of different institutions – particularly over shared activities – leads to blurred accountability and the risk of gaps in coverage. An example is the division of responsibilities between the deconcentrated institutions at the judet level that have responsibility for overseeing and financing health care: the Primary Health Directorates and Judet Insurance Funds. In the case of vaccinations, Primary Health Directorates are responsible for provision, while Judet Insurance Funds have authority over physicians as the contracting body. As a result neither institution is explicitly responsible for ensuring coverage.
- **Cross-cutting policies.** Equally important, close collaboration across sectors is needed to ensure coordination and to prevent gaps in service provision. An example is health insurance coverage for poor households, where the legislation requires coordination between local councils, the Ministry of Health and the Ministry of Labor. Under the insurance legislation, contributions for beneficiaries of social assistance are to be covered by the Ministry of Labor. Because of the novelty of the health insurance system, a number of judets and local councils were unaware of these arrangements and did not provide the information to the Ministry of Labor. In the cases where the local council was no longer funding social assistance, local councils frequently did not screen benefits for eligibility, leaving poor households without health coverage.

In a number of key areas the lack of clarity over responsibilities distorts incentives. The education sector provides a positive example. Recent measures to clarify the ownership of schools have aligned responsibility for maintenance and investment in schools with ownership. In health care and social assistance, the lack of clarity in ownership of buildings has substantially weakened incentives for local and central governments to maintain and invest in health centers and social assistance institutions. This undermines efficiency, as the capital stock of the sector deteriorates and future costs of sustaining services increase. Lack of clarity over property rights also limits the ability of NGOs and donors to provide support for upgrading of facilities. The government should move swiftly to complete the review of property ownership of health and social assistance facilities and assign responsibility for buildings where ownership is not clear.

¹¹ In Romanian: *Centre de Executie Bugetara* (CEBs).

Box 3.1: The Role of Deconcentrated Institutions

Considerable confusion was apparent from the qualitative fieldwork, regarding the roles and responsibilities of deconcentrated institutions at the judets level: the Judets Health Insurance Houses (JHIHs) and Primary Health Directorates (PHDs), Judets Education Inspectorate (JEIs), and Judets State Inspectorates for Persons with Handicap (JSIPHs). In a number of instances institutional relationships among deconcentrated organizations and with the central and local governments were not clearly defined, overlapping or fragmented.

This confusion stemmed from different factors. In the case of health, because of the newness of the health insurance system, roles and responsibilities of the two different deconcentrated institutions were not yet defined. In social assistance and education, fragmentation of responsibility for social welfare institutions and special education was overlapping. Unclear roles of deconcentrated institutions has been noted as a common issue across transition countries, as many countries are in the process of defining appropriate roles and responsibilities for middle tier governmental institutions (Wetzel, 2001).

Deconcentrated institutions have potential advantages in service delivery, because of their relative territorial proximity to actual service delivery and historical role. They have substantial experience and information in their respective sectors, and are potentially able to reduce administrative costs and reap the benefits of economies of scale by working across local councils. However, the legacy of hierarchical institutional relations in Romania has limited the incentives of these institutions to be innovative and flexible. Moreover, the success of the working relationships between deconcentrated institutions and local councils appears to depend on personality, rather than on well defined and accepted institutional procedures.

3.3. Accountability and Incentives

Closely related to the definition of the competencies of intergovernmental institutions is the need to establish clear accountability structures which promote effective service delivery. Accountability can be enhanced in the first place through measures to promote clarity of institutional roles and responsibilities.

A related issue is the need for responsibilities to be aligned to provide incentives for quality and effective service delivery. In some cases responsibilities are divided across levels of government. An example in education is the case of school infrastructure, where the decision to build a new school lies with the Ministry of Education, while local councils have responsibility for financing. Although this might be motivated by the need to frame the construction of new schools in a nation-wide strategy, local councils may feel both excessively burdened by financial obligations, while the lack of decision-making authority might weaken their ownership.

Improvements in accountability are also closely linked to the overall quality of governance in the public sector, including openness and transparency of decision-making, predictability of processes and well defined incentives. Transparency between levels of government, as well as between the local government and social service institutions is limited in many respects. Financing processes, most importantly the distribution of intergovernmental transfers, are highly discretionary and subject to negotiation between judet and local councils. This directly influences the predictability of government processes, impedes long-term fiscal planning and leads to inefficient decision-making.

Local governments and social service institutions face weak incentives to provide quality social services, or to adopt innovative approaches to meeting local needs. This study found exceptions where local officials took the initiative, however this was highly dependent upon individual personalities. In general, local officials interviewed for this study viewed the recent increases in financial and managerial authority as externally imposed burdens. Rather than feeling motivated or empowered to address local issues and improve services, local government officials were generally focused on coping strategies. Specific examples of weak accountability and transparency include:

- In **social assistance** there is a substantial lack of transparency in the distribution of cash benefits. Eligibility criteria for means-tested social assistance benefits vary across local governments. Criteria are not clearly specified in legislation and local governments across Romania adopt different strategies for allocating benefits.
- In **education**, current processes for allocating resources to individual schools in municipalities and towns are unclear. The present practice of distributing funds through central schools which serve as budgetary execution centers (CEBs), is opaque limits budgeting and planning. Schools which are not budgetary centers do not know the level of resources available to them, and are unable to plan their expenditures throughout the school year.

Monitoring and Evaluation. Weak, or absent, mechanisms for monitoring and evaluating the implementation of public services and their outcomes limit the extent to which providers can be held accountable for outcomes. At present, monitoring and evaluation practices and effectiveness vary widely across sectors. In education, the recent introduction of a standardized test in the eighth grade will allow country-wide monitoring of lower-secondary education outcomes. More importantly, it will provide a useful benchmark for impact analysis of the ongoing process of financial decentralization of education spending to local councils.

In social assistance, because of the multiplicity of programs and the current fractionalization of responsibilities among many ministries, a systematic evaluation of program impact, coverage, and targeting is crucial. Nonetheless, at present monitoring is limited and is not linked to feedback mechanisms that convey to policymakers at the local and central government the necessary information in a timely and effective way. The draft Law on Social Assistance addresses these issues and plans a strengthening of monitoring arrangements by the MMSS through its judets level offices. The MMSS envisages that this will be supported with improved information technology, as well as enhanced capacity for analysis and policy making. In the health sector, more transparent guidelines should clarify the distribution of responsibilities for monitoring and evaluation between the public health system and the health insurance fund.

The need for systematic monitoring and evaluation is increasingly pressing. As decentralization moves forward, the supply of social services will be increasingly diversified across localities and will depend more heavily on local financial resources and capacity. Moreover, as the practice of contracting out services to providers becomes more common, the quality of services will also vary considerably. These processes can substantially jeopardize equity across poor and wealthy localities. Furthermore, the increasing fragmentation of responsibilities across different institutional actors is likely to produce coordination problems that can result in significant coverage gaps.

In this context, local governments can take advantage of their proximity to citizens and service providers to obtain direct feedback on service quality and adequacy, which can be used as an input in policymaking at the local level. The central government in turn can make use of this and other nationally collected information to monitor equity of service access and provision across the country as well as to evaluate the effectiveness and coverage of programs across the different social sectors. For monitoring and evaluation to be effective, an institutional mechanism that links the results and findings of the evaluation process directly to policymaking is essential.

Managing Shared Responsibilities A central element of clarifying institutional roles and getting incentives right, is the need to manage responsibilities which are shared across levels of government. Ultimately, delivery of services in Romania will entail involvement of both local governments (in some cases both judets and local councils) and central ministries. Key issues in this regard are ensuring that the balance of power and leadership roles between levels of government are clear such that institutions can be held accountable. In other words, checks and balances, including legal and administrative mechanisms, are needed. Information – through monitoring and evaluation is another critical ingredient for shared responsibilities to function effectively (Fiszbein, 2001).

3.4. Administrative Capacity

While local governments are assuming growing responsibility in the social sectors, to date there have been few changes in the organization of local administrations to deliver these services. Essential for the successful functioning of the institutional framework is the existence of administrative capacity to implement policy. The study highlighted the fact that capacity of local governments to implement their newfound fiscal and administrative autonomy was low. In addition, local governments lack substantial capacity in the social sectors, especially in social assistance and education where their responsibilities have expanded. Issues related to administrative capacity of local governments are closely related to overall public administration reform in Romania (Box 3.2). Attention to building institutional capacity is needed in different areas including:

Box 3.2: Public Administration Reform in Romania

Romania has begun to address public administration reform as part of the overall process of redefining the role of the state in a market economy. Some consolidation and streamlining of government functions has occurred in recent years. However, the reform agenda is a challenging one and is closely linked to issues of decentralization, as it will shape personnel policy and practices for officials at all levels of government and within social service institutions. Table 3.1, shows the evolution of civil service employment during the 1990s.

Table 3.1: Public Administration Employment (in 000s)

	1990	1995	1998
Public Administration	61	130	135
Education	404	427	411
Health and Social Assistance	300	328	297
Total	765	885	845

Source: Romania CEM, 2001.

A recent overview of the status of public administration in Romania noted three main issues:

(i) There is a clear sense that there are too many agencies, with excessive duplication of tasks and outputs, which are difficult to coordinate.

(ii) Internal ministry procedures are regarded as in need of overhaul. Ministries lack administrative and operational manuals specifying the relevant rules and procedures for getting things done. As a result, decision-making is overly centralized and politicized.

(iii) There is a pervasive view that Romania's public administration lacks a "service" mentality. Civil servants have not been taught to regard themselves as serving the people, and petty discourtesies, rudeness and contempt are commonly visited upon ordinary people in their dealings with the bureaucracy. Accompanying this is a sense that Romanian civil servants lack a sense of producing quality work.

Source: Forthcoming Country Economic Memorandum (CEM) for Romania, 2001.

- **Local capacity for managing financial processes...** As discussed in the previous chapter, the adoption of the new Law on Local Public Finance (LLPF) posed new challenges for local governments in revenue management and budgeting. While local councils in municipalities and towns seem to have been better able to implement the new legislation, across the study sites administrative capacity was limited, and many officials interviewed were not aware of new legislative provisions available to them. Limited technical assistance has been provided through international donor programs to some local governments, however these initiatives have focused largely on the local governments with the greatest existing capacity, leaving poorer localities behind.
- **...And specifically within the social sectors.** The capacity of local governments to carry out responsibilities in the social sectors is low. This is particularly the case in social assistance, where local governments have the greatest role in implementation. Local governments have limited staff dedicated to the delivery of social assistance, and existing staff lack specialized expertise in the field and training is generally not provided. There is also no distinction made in skills profiles for staff involved in delivery of cash benefits, and those working in social services. Similar gaps in capacity exist for education, and to date there has been no review by the Ministry of Public Administration of the skills needed within local administrations.

At the level of education and health facilities, capacity in financial management is similarly lacking. In both sectors decentralization is increasing the responsibility of individual service providers.

- In **health**, primary care physicians are responsible for managing the budgets as contracted with the Judet Health Insurance Funds, and take decisions regarding the allocation of resources for personnel in the clinics (e.g. nurses), pharmaceuticals and other materials.
- In **education**, individual schools are gaining greater responsibility for resource allocation under the program of 'representative schools.' In the 1998/1999 school year, the MOE undertook a pilot initiative to delegate decision making authority to the school level. Under the experiment, 3,404 primary and secondary schools (approximately 22 percent of total schools) were designated as "representative" and were granted autonomy over budget making, resource allocation and personnel decisions. In particular, representative schools may organize their own competitions to select teachers whenever a position opens, and may fire teachers. Moreover, they oversee their own annual budgets. This type of autonomy may be extended to all schools in the future.

Both of these developments imply a need for capacity in accounting and budgeting within the local administrations, as well as social service institutions. The impression from the fieldwork was that capacity in the education sector, particularly as far as accounting and managerial skills are concerned, is limited, both in most local councils – where no specialized personnel are assigned to manage education spending, and in schools – where principals and administrative personnel have little or no training in management. This lack of capacity will be particularly problematic as decentralization moves forward and increasing administrative and managerial responsibilities are shifted to local councils and schools.

3.5. Policy Implications

A priority for Romania is establishing a stable institutional framework for service delivery. A first step, in this regard, is reducing the uncertainty and instability surrounding the legislative framework. As noted at the outset, intergovernmental relations in Romania are characterized by constant change and revision, especially related to the distribution of roles and responsibilities across levels of government. While change and reform is natural in a transition economy such as Romania, constant transferring of responsibilities for managing and financing individual programs and services has limited the ability of local officials and service providers to plan and deliver services effectively.

In addition to consolidating the legislative framework, measures to improve the clarity of roles and responsibilities in service delivery should include: (i) streamlining and defining institutional arrangements; (ii) eliminating fragmented and overlapping responsibilities; (iii) reducing gaps in coverage; and (iv) ensuring that local governments and providers are adequately equipped to implement their responsibilities.

Local governments A number of measures can be implemented to improve the transparency of decision making as it relates to local governments. First, the government can adopt mechanisms for increasing consultation between local and central government officials on legislative measures which address local government fiscal responsibilities. Similar measures are needed to increase collaboration between social service institutions and local governments. These could include:

- **Disseminating draft legislation for consultation.** This could possibly be done through the internet, as information technology links improve, as well as through consultation with representative bodies of local governments (e.g. association of municipalities); and
- **Increasing discussion of the annual State Budget Law.** Greater involvement of local governments and government agencies early on in the budget process, would allow increased opportunities for budget planning.
- **Involving social service institutions in the local budget-making process.** This could be done through consultation meetings and dissemination of information. In particular, as local governments have assumed responsibility for financing nearly all aspects of compulsory education, greater dialogue between schools and local governments would increase transparency of the budgeting process and improve the understanding of education needs by local governments and of local fiscal conditions by schools.

In addition to addressing institutional inconsistencies within the social sectors, aspects of services which cut across sectors require careful coordination to ensure effective implementation. Clear examples which emerged from this study were the need to resolve gaps in health coverage and strengthening monitoring and evaluation across sectors:

- **Ensuring health coverage for the uninsured.** The MOH and MMSS should act rapidly to determine responsibility for paying contributions on behalf of non-insured individuals, particularly the poor who are eligible for social assistance but are not receiving benefits.
- **Introducing monitoring and evaluation of social services.** In order to reap the benefits of decentralization, local officials and service providers need sufficient and reliable information on local needs and preferences. Systematic monitoring of quality and effectiveness of service delivery is an important tool for fine-tuning policies to the needs of the population. In order to be effective, monitoring should be linked to a meaningful incentive mechanisms. Substantial progress could be made to strengthen monitoring and evaluation of social welfare and social services including improved information regarding: (i) the social welfare needs of the population; (ii) access to social services; and (iii) the effectiveness of existing programs.

Social assistance Of the three sectors, institutional responsibilities in social assistance are likely to undergo the most significant changes in the upcoming year. A draft Law on Social Assistance, approved by the Cabinet in November 2000, is expected to consolidate social assistance functions and existing structures under the Ministry of Labor and Social Solidarity. The MMSS would assume responsibility for coordinating policies for all social assistance benefits and services, possibly including institutions and programs for children, the elderly and disabled. To date it is unclear whether the functions of the State Secretariat for Handicapped will be under the MMSS or the Ministry of Health.

The new Law also envisages substantial structural changes in institutional arrangements for social assistance provision in local governments. At the judet level, judets would establish decentralized social assistance departments within their administrations, to oversee the implementation of social assistance programs and to monitor the needs of residents in the judets. Local councils would also establish social assistance divisions within their administrative structure to identify needs, develop and administer services and to coordinate programs with NGOs. These reforms have significant potential to strengthen the institutional framework for social assistance across levels of government and improve efficiency of service delivery. In this regard the following actions should be undertaken:

- **Passing framework legislation on social assistance.** The new Law on Social assistance should be adopted, which consolidates responsibility for social assistance under the MMSS. The Law should clarify responsibility for managing and financing benefits and services for the disabled between the MMSS and the MOH.
- **Undertaking a institutional analysis of the MMSS.** This should be done to develop an organizational plan which would include: (i) an assessment of the types of skills needed in local governments; (ii) a staffing plan for recruiting/retraining appropriate staff; (iii) guidelines for staffing numbers based on projected beneficiary caseloads; and (iv) development of a plan for addressing on-going training needs for local officials involved in social assistance activities. This analysis should also address the

question of whether specialized departments for social assistance should be established at the judet level.

Education Education has become an increasingly local affair in Romania. In addition to ensuring a stable institutional environment, a priority is ensuring that local governments and schools have the capacity to carry out their newfound duties.

Box 3.3: Roles and Responsibilities in Education

Balancing roles and responsibilities within the education sector is an important priority. Recent reforms involving substantial fiscal decentralization have not been matched by changes in the administrative responsibilities of local governments and schools in areas of substantive decision-making, including personnel, curriculum, infrastructure and education quality.

There are no “correct” answers about which level (central government, local government, school) should undertake which task in the sector. Rather the division of responsibilities needs to balance the goals discussed in this chapter: stable intergovernmental relations, functioning accountability and incentives, and adequate capacity.

A recent study by a team of Romanian educators and the World Bank Institute outlined a strategic vision for reforming intergovernmental roles in the education sector in Romania. The team recommended further delegation of responsibilities to the local level, through the creation of school councils which would govern groups of schools. Councils would be democratically elected, consisting of parents, local officials, teachers and even students. They would have decision-making authority over education management – including all personnel matters and financing – and would be held accountable to central and local authorities, and the local community, through regular public progress reports, evaluations by regional inspectorates and national tests.

The reform would entail restructuring of the roles and responsibilities of all actors in the education system, from school inspectorates to local communities. The overall objective is a balanced system which maximizes the benefits of local initiative and central guidance. The role of the central Ministry would evolve to focus on national strategy and quality standards through meaningful assessments, and support for collaboration and development among teachers.

Source: Fiszbein, 2001.

- **Increasing transparency of resource allocation to schools.** The role of the CEBs in allocating resources should be reviewed. The government may consider eliminating this administrative layer and allocating resources directly to schools. This would reduce administrative and transaction costs and would increase school autonomy in financial management. In some areas, where there are a large number of small schools, it may still be desirable to have CEBs to coordinate resource allocation.
- **Clarifying criteria for resource allocation.** Regardless of whether funds are allocated to schools by CEBs or local governments, it is critical to ensure that clear criteria for distributing resources are developed and distributed to schools, so that schools can estimate and plan their budgets.
- **Strengthening capacity for fiscal management at the local and school level.** The experience of the representative school experiment should be closely examined to identify what types of training and skills are needed at the school level to manage school finances and personnel. The MOE should take responsibility for developing and delivering a training program to school personnel and local officials involved in education.

Health Because the mandates of institutions have changed substantially since the introduction of health insurance in 1998, it is important that roles and responsibilities be clarified and consolidated. This includes:

- **Clarifying roles of deconcentrated institutions.** Confusion between the roles and responsibilities of judets level institutions, the Judets Health Insurance Funds and the Primary Health Directorates involved in health care delivery needs to be resolved.
- **Resolving uncertainties regarding property ownership.** Clarifying ownership of health facilities is an urgent priority. Without ownership clearly determined, it is uncertain who should be responsible for maintenance and investments, and who is liable if the facility encounters financial difficulties.

Chapter 4: Providing Responsive Services

4.1. The Changing Context of Service Delivery

The context for delivery of social services has changed dramatically in Romania over the last decade. The needs of the Romanian population have also altered significantly with the emergence of open unemployment and poverty and demand for new skills in the labor market. The impact of these changes has been diverse across the country and local governments face different types of challenges as a result of their size, geographic location and ethnic composition.

Increased local involvement in service delivery entails costs and benefits and faces policymakers with important trade-offs. On the one hand, greater dependence on local initiative and resources can increase the risk of inequitable coverage across localities, while on the other hand, services can become more tailored to the needs of diverse populations. This study highlights the need to address both dynamics. Service delivery needs to be improved through expanding access to services and reducing social exclusion, while increasing participation and information flows to ensure that services are responsive to local needs.

There is an uneven distribution of service provision across areas due to lower revenues and higher costs in some areas. In rural areas unit costs for education and health services are higher because services are provided in areas where population density (and therefore the number of beneficiaries) is low. This translates, for example, into low ratios of pupil per school. At the same time, rural areas have lower revenues and are the least equipped to cope with these more substantial fiscal obligations.

4.2. Access to Services

Access to services was found to be lower in some remote areas of Romania. In particular, rural areas have lower availability of facilities and personnel, although some marginalized urban areas were found to have similar gaps in services. Rural areas face special challenges in designing effective and affordable arrangements for service delivery. The case studies illustrated that ethnic diversity, and especially the presence of Roma communities influence service delivery.

For efficiency reasons, it is not feasible to have schools and health facilities in every village in the country. Rather, policies to expand services in remote areas will have to balance efficiency concerns while maximizing coverage. Possible policy options include improved transportation, such as busing to allow students to attend schools in neighboring villages and towns, and outreach activities, such as visiting nurses for remote villages and settlements.

Coverage

Coverage of social services is lower in rural areas for a number of reasons. Rural settlements can be geographically isolated, making it more difficult for facilities to be maintained and for personnel to travel to provide services. Access to services is particularly challenging in larger communes with disparate and remote villages. Physical infrastructure is poorer in many communes, especially roads and telecommunications. Related to this, the unit costs of service provision are higher in rural areas. These problems were particularly salient for health and education, although geography also affects access to social assistance benefits and services.

Some beneficiaries in remote areas with limited access to public transportation noted the difficulty of getting to the local council office to apply for benefits. Fieldwork illustrated that:

- In **education**, access is limited in geographically remote areas. Long distances discourage children from attending school and reduce their capacity to learn when they arrive. The problem is particularly pronounced for lower secondary schools (grades V to VIII), as these are more sparse over the territory. The transfer of financial responsibility for transportation subsidies was transferred to local councils in 1999 and many have stopped paying due to budget constraints.
- Transportation and geographic isolation are also an issue in **health**. In some communes there are few (or no) telephone lines available and necessary utilities for health facilities, such as water, gas supply and heating are absent.

Availability of Service Providers

An issue frequently raised by beneficiaries, particularly in communes, was the lack of qualified personnel in remote areas. All of the beneficiaries and officials interviewed acknowledged the difficulty of attracting physicians and teachers when adequate living conditions were not guaranteed. In a number of the communes, residents recalled that prior to 1990 there had been a physician in every village. This was a result of communist era policies which required doctors and teachers to serve in remote areas.

- **Education.** While the urban sites reported notably fewer problems in staffing schools, there were a number of exceptions. Some schools in less desirable peripheral areas outside of urban centers, and schools with large shares of Roma students had difficulties locating qualified teachers. In the Romanian educational system 'qualified' teachers are defined as teachers who received a degree in the subject they teach. While many beneficiaries and school personnel pointed to the lack of qualified teachers as a serious issue, the impact of 'qualified' teachers on educational outcomes needs to be rigorously assessed.
- **Social Assistance.** Lack of personnel also effects social assistance services. In some judets up to 50 percent of positions for physicians in institutions were unfilled. Judets State Inspectorates for the Handicapped and local councils do not have mechanisms for introducing incentives to recruit personnel. Institutions are frequently isolated and located in rural areas where people are reluctant to live. In addition, salaries for staff working in institutions are among the lowest on the civil service pay scale.

Box 4.1: Attracting Teachers to Remote Areas

Offering adequate and effective incentives to attract teachers to rural and disadvantaged urban areas is a problem that many countries are facing. Various programs have been implemented around the world with varying degrees of success.

Monetary incentives can include salary supplements (for example in Mexico, Argentina, and Indonesia), family allowances (Zaire and Togo), or housing arrangements (Zambia and Senegal). The paucity of data on the matter make it difficult to gauge the budgetary impact of these policies. In Sub-Saharan Africa supplementary allowances amounted to an average 20 percent increase in the base cost for primary school teachers (Zymelman and DeStefano, 1989). In the US states offer scholarships and incentive loans for teachers in areas where there are shortages of personnel. The state of Mississippi has experimented with providing home loans or rental housing to encourage teachers to work in certain areas.

A different issue is who should bear the financial burden for salary incentives. An interesting case is that of the School Autonomy Project in Nicaragua, where management and financial responsibility was transferred to community-based school councils. In addition to self-raised funds from fees or donations, schools receive funds from the central budget based on average student attendance. Schools can use autonomous resources to pay salary incentives to teachers and the payment is usually conditioned on regular attendance by the teachers (as monitored by parents participating in the school council) and ability to ensure students' attendance. Although making school boards financially responsible for the salary supplements can increase the effectiveness of the incentives, it can also exacerbate differences across relatively wealthy rural areas and poorer ones (this was found in the case of the Philippines).

Targeted recruitment is an alternative way to attract teachers to rural schools. For example, in Indonesia, graduates from teaching schools who came from rural areas were offered scholarships to accept teaching positions in their native villages. Besides reducing the shortage of teaching personnel in rural areas, the new trainees share the language and culture of the area and were likely to assume positions of leadership in the local community.

Costs to Beneficiaries

Access to services is also limited by the increase in out-of-pocket charges for social services. Both formal and informal charges have become widespread in each of the three sectors, particularly education and health. In education, in particular, the growing importance of charges can be linked to increasing budget constraints at the local level. As schools have faced declining budgets for recurrent costs, schools have increasingly turned to parents, frequently through parent-teacher associations, to fill the gap. The presence of out-of-pocket costs has significant equity implications for access to services and circumvent the efficiency of the system by distorting incentives for providers and draining resources from the system.

Education. Budget constraints in education have increased costs to households. Although compulsory public education is legally free in Romania, households face a range of various formal and informal out-of-pocket expenses, ranging from the costs of school lunches and materials, to charges for tutoring and extra classes. Wealthier households spend more and are more likely to spend than poorer households. To the extent that private tutoring is a matter of individual choice, it does not necessarily have adverse implications for equity. In a system where the supply of education is mostly public, private tutoring could simply reflect parents' willingness to pay for additional education for their children. However, discussions with education personnel and parents indicated that tutoring is increasingly substituting for, rather than complementing, education received in the public sector. In some instances in the study sites,

students received tutoring from their regular classroom teachers, or from close colleagues of their teachers.

In order to cope with budget crises, schools turn to parents, teachers and the community at large to solicit funds. Contributions to schools are made in cash, for example through fees for participation in parent-teacher associations, or payments for specific needs (e.g. heating), or in-kind through volunteer labor. The case studies found that both parents and teachers frequently contribute to schools by painting, chopping wood for fuel, or performing other maintenance tasks.

Social Assistance Administrative charges and opportunity costs of receiving social assistance, particularly the means-tested social assistance benefit, can exceed the actual amount of the benefit. The case studies illustrated that transportation and administrative costs can reduce the value of benefits and deter eligible beneficiaries from applying. Transportation costs are especially high for households in remote areas which need to travel to the local council to apply for benefits. Application charges, such as documentation certifying income, can also increase the costs.

Similar difficulties were reported for applicants of scholarships for low income students. Households are required to present documentation and approvals from different offices in the local administrations and the schools every year to become eligible. Beneficiaries in some of the poorer areas reported that even when they had succeeded in securing the necessary certifications, they did not receive benefits because the local council was unable to cover the costs.

Health Out-of-pocket expenses in health have increased over time – possibly following the structural changes in the health sector. Household data suggest that informal payments in health are widespread in Romania. In 1998 nearly 55 percent of households reported making payments for health care. The prevalence of informal payments has important consequences for the efficiency of medical services. Official revenues from taxation are spent on salaries and modernization of services, the value of the payments is transferred only to the doctors. Moreover, to the extent that informal payments are a pre-requisite for obtaining a service, this practice has serious implications for the equity of the health system.

4.3. Reduce Social Exclusion

The Roma minority are among the poorest in society. Existing household data indicate that they are at a higher risk of poverty than other groups. Roma are more vulnerable to exclusion and gaps in service provision than others due to economic and cultural factors, and poor communication between communities and service providers. Addressing the needs of the Roma community is a complex challenge for government and civil society. Local governments, social service organizations and communities have a significant role to play in ensuring that local services are inclusive and responsive to the needs of vulnerable groups such as Roma. While local institutions are best positioned to respond to the immediate needs of the local community, central government ministries have a substantial role to play in setting policy, providing incentives for local governments to address the needs of disadvantaged groups, and monitoring outcomes. A number of specific areas can be addressed to expand access to services for Roma.

Attention is need to ensure that local service professionals are prepared to work with Roma communities and that communication channels are effective. In education, teachers play a central role in defining the quality of education for all students and need to be adequately trained

to deal with the challenges of a multicultural environment. On-going support mechanisms which help teachers on the job are also critical. Particular training could include Roma history and culture, and conflict resolution and classroom management. Roma teachers assistants and mediators can assist in the classroom environment, as well as provide a link between Roma communities and schools. The MOE recently appointed Roma education inspectors in each judet to monitor the quality of education for Roma, although the effects of this project are not yet known.

Similarly training for health and social assistance professionals can facilitate interactions between Roma and service professionals. In health, this can be particularly important for overcoming resistance to basic services, such as immunizations. Information campaigns are also critical for addressing many emerging health risks, including substance abuse, sexually transmitted diseases and conditions associated with poor nutrition and hygiene. Other initiatives can include improved dissemination of public health information through the media, schools and coordination with organizations such as churches and NGOs within the Roma community.

Outreach can raise awareness and increase demand and willingness to participate in services. For example, public health activities addressing reproductive and family health care issues help overcome cultural taboos, such as fear of screening for cervical cancer. Public information activities can also raise understanding of the importance of education and disseminate information on the availability of social assistance benefits.

Other critical elements of a strategy for improving the capacity of local governments and services to become more inclusive include greater participation of Roma in decision-making that affects them. Representation of Roma in local governments remains low, and few Roma work as social service providers. The near absence of Roma personnel working in education, health and social protection limits the accessibility of services to Roma communities. Roma service providers can facilitate interaction between Roma and public institutions and help address cultural barriers. Roma can also serve as community leaders and provide role models for children. Emphasis should be placed on increasing the participation of trained Roma in social service delivery and in local governments.

4.4. Participation in Service Delivery

Greater participation of the population at large in local affairs and in the delivery of social services can contribute to improvements in the quality and responsiveness of services. Through active participation, citizens are able to signal their preferences and shape services to local needs. For example, participation of parents in schools can influence various aspects of education, ranging from the curriculum to infrastructure. Participation provides the public with a greater sense of ownership of public services, and active citizens are more likely to hold local officials accountable for public policies and the use of resources. The study found that mechanisms for public participation are in place. However, in general participation in these activities is limited. All local governments have open council meetings and parent's councils in schools are becoming more prevalent.

Increasing participation in public affairs is related to the overall process of building civil society in Romania. Following decades of authoritarian rule under Ceaucescu, civil society in Romania remains weak. A number of initiatives, including the Romania Social Development Fund, support the development of local development activities which also serve to strengthen communities. These need further expansion and development.

NGO Involvement

Part of the development of civil society in Romania has been the increasing emergence and involvement of NGOs in local affairs. NGOs have become particularly active in social assistance and education, and there is potential for further involvement. Local governments have an important role to play in working with non-governmental organizations, as well as other entities within civil society such as churches, community organizations, donors and other partners in the delivery of services. This role can have a number of dimensions ranging from attracting resources, including donor support and project resources, to the locality, to contracting, monitoring and evaluating services, and referring beneficiaries to the appropriate service providers.

The implications of increasing involvement of NGOs in service provision are complex and influence the level, quality and effectiveness of social service provision at the local level in many ways. NGOs have the potential to complement, or substitute, for public services. Especially in times of severe budget constraints, the presence of NGOs might provide an easy way for local and central governments to off-load some of their responsibilities and effectively give rise to a “crowding out” of public services. NGO provision of services also increases the risks of inequitable service provision across local governments, if NGO or donor activity is more prevalent in certain areas than others, if coverage of services is limited, or if quality and effectiveness are not monitored.

There have been important recent developments related to the legal status and financing of NGOs in Romania. Most importantly, in May 2000, following the completion of fieldwork for this report, a new NGO law was passed which eases registration processes and clarifies the relationship between local governments and NGOs and makes provisions for information sharing and the provision of resources to NGOs, such as office space.

While the legislative framework for NGOs appears quite advanced, further analysis is needed to assess its effectiveness and impact. Interviews with NGO staff and officials from the central as well as local governments indicated that NGOs and local governments were not yet sufficiently informed about the new legislation to take full advantage of its provisions. In addition, there are areas where additional legislation will be needed, including establishment of quality standards for service provision by NGOs.

Box 4.2: Community Based Services and the RSDF

The Romania Social Development Fund (RSDF) was established in 1998 by the Romanian government in partnership with the World Bank, to support community driven development initiatives in disadvantaged areas of the country. A central component of the RSDF is support for community-based services, which provide useful examples of community participation in service delivery and of the significant potential for collaboration between NGOs and local governments.

Since the inception of the RSDF, 39 such projects have been supported, representing a diverse range of activities. Projects include home care for the elderly, shelters for homeless adults, and housing and counseling services to assist teenagers who have left state institutions to reintegrate into society. In nearly all cases, projects are run by NGOs with support from local governments. The contributions of local governments are sometimes in cash, but most frequently are in-kind, through the provision of staff time, consumables or facilities. In Galati, a local council pays the salaries for social workers in a home care program for the elderly. In another project in Braila, the local council contributed a building for a counseling center.

The greatest challenges for these projects is to identify on-going sources of support. Many projects are not selected for RSDF funding because they are not able to demonstrate sustainability. In this regard, the ability of local governments to identify and allocate resources to programs and services which reflect the needs of the community is extremely important. The judets offices of the MMSS serve as another important source of support for programs. Based upon a law on NGOs passed in 1998, the MMSS is able to support consumables and equipment for community services.

In addition to fiscal sustainability, the success of the projects and the collaboration with local governments also depends on local participation and support, and the ability of projects to demonstrate visible results. The personal initiative and involvement of local government officials can greatly influence the success and sustainability of projects. In Braila, on-going support from a mayor has led to the expansion of a number of initiatives.

Experience from this first set of projects has demonstrated the capacity for local governments to work with NGOs in service provision. The lessons from these projects are valuable examples for other local governments which are unaware of the potential opportunities for increasing civil society involvement in services. The RSDF staff is considering ways in which to disseminate the experience across the countries, including study visits for local officials to see the results of projects.

Improving Information

The study highlighted the lack of a 'service mentality' across different types of local governments and services. With few exceptions, social service providers do not generally solicit feedback from recipients through customer satisfaction surveys, or other channels. Beneficiaries were rarely asked for their views on the level, types and quality of services provided. These discussions pointed to the lack of a 'service culture' in Romania. Neither beneficiaries nor providers expressed the sentiment that public education, health and social services were public services, paid by taxpayer funds and delivered by public servants. As a result, beneficiaries frequently regard services as unresponsive to their needs and lack understanding of changes in services brought about by reforms.

4.5. Policy Implications

Expanding access to services and increasing responsiveness of local governments and social services providers is a complex challenge which will require the involvement of central and local governments, as well as public participation. The following discusses policy implications for the various sectors.

Expanding Access to Services.

- **Providing incentives for service providers to work in remote areas.** Currently, local governments are able to provide nominal incentives to providers, in the form of small salary supplements and housing. However, these measures have not been effective. The government should explore options for improving incentives for service providers to serve in remote areas including targeted recruitment of health, education and social assistance personnel by offering scholarships, as well as salary rewards to recent graduates who originally come from these remote areas. Another measure currently under consideration, is to allow for young people enrolled in compulsory military service to serve their term working in social services.
- **Improving transportation for students.** A review of transportation needs should be undertaken to identify infrastructure requirements (e.g. roads).
- **Addressing economic constraints to school attendance.** The economic costs of accessing services can be overcome through consistent provision of scholarships, school materials and meals for low income students.
- **Examining options for outreach programs.** To expand coverage in rural areas it will be important to identify opportunities for providing services in remote areas that is both feasible and affordable.
- **Preparing service professionals to work with Roma communities.** In education, teachers play a central role in defining the quality of education for all students and need to be adequately trained to deal with the challenges of a multicultural environment. On-going support mechanisms which help teachers on the job are critical. Particular training could include Roma history and culture, and conflict resolution and classroom management. Roma teachers assistants and mediators can assist in the classroom environment, as well as provide a link between Roma communities and schools.
- **Improving communication between service providers and Roma communities.** Similarly, training for health and social assistance professionals can facilitate interactions between Roma and service professionals. Information campaigns are critical for addressing many emerging health risks, including substance abuse, sexually transmitted diseases and conditions associated with poor nutrition and hygiene. Other initiatives can include improved dissemination of public health information through the media, schools and coordination with organizations such as churches and NGOs within the Roma community.

Increasing Responsiveness of Services

- **Strengthening linkages between local governments and NGOs.** Greater effectiveness of NGO involvement can be encouraged through better communication

between NGOs and local governments, and greater awareness among both parties of legislation and mechanisms for partnerships at the local level. Increasing participation of NGOs entails a growing need for monitoring and coordination mechanisms for NGO activity, to ensure quality of service and to ensure collaboration with public service institutions.

- **Improving communication between providers and beneficiaries.** Communication mechanisms and feedback mechanisms should be introduced or strengthened to improve responsiveness of services. Examples could be the introduction of consumer satisfaction surveys, or greater use of town meetings and other public forums.
- **Establishing quality standards for service delivery.** Social sector ministries should work with local governments and service providers to develop a set of minimum quality service standards to help local governments benchmark service delivery and facilitate monitoring.
- **Expanding participation of Roma in public affairs.** The near absence of Roma personnel working in education, health and social protection limits the accessibility of services to Roma communities. Roma service providers can facilitate interaction between Roma and public institutions and help address cultural barriers. Roma can also serve as community leaders and provide role models for children. Emphasis should be placed on increasing the participation of Roma in social service delivery and in local governments.

4.6. Conclusions

Romania's new government has identified increasing the role of local governments in service delivery as a priority and has rightly linked the process to the overall reform of public administration and intergovernmental finance in the country. Experience to date with decentralization of social services in Romania provides some important policy lessons which have already begun to shape future policies, and indicate potential benefits and pitfalls of decentralization.

In some areas, decentralization has been a failure. Fiscal decentralization of poverty alleviation benefits has undermined their effectiveness and led to an erosion of the social safety net. Financing of the means tested social assistance benefits out of local government budgets has meant that many of the poorest local councils, which have the greatest need, have been unable to pay benefits. As a result, there is currently no national poverty alleviation program for the poorest households in Romania. In order to address this, the government is undertaking measures to recentralize financing and aspects of its administration. The MMSS has prepared the MIG Law which proposes to centralize financing for social assistance cash benefits by financing the program through earmarked cash transfers to local councils. Targeting of benefits will remain the responsibility of local governments.

In other areas, decentralization appears to have been more effective. Decentralization of child protection to the judets level has diversified arrangements for financing and provision of child protection services by increasing opportunities for judets to work in partnership with NGOs, donors and other institutions within civil society. Other examples of collaboration between local governments and NGOs, such as those implemented under the Romania Social

Development Fund, also illustrate the potential for increased responsiveness, through greater community involvement in services.

Education is the policy area where there is perhaps greatest potential for further decentralization. The new government has already transferred responsibility for financing personnel to local governments. In addition, the experiment with 'representative schools' indicates that additional responsibilities including managing personnel and curriculum may be decentralized to the local level. Lessons from the experience of local government involvement in education to date are essential for the success of future policy reforms. A careful evaluation of capacity at the school level and of the benefits that could accrue in terms of increased parents' participation and ownership could inform the decision of whether Romania should move towards more complete autonomy.

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Annex 1: Local Social Service Delivery Policy Matrix

<i>Strategic Objective</i>	<i>Factors Influencing Service Delivery</i>	<i>Issue/Diagnosis</i>	<i>Strategy/Actions</i>
<p>Strengthening the Fiscal Framework</p>	<p>Adequacy and Horizontal Equity:</p> <ul style="list-style-type: none"> - Eliminate gaps in coverage of services across local governments and social groups. <p>Efficiency of Intergovernmental Finance</p> <ul style="list-style-type: none"> - Reduce discrepancies between expenditure responsibilities and local revenue raising capacity. 	<p>Local Governments</p> <ul style="list-style-type: none"> - Local governments lack capacity in fiscal management, tax collection and budgeting. - Local revenue sources are unpredictable and unreliable. - Intergovernmental transfers fail to address disparities across local governments. - There are mismatches between local expenditure authority and revenue capacity. - Expenditure assignments to local governments are unpredictable and subject to frequent changes. <p>Social Assistance</p> <ul style="list-style-type: none"> - The means-tested social assistance benefit is not paid by many local governments; is weakly targeted and inadequate for alleviating poverty. - Local councils have insufficient resources to maintain expenditures for social assistance services and institutions. <p>Education</p> <ul style="list-style-type: none"> - Local councils have insufficient resources to cover education expenditures. - Poorer local councils have difficulty maintaining expenditures because of higher unit costs. - Sustainability of the education is weakened by declining investments in maintenance 	<ul style="list-style-type: none"> - Develop and implement a training strategy for local governments in the areas of financial management, tax policy and budgeting. - Analyze and redesign formula for allocating transfers from the central government to judets; and from judets to local councils. - Provide technical assistance to local governments to support the diversification of local revenue sources. - Reduce frequent modifications to the State Budget Act. - Strengthen monitoring mechanisms to evaluate the impact of transfers. - Pass and implement the MIG Law, including (i) centralized earmarked financing of social assistance benefits and (ii) increased budgetary resources for the program. - Monitor financing arrangements for social service institutions. - Monitor financing arrangements for education to identify resource needs. - Address discrepancies in fiscal capacity of local governments through improvements in the transfer system. - Consider earmarking of resources for capital investments.

		and investments. Health - The mechanism for redistributing resources for health across JHIHs has not had its intended equalizing impact.	- Analyze resource needs across judets and examine options for modifying the redistribution formula among JHIHs
Building Stable Intergovernmental Institutions	Clear Roles and Responsibilities: - Increase efficiency of service delivery through streamlining of institutional arrangements. - Eliminate fragmentation and duplication of responsibilities, reduce gaps in coverage. - Clarify roles of deconcentrated institutions.	Local Governments: - The functions and responsibilities of local governments are not fully specified in the new legislation. - Responsibility for tax collection is fragmented across levels of governments and institutions. Social Assistance: - Responsibility for providing social assistance benefits and services is fragmented across numerous government agencies. Education: - Lack of clear guidelines for budget allocation and information sharing at the level of CEBs limits transparency and provides disincentives for planning.	- Clarify local responsibilities (e.g. in Law No. 69/91 on public services). - Review whether tax collection responsibilities can be consolidated. - Pass Social Assistance legislation consolidating responsibility for social assistance under the MMSS. - Clarify responsibility for benefits and services for the disabled between the MMSS and MOH. - Undertake institutional analysis of the MMSS, use findings to develop organizational plan including: # and location of branch offices; and staffing and information requirements. - Distinguish between provision of cash benefits and services. - Review the role of CEBs. Develop and distribute criteria for allocating resources

		<p>Health</p> <ul style="list-style-type: none"> - Roles and responsibilities of judet level health institutions are unclear. <p><i>Cross-cutting:</i></p> <ul style="list-style-type: none"> - Responsibilities for paying health insurance contributions for the uninsured are unclear. 	<ul style="list-style-type: none"> - Review and clarify roles of JHIFs and PHDs in monitoring and evaluation and public health activities. - Clarify responsibility for paying health insurance contributions for non-insured individuals.
	<p>Incentives and Accountability:</p> <ul style="list-style-type: none"> - Establish clear incentive and accountability structures which promote effective service delivery. - Strengthen public sector governance. - Improve openness and transparency of decision-making. - Improve communication and coordination between levels of government. - Install mechanisms for on-going monitoring and evaluation of policies and outcomes. 	<p>Local Governments</p> <ul style="list-style-type: none"> - Local governments are not involved in the preparation of legislation and regulations which effect them. - The process for allocation of the equalization grant from judets to local councils is discretionary and varies across and within judets. - Annual changes to the State Budget Law on expenditure responsibilities limit long-term planning. <p>Social Assistance</p> <ul style="list-style-type: none"> - Eligibility criteria for means-tested social assistance benefits vary across local governments. - Ownership of facilities for social assistance is unclear (institutions and judet social assistance offices). <p>Education</p> <ul style="list-style-type: none"> - The process for allocating resources to individual schools is unclear. - Schools are not involved in the local 	<ul style="list-style-type: none"> - Increase consultations between central and local government on measures affecting the fiscal responsibilities of local governments. - Include local government associations as partners in preparation of legislation. - Where possible, use technology to improve intergovernmental consultations (e.g. web-sites for draft laws) - The process for reallocating the equalization grant should be analyzed and clarified. - Pass the Law on the Minimum Income Guarantee (MIG) including clear national eligibility criteria for means-tested benefits. - Clarify ownership of social assistance institutions and MMSS offices. - Involve schools in financial decision-making and budgeting.

		<p>budget process.</p> <ul style="list-style-type: none"> - Incentives for teachers to enhance their performance are low. <p>Health</p> <ul style="list-style-type: none"> - Incentives for investment and maintenance of health facilities are weakened by confusion over ownership of facilities. 	<ul style="list-style-type: none"> - Clarify ownership of health facilities.
	<p>Administrative Capacity</p> <ul style="list-style-type: none"> - Strengthen administrative capacity of local governments. - Improve capacity of social service institutions in administration and financial management. 	<p>Local Governments</p> <ul style="list-style-type: none"> - Judets and local councils have limited capacity to carry out fiscal responsibilities under the LLPF. - Local councils are ill-equipped to carry out administrative tasks implied by the increased responsibilities for education and social assistance financing. <p>Social Assistance</p> <ul style="list-style-type: none"> - Local governments have limited capacity provide social assistance. <p>Education and Health</p> <ul style="list-style-type: none"> - Schools and health clinics have limited capacity to manage their budgets and to work effectively with local governments on financial matters. 	<ul style="list-style-type: none"> - Disseminate draft legislation for consultation. - Increase discussion of the State Budget Law between the central and local governments. - Involve social service institutions in the local budget-making process. - Establish monitoring at central and judet levels to ensure local governments are able to carry out fiscal responsibilities. - Undertake human resources assessment of local administration to determine appropriate staffing levels and skill profiles. - Establish social assistance offices in the judets administration. - MMSS and MAP to develop and provide training for local government officials involved in providing social assistance. - Identify skills needed in schools and health facilities in administration and budgeting. - Develop and provide training for select staff.

<p>Providing Responsive Services</p>	<p>Access to Social Services:</p> <ul style="list-style-type: none"> - Expand access to social services, address geographic barriers. - Reduce social exclusion of Roma. - Mitigate costs of services to households. 	<p><i>Local Governments</i></p> <ul style="list-style-type: none"> - Local governments have limited mechanisms for attracting social service personnel to remote areas. <p><i>Education</i></p> <ul style="list-style-type: none"> - Students in remote rural areas have difficulty getting to school. - Opportunity costs of attending school for poor students are high. - School attendance among Roma is low due to a combination of economic and social factors. - Discrimination against Roma students deters attendance. <p><i>Health</i></p> <ul style="list-style-type: none"> - Access to health facilities is limited in remote rural areas. - Poor communication between Roma and health providers limits access to care. - Out-of-pocket charges for health care limit access among poor households. 	<ul style="list-style-type: none"> - Explore options for improving incentives for service providers to serve in remote areas (e.g. targeted recruitment of personnel). - Improve transportation for students, assess transport infrastructure needs. - Address economic constraints to school attendance through consistent provision of scholarships, school materials and meals for poor students. - Train teachers to work in a multicultural environment. - Develop programs to encourage participation of Roma parents at school. - Examine options for outreach programs (e.g. visiting nurses). - Develop and provide training to health personnel on working with ethnic minorities. - Improve dissemination of public health information and increase outreach activities. - Develop and implement strategies for reducing informal payments in health.
	<p>Participation</p> <ul style="list-style-type: none"> - Increase participation in public affairs and service delivery. - Improve responsiveness of services. - Strengthen accountability of local officials and service providers to the public. - Increase NGO involvement in social services. 	<p><i>Local Governments</i></p> <ul style="list-style-type: none"> - Public participation in local government activities is low. - Legislation on interactions with the NGO sector is incomplete. - Awareness of mechanisms for collaboration between local governments and NGOs is low. 	<ul style="list-style-type: none"> - Increase channels for public participation in local government affairs. - Disseminate information on legislative framework for NGOs. Prepare training for local and NGO officials. - Disseminate information on 'best practice examples' of NGO-local government collaboration on social service delivery.

		<p>Social Services</p> <ul style="list-style-type: none"> - Public participation in social services is low. 	<ul style="list-style-type: none"> - Increase awareness of opportunities for public participation in social services. - Increase opportunities for participation through volunteering, greater role for parent teacher organizations. - Allow for participation in social services as an alternative form of military service for young people.
	<p>Monitoring and Evaluation:</p> <ul style="list-style-type: none"> - Improve quality and availability of information on the (i) needs of the population; (ii) access to social services, and (iii) the effectiveness of existing programs. - Improve the quality and responsiveness of services. - Increase communication between beneficiaries and providers. 	<p>Central and Local Governments</p> <ul style="list-style-type: none"> - Local and central government institutions lack information on social welfare status of the population and the effectiveness of programs and policies. <p>Social Services</p> <ul style="list-style-type: none"> - The population views services as unresponsive to their needs. - Minimum quality standards for service provision are absent. - Evaluation of the effectiveness of social services is weak or absent. 	<ul style="list-style-type: none"> - Establish capacity at the central and local levels to monitor poverty and the social welfare impact of public policies. - Strengthen the monitoring capacity of decentralized organizations. - Disseminate results of analysis across local governments. - Introduce feedback mechanisms (e.g. consumer satisfaction surveys). - Improve communication on availability of services and opportunities for participation and feedback. - Introduce quality standards and monitoring mechanisms for public social services.