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INTERNATIONAL FINANCE CORPORATION

**PROGRESS REPORT
ON THE
COUNTRY PARTNERSHIP STRATEGY
FOR
ROMANIA
FY09 – FY13**

November 28, 2011

Central Europe and the Baltic Countries Country Unit
Europe and Central Asia Region

International Finance Corporation
Europe and Central Asia Department

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DATE OF CURRENT CPS

June 12, 2009

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 1, 2011)

Currency Unit	Romanian New Leu
US\$1.00	3.17

ABBREVIATION AND ACRONYMS

AAA	Analytical and Advisory Assistance	IFC	International Finance Corporation
ARD	Agriculture and Rural Development	IDF	Institutional Development Fund
CPRR	Country Portfolio Results Review	IMF	International Monetary Fund
CoG	Center of Government	GoR	Government of Romania
CPS	Country Partnership Strategy	IFIs	International Financial Institutions
DPL	Development Policy Lending	NBR	National Bank of Romania
EBRD	European Bank for Reconstruction and Development	NRP	National Reform Program
		P4R	Program for Results Lending
EC	European Commission	PEFA	Public Expenditure & Financial
EIB	European Investment Bank		Accountability
EMTN	Euro Medium Term Note	PEIR	Public Expenditure and Institutional
ESW	Economic and Sector Work		Review
EU	European Union	PFM	Public Financial Management
FDI	Foreign Direct Investment	PPP	Public Private Partnership
FRs	Functional Reviews	PR	Progress Report
FY	Fiscal Year	RSDF	Romanian Social Development Fund
GDP	Gross Domestic Product	R&D	Research and Development
GEF	Global Environment Facility	SBA	Stand-By Agreement
GMI	Guaranteed Minimum Income	SIP	Social Inclusion Project
IBRD	International Bank for Reconstruction and Development	SMEs	Small and Medium-size Enterprises
		SOEs	State Owned Enterprises
ICT	Information and Communication Technology	TA	Technical Assistance
		UPL	Unitary Pay Law
IDA	International Development Association	VAT	Value Added Tax
		WB	World Bank

IBRD

IFC

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COUNTRY PARTNERSHIP STRATEGY FY09 – FY13 PROGRESS REPORT FOR ROMANIA

This Country Partnership Strategy Progress Report comes at a time when Romania has been emerging from the global financial crisis, though like other countries, faces risks of contagion from economic volatility in Europe. Romania is undergoing broad and systemic reform of the public administration to lay the foundations for a more sustainable growth path and convergence with the EU. The Bank's approach through the CPS is designed to support this process and continue to help Romania mitigate risk of further crises. In the first two years of the CPS, the cornerstone of the Bank's program was, with the EU and IMF, helping Government overcome the crisis through DPLs and ongoing portfolio, together with identifying reforms to build a stronger public administration through Functional Reviews of twelve Ministries. Now at mid-point, the Bank is turning toward helping the Government implement such public reform through the Modernization of Administration Program and projects in the social sectors and tax administration, supporting its external issuance program through deferred drawdown operations and advancing the discussion on growth via a series of growth policy notes, and private sector development with the IFC. Through this work, the Bank hopes to help the country's efforts for Romania's people to reap the full benefits of EU membership and enjoy a quality of life similar to its EU neighbors.

I. INTRODUCTION

1. **This Progress Report (PR) covers the implementation at midpoint of the FY09-13 Country Partnership Strategy (CPS) between the Government of Romania (GoR) and the World Bank Group.** The CPS was designed around three pillars: (i) reforming the public sector, (ii) resuming growth and enhancing competitiveness, and (iii) promoting social and spatial inclusion. The main anchor of the strategy was the EUR1 billion Development Policy Lending (DPL) 1-3 program complemented by the existing portfolio and a program of Analytical and Advisory Assistance (AAA). The International Finance Corporation (IFC) investment strategy in the short term was to provide a crisis response by helping to recapitalize the existing client banks, supporting financial institutions to continue on-lending and offering trade finance products. IFC provided long-term credits to banks to co-finance European Union (EU) funded projects and to foster competitive real sector. Overall, considerable improvements were made under all pillars with satisfactory and timely implementation of the Bank supported program, as well as proactive efforts to restructure the portfolio. The Bank program for FY09-13 was clearly defined for the first two years, and broadly outlined for the outer years. Challenges remain to be addressed in FY12-13, and greater focus will be given to the growth agenda.

2. **While the strategic focus of the pillars remains relevant, this PR proposes a more European lens to help frame the Bank's support to Romania.** The midterm review is an opportunity to adjust the Bank program to current country needs. The original pillars remain relevant in light of the still fragile economic recovery and the need to strengthen the foundations for medium-term competitiveness and growth. As Romania's policies and economy are inevitably tied with EU membership, this Progress Report tries to more clearly reflect Bank's activities in this context through three EU related themes: (i) policy reforms to reap the benefits of EU membership, (ii) modernization of public institutions to enhance resource allocation and absorption of EU funds, and (iii) complement to EU funding. The risks outlined in the CPS remain relevant, but this PR identifies additional ones and proposes mitigation measures.

3. **This Progress Report proposes new lending and AAA work to support Romania's convergence to EU living standards.** The PR proposes about EUR1.7 billion in new lending, while the AAA program has been growing with a strong portfolio of Fee Based Services (FBS). The Bank will, however, remain flexible to address client needs that may arise in the next two years. While the original CPS envisioned a phased reduction in IFC investment, the ongoing risks associated with the global economic downturn and worsening European debt crisis require the IFC to continue play an important counter-cyclical role through selective private sector investments. In the real sector, this includes supporting projects which create jobs, increase investment in underserved frontier regions, contribute to the growth and competitiveness of local firms in promising sectors such as agribusiness, infrastructure and improve resource efficiency.

II. DEVELOPMENTS SINCE THE CPS

4. **The political environment is characterized by some uncertainty.** As no party holds a majority in the Parliament, coalition politics makes unpopular reforms difficult to implement. So far, the current coalition government has survived multiple no-confidence votes and its stability and future durability may depend on the timely implementation of reforms and the economic policy program. This uncertainty is inherent in the case of any coalition government facing a strong and vocal opposition and in the context of the approaching 2012 local and parliamentary elections. While there is political will to return to growth by deepening structural reforms, strengthening public administration and making needed budgetary adjustments, some reforms are unpopular with a part of the Romanian population and the past year witnessed several public protests.

5. **Faced with an unfavorable international environment due to the global financial crisis, a slowing economy, and a large fiscal and financial gap, Romania turned to the international financial institutions (IFIs) for support in early 2009.** The International Monetary Fund (IMF), the European Commission (EC), the Bank, and other international financial institutions (IFIs) supported the reforms to which the Government committed with a package totaling EUR19.95 billion over 2009-2011, of which the Bank would contribute about EUR1 billion under three DPL operations¹. The package aimed to help the GoR bring down the fiscal deficit in a sustainable way, improve the efficiency of public spending and strengthen the financial sector. The ultimate goal was to help Romania emerge from the economic and financial crisis on a stronger footing, so as to converge to the living standards of more advanced EU economies.

6. **In 2009, the economy was in a recession which continued in 2010.** Economic activity declined by 8.4 percent in 2009 and 2010, largely due to a sharp fall in private consumption, reflecting a decline in bank credit, the reduction in households' disposable incomes, and plummeting investor confidence. Declining domestic demand led to a major current account contraction to less than half of the 2008 level. Foreign direct investment also declined to less than half of its pre-crisis level. The fiscal deficit widened to 7.3 percent of GDP in 2009 and 6.5 percent in 2010 (Table 1) due to the effect on revenues in particular of the crisis, which was deeper than initially expected. In 2010, strong government measures were undertaken, including a hike in VAT from 19 to 24 percent and a 25 percent cut in public wages.

Table 1: Key economic indicators, 2008-13 (CPS period: 2009-2013)

	2008	2009	2010	2011	2012 ²	2013
Real GDP growth (%)	7.3	-7.1	-1.3	1.5	1.8	3.2
Domestic demand (%)	8.3	-14.6	-1.0	0.3	1.5	3.6
Consumer price index (% , average)	7.8	5.6	6.1	6.4	2.9	3.2
Fiscal balance (% of GDP)	-4.8	-7.3	-6.5	-4.4	-1.9	-2.0
Structural fiscal balance (% of GDP)	-8.5	-7.0	-5.1	-2.6	0.0	-0.5
Current account balance (% of GDP)	-11.6	-4.2	-4.1	-4.5	-4.7	-5.0
FDI balance (% of GDP)	6.7	3.0	1.8	2.2	2.6	2.2
Gross external debt (% of GDP)	51.8	69.0	75.7	75.4	77.8	72.9

7. **Growth has resumed in 2011, but it is expected to linger below potential in the medium term, while important downside risks remain.** Earlier expectations on Romania's quick economic recovery and improved macroeconomic outlook have been dampened by the resurgence of the global economic crisis and the ongoing challenges in the Eurozone. Growth of 1.5 percent is projected for 2011 from -1.3 percent in 2010, and is currently expected to only modestly increase in 2012 to around 1.8 percent of GDP, and continue at 2-3 percent per annum over the medium term. Growth depends however on the recovery of the global economic environment, renewed investor confidence, and a steady increase in domestic demand. The fiscal deficit (in cash terms) is on track to meet the target of 4.4 percent of GDP (or within 5 percent in ESA³ terms) in 2011 and it is expected to bring the ESA and cash deficits within 2 percent of GDP in 2012.

¹ The DPL1, for EUR 300 million, was disbursed in 2009; the DPL2, for EUR 300 million, was disbursed in June 2011; and the DPL3, for EUR 400 million, is expected to accompany this Progress Report.

² Forecasts based on IMF data.

³ European System of National and Regional Accounts in the European Community

8. **The IMF, EC and the WB continue to support fiscal stabilization, economic growth and structural reforms including through a 24-month precautionary Stand-By Agreement (SBA). This should help Romania weather better the impact of the deepening crisis in the Eurozone and the risk of contagion.** The IMF released seven tranches totaling SDR 10.57 billion under the SBA which expired in March 2011. The eighth tranche was made available on a precautionary basis, at the Government's request. The EC also released in June 2011 the fifth and last tranche of its EUR5 billion program accompanying the SBA with the IMF. A new SBA of EUR3.5 billion was approved by the IMF in March 2011, in conjunction with precautionary support from the EU of EUR1.4 billion. The SBA focuses on boosting growth through structural reforms and aims at deep-rooted reforms in energy and transport. The IMF and EU precautionary support helps to reassure the markets and provide a cushion against potential adverse shocks.

9. **Social protection spending made it possible to continue reducing poverty despite the crisis.** The absolute poverty rate decreased from 36 percent in 2000 to 5.7 percent in 2008 and 4.4 percent in 2009. The 2009 decline in the poverty rate has been partially due to increases in the minimum pension, but this effort proved to be costly and not well targeted. In addition, the rise in unemployment was partly contained due to strong labor hoarding effect aided by the GoR through a generous "technical unemployment" subsidy to companies. However, the poverty rate increased to 5.4 percent in 2010 due to the crisis hardship. Social spending rose from 10.15 percent in 2008 to 14.3 percent of GDP in 2010.

10. **The Government National Reform Program (NRP) 2011-13, adopted in April 2011, indicates a gradual shift of the reform agenda away from crisis management towards reviving economic growth and enhancing competitiveness.** The NRP outlines new reforms derived from specific objectives of the Europe 2020 strategy. This reinforces the country's objective of achieving convergence with the EU in terms of competitiveness, income and living standards. Thus, the NRP proposes short and medium term priority reforms to close the gap with the EU and fall into three categories:

- i. *Measures to consolidate the macroeconomic framework* include expenditure and revenue adjustments, public pay policy reforms, health, state owned enterprises (SOE);
- ii. *Policy reforms* to address root causes of vulnerabilities exposed by the global economic crisis and improve functioning of markets aim to increase allocational efficiency of public and private sector resources; reforms are envisaged in: R&D, energy, health, education;
- iii. *Administrative capacity building measures* aim to enable better delivery of public services and effective strategic prioritization of Government actions, including better policy coordination and monitoring and evaluation; these target the functioning of the General Secretariat of the Government, the Ministry of Public Finance and institutional set-up and business processes in line ministries (i.e. education, social protection, tax administration, EU funds absorption) and governmental agencies; the measures are derived mainly from the recommendations of the FRs.

11. **Government priorities have been endorsed and supported by key stakeholders.** The multilateral program with the IMF, EC and the Bank supported the established priorities. These have also been validated by a number of exercises conducted by the Bank such as the benchmarking exercise, mapping of reforms and stakeholders' analysis, confirming at the same time the role of the Bank as a key advisor to the Government in implementing the reforms agenda, building upon its comparative advantage (as presented in section IV).

III. PROGRESS TOWARD ACHIEVING CPS OBJECTIVES AND OUTCOMES

12. **Progress toward achieving the CPS objectives and outcomes is broadly satisfactory through there remains a significant agenda for the two years ahead.** The CPS design was not overly ambitious in setting the objectives and results of the Bank's contributions over the CPS period. With Bank support through DPL 1-2 and technical assistance (TA), the budget process now relies on tighter discipline, prioritization and monitoring practices. These improvements have been triggered by a strengthened medium-term expenditure framework (MTEF), a longer-term fiscal strategy and legislation encouraging fiscal responsibility. More efficient expenditure policies are implemented in health and education. Comprehensive efforts to rationalize and consolidate social

assistance are underway. The CPS contributed to developments in various sectors as described below, such as: agriculture and rural development, knowledge economy, energy, as well as to increased EU funds absorption in selected areas. However, the latter remains a major challenge.

13. **During its first two years, the CPS was centered on the DPL program.** The DPL series was the main policy instrument for dialogue with the Government, IMF and EC. They supported a comprehensive - and probably unprecedented in terms of coverage and depth - reform agenda including a new pension system, new public pay system, budget reforms, health expenditure efficiency reform, rationalization of the social assistance system, and reforms to consolidate financial sector. The policy dialogue was assisted by an array of TA through a joint program of the Bank, IMF and EC. The DPL and accompanying TA helped the Bank strengthen its collaboration with the EC, paving the way to the partnership on Functional Reviews (FR) and Modernization of Public Administration. Progress under pillars is presented below (see also Annex 3).

Pillar 1 - Public Sector Reform

14. **Progress on Public Sector Reform is on track and this pillar has become a primary focus of Bank support to the GoR.** The CPS has supported the fiscal sustainability targets in the 2009-2012 Government's program, and fiscal reforms critical to Romania's medium-term agenda. In the budget area, CPS instruments (DPL1-2, Public Expenditure and Institutional Review, Education and Health TA) have helped underpin improved budget discipline, accountability, efficiency and sustainability of the public wage bill. In governance, the Bank continues to support strengthening the efficiency and accountability of the judiciary. Proactive measures⁴ by the Ministry of Justice bode well to meet CPS objectives in the judiciary by 2013.

15. **Over the past year and a half, the Bank carried out functional reviews (FRs) of twelve public institutions in Romania** under the overall framework of an MoU signed in June 2009 between the EU and the GoR. The reviews provide operational recommendations on strategic management, organizational structure, sector governance, budgeting, and human resources management to help guide structural reforms. While this possibility was envisaged in CPS, it materialized in a much stronger way than anticipated and has become a cornerstone of the Bank's work program in Romania. Phase 1 (presented to Government in October 2010) covered Transport, Pre-University Education, Agriculture and Rural Development, Public Finance, the Center of Government, Competition Council; and phase 2 (presented to Government in March 2011) analyzed Environment and Forestry, Energy and Economy, Health, Labor and Social Protection, Regional Development and Tourism, Higher Education, Research, and Innovation). In December 2010, the Government approved their action plans derived from the recommendations of the first phase, part of which the Bank may support under the EU financed Modernization of Romanian Public Administration FBS series (see section Proposed Adjustments to the CPS). The Government has recently completed Action Plans based on the second phase of the Functional Reviews and submitted them to the European Commission.

16. **The Bank's support under Pillar 1 is expected to exceed the CPS original objectives.** Under DPL1, the GoR elaborated a MTEF that, together with the Fiscal Responsibility Law, represents the basis for a credible medium-term fiscal plan and linking allocations to outcomes and performance. The MTEF is already being used as a tool to enhance fiscal discipline and improve resource allocation, resulting in achieving satisfactory outcomes for this CPS pillar. This should be reflected by a steady reduction of discrepancy between the approved budget and actual expenditures for major ministries. The implementation of measures to attract and retain skilled public employees remains to be addressed (under DPL3). The Judicial Reform Project was restructured to better support the Strategy for the Development of Justice as a Public Service 2010-14 and the needs resulting from the Cooperation and Verification Mechanism⁵.

⁴ "Small Reform Law" to speed up Courts procedures, new strategy 2010-2014 Justice as a Public Service, progress in impact assessment of four new codes, design and preparation of roll out of Resource Monitoring System for Judiciary

⁵ This is a safeguard measure of the EC in case a new member or acceding state of the EU failed to implement commitments undertaken during accession negotiations (freedom, security and justice or internal market policy)

Pillar 2 - Growth and Competitiveness

17. **Given the focus of the first two years on the crisis, and given its longer term nature, the Bank's support to this pillar is less advanced, despite some important achievements:** (i) *financial sector*, the Bank contributed mainly via the DPL to maintaining financial stability, improving governance and the sector's resilience (i.e. Mortgage and Corporate Debt Restructuring Guidelines issued, adopted legislation on political independence and financial autonomy of sector regulators); (ii) *education*, the DPL supported the shift to per-student financing; (iii) the Knowledge Economy project provided access to, and use of the Information and Communication Technology (ICT) resources for 255 local communities; (iv) *hazards mitigation*, the related project financed the development of an Emergency Management Information System and helped mitigate earthquake and flood risks by retrofitting public buildings and rehabilitating selected large and small dams); (iv) *energy*, the internal market opening including the residential market and the development of the Commercial Operator Power Exchange⁶); (v) *environment*, the Municipal Services Project helped the Ministry of Environment to meet the EU environmental directives). Key challenges that the Bank could support upon demand on the growth agenda include business environment, R&D and innovation, skills, competition, digital agenda, transport and climate change.

Pillar 3 - Social and Spatial Inclusion

18. **A number of reforms have been contributing to improved targeting and efficiency of social spending.** The design and funding of the best targeted programs for social assistance, such as the Guaranteed Minimum Income, were improved. The Social Inclusion Project (SIP) supports the improvement in social and spatial inclusion of Roma communities (through the Romanian Social Development Fund) as well as greater participation of Roma children in early childhood education programs. In addition, the DPL2 promoted reforms to strengthen the fiscal viability, integrity and equity of the public pension. Similarly, the DPL series has contributed to progress in the financial sustainability of the health sector as well as in the efficiency and quality of health services through the reform of provider payment methods and a plan to better align hospital infrastructure with demand - the national hospital rationalization strategy (approved in March 2011) contributes to meeting some of the CPS targets. Some 373 hospitals were decentralized and all hospitals contracted by the National Health Insurance House were assessed and classified or reclassified following the Hospital Classification. A results-based operation on the modernization of the social assistance systems was approved end FY11. This EUR500 million project supports the government efforts to improve overall performance of the social assistance system by strengthening performance management, improving equity, administrative efficiency, reducing error and fraud.

19. **However, adjustments are needed to make the best use of limited resources in achieving greater social and spatial inclusion.** So far, the main Bank instrument in support of Roma inclusion has been the Social Inclusion Project. Unfortunately, implementation has been hampered by the GoR's long investment approval cycle and institutional capacity of the National Agency for Roma, and was restructured to enhance the Roma component and accommodate two new sub-components: (i) the upgrade of the IT system for social assistance benefits and (ii) the improvement of the cash benefits in the social assistance system. Additional reforms supported by the DPL 2 aim at increasing the effectiveness and efficiency of income-tested family benefits such as the Lone Parent Allowance and the Complementary Child Allowance (legislation to this end was submitted to the Parliament as a DPL2 prior action, to be implemented under DPL3). Less progress than hoped was made on an Avian Flu project, which closed marginally unsatisfactory during the CPS against its original development objectives (though marginally satisfactory against its revised ones) and as a number of project activities were cancelled or transferred.

Overall Portfolio

20. **The IBRD portfolio consists of 12 active projects.** While the number of projects is declining, the AAA program, largely fee based services, is growing. At end October 2011, the

⁶ the share of electricity supply sourced from the liberalized market accounts for about 50 percent of total electricity supply in Romania

portfolio included 12 investment operations totaling US\$1.7 billion; 2 co-financing GEFs; one Prototype Carbon Fund; one PHRD for policy making for People with Disabilities; 7 AAAs including one FBS following up to the FRs. In addition, FBS TAs in support of the implementation of the action plans derived from FRs recommendations are undergoing pre-signing approval procedures. The AAA portfolio covers public finance, education, health, regional development, labor and social protection.

21. **Proactive efforts have improved quality of the portfolio.** Disbursements are satisfactory with a ratio of 29 percent at end-FY10 and 19.4 percent in FY11. Projects at risk decreased from 46 percent at end FY10 to 25 percent in FY12. Quarterly portfolio meetings evaluate portfolio performance and address implementation challenges. An online monitoring system in place since FY11 tracks portfolio performance and implementation of recommendations. A characteristic of the Romania portfolio has been a number of old projects unable to complete implementation during the planned project life resulting in a large number of extensions. Greater efforts to avoid project extensions will make more room for new projects/loans. Apart from close monitoring, other efforts include restructuring operations to maintain relevance to the GoR policy agenda by revising project development objectives, transferring funds toward new sub-components or canceling amounts for components where time-bound actions were not met.

22. **IFC commitments are approximately US\$660 million** with the largest share for finance (67 percent) and infrastructure (20 percent) sectors. IFC's current committed portfolio is the fourth largest in Europe and Central Asia. Romania will also benefit from two crisis response regional funds: the CRG CEE Restructuring Fund and the ADM CEECAT Recovery Fund. These funds aim to raise a total of EUR500 million to address regionally bad debts and assist local companies facing financing difficulties. IFC has played an active crisis response role in Romania, investing in FY09-12 approximately US\$466 million of its own funds and mobilizing an additional US\$242 million in fifteen projects in various sectors. Particular support was provided to financial, renewable energy and health sectors. The IFC portfolio is performing very well on both loans and equity.

23. **Since FY09, the Bank has carried out AAA to assist Government in designing and implementing the crisis response, strengthen capacity for improved governance, and provide detailed advice on key sectoral reforms.** Sector notes were produced on power, water, road maintenance, environment, and agriculture and rural development. In FY10-11 the AAA portfolio increased significantly with emphasis on TA, reflecting the addition of the fee-based Functional Reviews (Annex 13) to support structural changes required by the EC. The "regular" AAA portfolio has continued to inform Bank lending and policy dialogue. IFC advisory services focused on investment climate reforms, banking sector development, and sustainable energy finance. These services underpinned Bank interventions and built the capacity of ministries and IFC clients.

24. **The Bank works closely with the IMF, the EU and other donors.** Through donor coordination, the World Bank was able to leverage its portfolio and exercise greater selectivity. The Bank closely and successfully collaborated on the overall fiscal stimulus package with the IMF, the European Union, as well as EIB and EBRD, and supported communication and outreach through various workshops and events.

IV. PROPOSED ADJUSTMENTS TO THE CPS

25. **The overarching objective of CPS implementation remains to support Romania's convergence with the EU through robust, sustainable and equitable growth, and enhanced competitiveness.** To sustain the convergence process with the rest of the EU and boost competitiveness, attention needs to be paid to unfinished structural reforms in the NRP, and to further consolidation of the macroeconomic environment, including additional fiscal adjustment.

26. **Over the past two years of the CPS, the Bank has accumulated a more solid knowledge base on Romania, which will be used to support the Bank's program going forward, and Government policy reforms and institutional development, including for strategic planning, coordination and monitoring and evaluation (M&E) of policies.** This includes: (i) fee-based work, namely the twelve FRs; (ii) analytical and advisory activities, including the benchmarking

and performance-informed portfolio review, the 2009 sector policy notes, the Policy Notes on growth and competitiveness, the Public Expenditure and Institutional Review (PEIR), the ongoing mapping of reforms, and other sector work; and (iii) policy-based and investment lending operations. In particular, the benchmarking exercise and the mapping of reforms (in progress) are highly germane to performance monitoring and capacity building. The benchmarking provides an operational M&E tool to help prioritize strategic choices and monitor programs through Key Performance Indicators. In particular, the work conducted by the Bank through the FRs has informed the preparation of the 2011-13 NRP and are acknowledged as substantial contributions to restructuring and modernizing the central and local public administration, enhancing the efficiency of government expenditures, and improving the quality of and access to public services.

27. **The CPS PR went through a participatory consultative process with stakeholders in different sectors**, including NGOs, think-tanks, private institutions, academia, government and international organizations. A survey assessed the perceived performance of the Bank in implementing the CPS in the first two years and eight sectoral roundtables discussed the challenges and potential Bank role in: agriculture and rural development, climate change, education, governance, the social sectors, health, public finance and smart growth (focusing on: business environment, research, development and innovation, competition and the digital agenda). Key findings from the consultations are included in Annex 6.

28. **The relevance of the CPS areas and the Bank's comparative advantage in supporting national priorities were validated through a strategic positioning exercise.** The exercise was based on a perception survey done in February 2010 among high-level representatives of the Romanian public administration to identify the needs for technical and financial assistance. Data analysis provided valuable information regarding clients' perception of the way in which the Bank comparative advantage matches country needs (see the graph on survey's results in Annex 5). In particular, the survey made it possible to determine sectors and sub-sectors in which the country's needs for assistance are high and Bank capacity is perceived as good. This, in turn, confirmed the relevance of the CPS pillars and guided the identification of the main areas for action for 2010-13.

29. **Public sector reform, growth and competitiveness, and social and spatial inclusion continue to be appropriate pillars for the remainder of the CPS and are complemented by three EU cross-sectoral themes.** While the focus in the first two years was to help Romania deal with the immediate aftermath of the economic and financial crisis, a transition to a longer term perspective with a view to achieve convergence with EU standards of living is now possible and the CPS emphasis will increasingly shift towards this direction. Moreover, given the limited Bank resources and the collaboration between the Bank, GoR and the EC, the Bank's role is of a strategic advisor. Bank contributions are grouped in three cross-sectoral EU related themes. Although distinctions are made between those sectors that still need policy reforms (under theme 1) and sectors that have made many of the policy reforms happen and need capacity strengthening (theme 2), the proposed Bank interventions reinforce and complement each other and are subordinated to the objectives of sustained growth, increased efficiency and transparency of public administration. Theme 3 groups operations not generally covered by EU funding. While there is no change in strategic pillars, the idea is to place Bank's engagement and work clearly within the broad framework of complementarity and support of the EC program in Romania and to use the themes as filters to select AAA and lending operations for the remaining CPS period. Ongoing and proposed activities are reflected under pillars and themes in Annex 2.

Theme 1: Policy reforms to reap the benefits of EU membership and meet the objectives of the Europe 2020 strategy.

30. **Supporting ongoing structural reforms and new policy actions in line with NRP will be critical for Romania to achieve greater convergence with EU Member States.** Reforms in health, education, financial sector and budget processes are supported under DPL3. Policy reforms in social assistance, health, tax administration, energy, transport, SOEs are likely areas for a new DPL. Additional AAA aligned to theme 1 will be guided by GoR demand and Bank's comparative advantage. Issues on macroeconomic stability and building blocks for sustainable growth may be

considered. Also, inclusion and participation may demand attention, especially on the enormous challenges to provide opportunities for the Roma while overcome prejudice and stigma. This is complemented by a set of Policy Notes on Growth and Competitiveness, which provide a framework to orient policy dialogue concerning challenges to EU convergence.

Theme 2: Modernization of public institutions to enhance resource allocation and absorption of EU funds.

31. **The Bank aims to support Government priorities in terms of strengthening administrative capacity to enable better delivery of public services and effective strategic prioritization of Government actions, resources allocation and absorption of EU funds, including better policy coordination and monitoring and evaluation.** The Bank has been asked to provide technical support to the Government to implement its action plans derived from phase 1 FRs recommendations, currently seventeen projects⁷ under the MAP (Annex 4). The Bank has also been requested similar assistance in justice, procurement and EU funds absorption, as part of the MAP⁸. The MAP package supports several interventions both on policy reforms and institutional capacity building (Table 2). Government action plans for the second phase have been approved and the Bank is ready to support their implementation upon request.

32. **Strengthening the institutional capacity at central level is supported by the Bank.** This theme also requires measures to support the “Center of Government”, including the functioning of the General Secretariat of the Government, and the Bank aims to support strengthening the institutional capacity at this level by enhancing the monitoring and evaluation functions in policymaking through an IDF grant. Strengthening strategic organizational reform areas such as human resource management, communication and processes including IT systems is expected to increase administrative capacity in specific sectors covered by the MAP (see Table 2).

Table 2: MAP FBS TAs under themes 1 and 2

Sector	Theme 1 (policy reforms to reap the benefits of EU membership)	Theme 2 (Modernization of public institutions to enhance resource allocation & EU funds absorption)
Public finance	Treasury/debt management, improving capacity in tax policy analysis, strengthening macro forecasting capacity	improving communication with tax payers and strengthening human resource management
Agriculture & rural development	developing a vision and strategy for capitalizing on agri-food production potential; supporting the strategic planning for ARD administration	implementing the management information system of the Ministry, developing and implementing an integrated IT system for financial management; conducting a FR of the National Agency for Cadaster and Real Estate Publicity
Education	school network optimization and management	developing Ministry’s administrative capacity and management of information resources
Transport	update transport strategy and assist its implementation, support railway system with focus on definition and refinement of public service contracts, support public-private partnerships with emphasis on the road sector	
Competition	revising Competition Council’s legislative mandate to promote competition / strengthen competition advocacy in public institutions	implementing a new business architecture in the Competition Council and increasing its human resource capacity on competition matters
Justice		functional review of the judicial system
EU funds absorption		analysis of processes and legislative impediments to greater EU funds absorption
Procurement		Review procurement procedures

33. **The Bank has been requested to support capacity building for absorbing EU funds.** As of end October 2011, the absorption rate of EU structural funds for 2007-13 was around 3.7 percent,

⁷ The MAP consists of 20 projects, out of which 17 are derived from the action plans and 3 are additional requests; the Bank received formal requests for assistance from all sectors except for the 2 education related projects, still under consideration until the financing proposals are approved by the Managing Authority

⁸ Estimated at around USD30M including the education projects under consideration

leaving about EUR 20 billion available. The current economic program aims to raise it to 20% in 2012, which is an ambitious agenda. The *Plan of Priority Measures for strengthening the capacity to absorb structural and cohesion funds*, was approved by the government in April 2011, and could significantly reduce barriers to absorption. One of its key components is to identify the 100 top project priorities, and concentrate counterpart funding and administrative capacity on these projects. The Government also recently created a dedicated Ministry of European Affairs, with a former EU Commissioner as Minister. The GoR, in agreement with the EC, requested the Bank to carry out an analysis of policy impediments constraining EU funds. This work has been requested on a fee for service basis and the scope of Bank's support in this area is under discussion with the Government.

Theme 3: Complement to EU funding.

34. **The availability of Structural Funds makes Bank financing a minor instrument for Romania.** However, the Bank can complement EU support by financing activities not planned to be covered by Structural Funds or alternative instruments. For instance, development policy lending and results-based operations can support improved outcomes from current budgets. Subnational activities, access to financial markets via guarantees and areas of national responsibility (i.e. education, health, justice) for which typically structural funds are not allocated or with EC's prior agreement could be explored.

35. **For the CPS remainder, new IBRD lending could reach EUR1.4 billion in FY12⁹ and perhaps EUR325 million in FY13** (Table 3). This potential new lending is indicative and actual delivery will depend on the GoR's request for IBRD resources, sector needs, Romania's performance, IBRD's financial capacity, demand from other borrowers, and global economic developments.

Table 3: Potential IBRD lending

Project	Commitment M	Project	Commitment M	Project	Commitment M
FY 2011		FY 2012		FY 2013 (t.b.c.)	
DPL2	€300 (US\$426)	DPL 3	€400 (US\$560)	Tax Admin	€75 (US\$100)
SASM ¹⁰	€500 (US\$710)	New DPL (DDO)	€1000 (US\$1380) ¹¹	Health	€250 (US\$344)
TOTAL	€800 (US\$1136)	TOTAL	€1400 (US\$1940)	TOTAL	€325 (US\$444)

FY12-13 after the DPL3 based on exchange rate of EUR 1.377 to US\$1

36. **The Bank will support the modernization of social assistance, tax administration and health systems.** In addition to supporting the implementation of the recently approved results-based operation on the modernization of the social assistance systems, other types of lending activities in the second half of the CPS period will be guided by GoR's demand. For FY12, the third DPL is under preparation. Operations to support improved tax administration and implementation of health sector reforms are envisaged for FY13 (see Table 3).

37. **The Government has expressed its interest in a new DPL in FY12, possibly with a deferred drawdown option.** This would focus on the Structural Reform program being supported by the IFIs. While the exact content is not yet determined, several areas have emerged as main potential candidates: Health, Energy, Transport, SOEs, Tax administration and PFM. These key structural reforms would follow the current DPL series and be correlated to the EU and IMF support. As the market volatility and regional uncertainties are persisting, the DDO can help in two ways: (i) as a buffer that can help Romania accomplish its external issuance program under EMTN in reasonable terms and conditions; and (ii) if vulnerabilities are persisting and some risks materialize raising significant challenges in the financing strategy, the Government could draw the funds.

38. **In light of the crisis, IFC is investing in Romania on a selective basis.** IFC has withdrawn from sectors and business lines where the private sector is ready to take over. In the banking sector, largely dominated by foreign banks (about 90 percent of banking assets), IFC strategy is to work with local banks and strengthen their capacity to provide loans to underserved sectors and products such as local currency, housing finance, agribusiness, renewable and energy efficiency. IFC will

⁹ To be confirmed with the Government of Romania.

¹⁰ Social Assistance System Modernization

¹¹ The GoR requested EUR1 billion

assist local companies to become competitive in the domestic market and expand to other countries in the region, and promote South-South investments. IFC will continue to support projects of high development impact such as in infrastructure, frontier regions and climate change related projects.

39. **Graduation prospects will be reassessed under the next CPS.** Although Romania is over the income threshold for consideration of graduation, it is proposed that no detailed discussions to prepare for graduation be held for the remainder of this CPS period given the need to continue the develop Romania's institutional capacity. A fuller treatment of this issue would be prepared in the context of the next CPS beginning in FY14.

40. **The CPS Results Matrix presented in Annex 1 has been updated to reflect the program for the remaining period.** The main pillars have remained unchanged while targets and indicators have been revised reflecting the progress, changes and restructuring measures taken during the first two years, and the milestones assessed. The new operations have been added to the matrix.

V. RISKS

41. **Below is a summary of risks and an update on mitigation measures.**

- **Institutional capacity risks** relate to the uneven quality of policy making and coordination across various government entities. These risks are currently mitigated by the Bank through technical assistance (both formal and informal) as well as an IDF grant (FY12) to improve the capacity for policy formulation, monitoring and evaluation in the central government. Implementation of the FRs recommendations would help strengthen public administration in selected sectors and therefore contribute to mitigating institutional capacity risks.
- **Economic risks** increased with the global economic crisis, and the large external and fiscal deficits at the onset of the crisis made it all the more difficult to adjust to the severe economic downturn. The IFIs multilateral support package and the proactive measures taken by the state institutions have helped contain negative impacts and should enable recovery¹². Like other countries in the region, Romania faces risk of eurozone crisis contagion and exposure to Greek banks. This risk is mitigated by structural reforms, the proactive stance of state institutions, and the resource cushion provided by the extension on a precautionary basis of the multilateral program with the IMF and the EC until Spring 2013, as well as the significant foreign exchange reserves accumulated during the last three years.
- **Social risks** are associated primarily with the impact of the Government's fiscal austerity measures; new policy reforms including those affecting social assistance and restructuring and/or privatization of SOEs; and with planned 2012 increases in energy prices that collectively could impede the implementation of the DPL program and broader policy reforms. These are mitigated by the acceleration of social assistance reform and the provision of funding.
- **Political risks** stem particularly from the inherent fragility of a coalition government facing a strong opposition, and uncertainty from 2012 elections. So far, these risks have been managed well by the Romanian authorities. Bank dialogue with the parliamentary opposition to explain the need for reforms and inform on progress in their implementation are helping to build broader support and mitigate the risk of a change of direction.
- **Implementation risks.** There will be a risk of implementing the MAP program of FBS until the legal agreements are signed, however, there is strong support from the highest levels of the GoR, the IFIs, and particularly the EC. The Managing Authority received the financial proposals for the six sectors under consideration for the MAP, which represents a strong mitigation measure.

¹² Natural disasters and climate change are an area of risk for future study.

Annex 1. Results Framework

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
CAS PILLAR 1: PUBLIC SECTOR REFORM		
<p>GOALS: To improve the accountability and responsiveness of the public administration and to enhance predictability and efficiency in public resource management.</p> <p>Issues and Obstacles as identified in 2009: Pro-cyclical fiscal policies and weak fiscal management have led to serious macroeconomic vulnerabilities. The budget process lacks predictability and transparency, as well as weak prioritization of public investment. Introduction of an MTEF will require capacity and support to both plan on a multi-year horizon and to link budget with outcomes. Public sector wages have more than doubled since 2005 contributing to pro-cyclical policies, but without adequately rewarding performance or productivity. Governance is weak and monitored by the EU bi-annually. The court system has a large back-log of cases. Since CPS approval in 2009 the GoR made significant progress in improving public finance management and reforming the public pay system (see achieved milestones under 1.1 PFM and 1.2 public administration reform and Annex 3)</p>		
<p>1.1 PUBLIC FINANCIAL MANAGEMENT</p> <p>Objective: Reduce fiscal vulnerabilities by restoring budget discipline, improving the effectiveness and efficiency of public expenditures, and improved resource mobilization.</p> <p>Outcome 1.1.1: Medium Term Expenditure Framework operational by 2012 and beyond</p> <ul style="list-style-type: none"> Indicator (revised): Reduction in variance between main aggregate ceiling (Wage, Goods & Services, Capital) approved by Parliament in the MTEF (2011-13) and the actual expenditures. <i>Baseline (2008):</i> 27% variance for three largest economic classes (Wage, Goods&Services, Capital) Target: deviation ≤ 17% <p>Outcome 1.1.2: Sustainable growth in public wage bill</p> <ul style="list-style-type: none"> Indicator: Annual expenditure for personnel (2011-13) consistent with the limits approved in MTEFs and does not increase as a share of GDP above expected 2009 level. <i>Baseline:</i> 9.4% in 2009 In progress: Wage bill: at 8.3% of GDP in 2010 (preliminary data) 	<ul style="list-style-type: none"> Fiscal Responsibility Law 69/2010 approved & enacted (2010) Independent Fiscal Council established (2010) Mid Term Expenditure Framework approved by Parliament with three-years ceilings for major spending ministries (2011 and beyond - in progress) Fiscal Strategy 2011-13 approved by Government (Done) Wage bill increases below inflation rate (Increase in 2010 is 2% vs. 5.6% inflation rate) Summary of multi-year public investment program annexed to 2010-2011 budget (Done) 	<p>Completed:</p> <ul style="list-style-type: none"> Policy Briefs (FY09) PEIR Update (FY09) DPL 1-2 (FY10 - FY11)) TA Fiscal Decentralization (FY11) TA Tax Administration (FY11) PEIRs updates focusing on opportunities for fiscal savings and efficiency gains in major expenditure categories, starting with education and health (FY09-FY10) FBS Functional Review on Public Finance (FY11) <p>Ongoing</p> <ul style="list-style-type: none"> Social Assistance Modernization Project (Results Based) <p>New</p> <ul style="list-style-type: none"> DPL3 (FY12) FBS – TA support to GOR for the implementation of the action plans drafted by the GoR on the modernization of public administration (FY12) PEFA
<p>1.2 PUBLIC ADMINISTRATION (PA) REFORM</p> <p>Objective (revised): support GOR effort to improve the organizational effectiveness and transparency of the public administration at central and local levels; and improve the public pay system to enhance transparency and predictability, motivate performance among public sector employees, attract and retain critical skills.</p> <p>Outcome 1.2.1 (new): Initiation by GOR of the RO PA Reform - approval of Reform Action Plans for selected PA institutions (Done – all Functional Reviews Phase 1 and 2 ministries and agencies)</p> <p>Outcome 1.2.2 (new): Progress in enacting and implementing the strategies/ tools/ procedures/ etc. in the Reform Action Plans.</p>	<ul style="list-style-type: none"> Functional reviews of the public administration undertaken to identify budget resources that could be realized for better targeting pay (Done) Recommendations for public administration reform and modernization formulated and shared with Government (Done) Reform Action Plans for Agriculture, Transport, Competition, Pre-University Education (1-2), Public Finance, Center of Government, Health, Labor, Environment, Regional Development, Economy and Energy, R&DI (Judicial in progress) developed by the ministries and Government agencies based on recommendations of the Functional Reviews TA series (Done) 	<p>Completed</p> <ul style="list-style-type: none"> Public Sector Pay Practices in Romania (FY08) DPL 1-2 (FY10-FY11) PFM-Civil Service Pay (FY10) FBS Functional Reviews (FY11) (Agriculture, Transport, Competition, Pre-University Education (1-2), Public Finance, Center of Government, Economy & Energy & Business Environment , Research, Development & Innovation, Higher Education, Health, Labor and Social Protection, Environment & Forestry, Regional Development and Tourism) <p>Ongoing</p> <ul style="list-style-type: none"> Social Assistance Modernization Project (Results Based)

¹³ Results of the potential new DPL (possibly DDO) not included as the program is yet to be designed, however, will be outlined in the program document.

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<ul style="list-style-type: none"> Indicator (new) Favorable assessment by EC of Romania's progress in improving the organizational effectiveness and transparency of its Public Administration (EC Opinion on the National Reform Plan and progress under the Memorandum of Understanding with EU) <p>Outcome 1.2.3: Alignment of public sector pay system to EU practice (transparency, equity, ability to attract & retain critical skills in public administration)</p> <ul style="list-style-type: none"> Indicator : Reduction in aggregate allowances and bonuses and limit amount for any individual <i>Target:</i> Maximum 30% percent of the total public compensation by 2011, and maintained (empirical evidence indicates higher percentages, varying from sector to sector) Indicator : Align pay structures more closely to actual labor market conditions (evidence to be provided via salary survey results of MLFSP) (dropped) 	<ul style="list-style-type: none"> Progress Reporting mechanisms for inform the EC developed by GSG (Done – first reporting completed). New salary legislation on public sector pay which limits non wage expenditures approved (Done - Unitary Pay Law (UPL) 330/2009 approved.) A detailed pay reform plan is approved by Government for implementing (a) a uniform job grading framework for the public service (Done) and (b) more closely aligning pay for selected benchmark jobs to actual labor market conditions (through a salary survey) (Done) Regulations enforcing compliance with merit based principles of employment and promotion drafted (Done – Regulations published in Official Gazette (OMJ 622/C/25.02.2010 and subsidiary pay legislation approved by Parliament. 	<p>New</p> <ul style="list-style-type: none"> DPL 3 (FY12) FBS TA Functional Reviews on Judicial, Land Administration, Agency for Coordinating Structural Instruments FB TA (supplemental) to Government for follow up on FRs recommendations (Agriculture, Transport , Competition Council, Center of Government, Public Finance, Pre-University Education 1-2 (compl.FY13) IDF Grant
<p>1.3 GOVERNANCE Objective: strengthen the efficiency, accountability, transparency of the justice system.</p> <p>Outcome 1.3.1 : (revised) Improved judicial efficiency in pilot courts</p> <ul style="list-style-type: none"> Indicator (revised) 10% increase by 2013 in the number of cases disposed of or archived in selected pilot courts. Baseline: 11.224 cases in 2008 <p>Outcome 1.3.2: Enhanced competence, professionalism and integrity of judiciary staff (<i>Bank contributes via creation of pre-requisites</i>)</p> <ul style="list-style-type: none"> Indicator: New qualification examination procedures are successfully piloted by Nat. Institute of Magistracy (Done) and maintained <p>Outcome 1.3.3 (new): Progress in Judicial Reform acknowledged by EC under the Cooperation and Verification Mechanism (<i>Codes entering into force area</i>)</p>	<ul style="list-style-type: none"> Uniform standards for the Courts operational processes developed and country-wide implementation started. (In progress- TA contract under implementation) Recommendations for the optimization of courts' activity formulated and adopted by SCM. Publication by Courts and SCM of courts performance data and findings from periodic Surveys on access to and satisfaction with judicial services (Courts financed by JRP) (in progress- Baseline Survey completed, results posted on SCM site) Completion of Impact assessment of the four revised/new Codes (Civil Code, Civil Procedure Code, Criminal Code and Criminal Procedure Code) and sharing with SCM and MOJ (ongoing - contract signed Sep 2010) 	<p>Ongoing:</p> <ul style="list-style-type: none"> Judicial Reform Project (cl. FY13) Country Economic Memorandum (FY12) developed as a sequence of Policy Notes prepared with the participation of relevant Romanian specialists FBS Functional Review Ministry of Justice (FY12) <p>Working tools developed for Financial Sector strengthening (stress tests, Strategic Action Plan) assimilated and in use/updated by the NBR</p>
<p>CAS PILLAR 2: GROWTH AND COMPETITIVENESS</p> <p>GOALS: <i>in the short-run, put in place crisis-management measures in the financial sector; and in the medium-term, establish the building blocks for sustainable convergence to EU-average living standards through improved business environment, enhanced skills, better infrastructure and more efficient agriculture.</i></p> <p>Issues and Obstacles as identified in 2009: <i>The crisis has revealed weaknesses in financial sector supervision across the region, new, best practices will need to be adopted to strengthen the system. A recovery in growth will depend both on recovery in key trading partners and on the strength of Romania's own reforms and policies. All countries are seeking to emerge from the crisis in a strong position, so competition will be strong. Romania lags international competitors on education, business environment and agriculture productivity indicators. Transport and energy need significant investment and reform to be able to meet demand.</i></p>		
<p>2.1 Growth Agenda Objective: (new) support to the Government for identification of</p>	<p>Symposium on Economic Recovery and Growth in Romania</p>	<p>Ongoing: Bank AAA – via a series of Policy Notes for growth and</p>

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<p>priority reforms for growth</p> <p>Outcome : 1.3.4 (new) Policy options available to the Government for informing the update of the National Reform Program¹⁴ and reflecting the EU 2020 Strategy goals in Romania's national reform agenda</p>	<p>(with participation of decision makers, National Bank of Romania, private sector, academia and specialists from IFIs) to facilitate the diagnosis of different areas (growth, fiscal sustainability, labor markets, absorption of EU, etc.) The Symposium findings will serve to document the CEM (Done – May 2011)</p>	<p>competitiveness & Conferences, with the participation of Romanian think-tanks and international experts</p>
<p>2.2 FINANCIAL SECTOR</p> <p>Objective: deepen and strengthen the resilience of the financial sector</p> <p>Outcome 2.2.1: Improved stability and resilience of the financial system to economic shocks</p> <ul style="list-style-type: none"> Indicator: Bank system remains well capitalized (average capital ratio at 14.2% in June 2011 - IMF assessment) (Done) <p>Outcome 2.2.2: Improved governance of financial sector supervision.</p> <ul style="list-style-type: none"> Indicator: Recommendations of the “de La Rosiere” report adopted, notably with respect to independence and autonomy of financial sector supervisors (CSA, CNVM, CSSPP) (Done) Indicator : Supervision standards, regulations and practices strengthened, in line with Basel II (Done) 	<ul style="list-style-type: none"> Stress tests conducted and Strategic Action Plan for Financial Sector strengthening approved by NBR and Ministry of Public Finance (MoPF) (DPL1 - 2010) Out-of-court insolvency proceedings set in place, Mortgage Debt Restructuring and Corporate Debt Restructuring Guidelines issued & published by NBR & MoPF (DPL2 - 2010) Updated legislation on the Political Independence and Financial Autonomy of the Financial Sector Regulators and Supervisors approved by Government (Done , 2011) Assessment and amendments of a) adequacy of definition of Financial Conglomerates (Done) and b) adequacy of supervision arrangements (Done- 2011, DPL3 pre-condition) NBR to issue regulations for Joint supervision of financial groups by the relevant regulators (Done, 2011-DPL3) 	<p>Completed</p> <ul style="list-style-type: none"> Financial Sector Assessment Update (FY09) Consumer Protection and Financial Literacy Survey and Conference (FY10) IT assessment of National Bank of Romania (FY10) DPL1-2 (FY10 - FY11) IFC financing to local financial institutions <p>New</p> <ul style="list-style-type: none"> DPL 3 (FY12)
<p>2.3. BUSINESS ENVIRONMENT & COMPETITION</p> <p>Objective: improve the business environment and (new) the capacity to enforce competitive business practices in the marketplace</p> <p>Outcome 2.3.1 (new): Improved competition regulatory framework (in line with EU practices)</p> <ul style="list-style-type: none"> Indicator: Revised regulatory framework enacted (by 2013) in relation to competition principles <p>Outcome 2.3.2 (new) Enhanced Competence of the Romanian Competition Council (RCC)</p> <ul style="list-style-type: none"> Indicator: RCC ranking¹⁵ in the EU <i>Baseline:</i> RCC the lowest in EU ranking <i>Target:</i> Improved RCC ranking by 2013 	<ul style="list-style-type: none"> Specific Policy Recommendations provided to the Government that support the enforcement of competitive business practices and improvements in the business environment (Done-2011) Development of Protocols of Cooperation between RCC and other regulated sectors and public agencies (ex. Telecom regulator, Energy regulator, Procurement Authority) to jointly implement pro-competitive and non-discriminatory regulation 	<p>Completed</p> <ul style="list-style-type: none"> FBS Functional Review Competition Council FBS Functional Review MEC & Business Environment TA Accounting and Audit (FY11) <p>New</p> <ul style="list-style-type: none"> FBS TA Competition (compl.FY13) <ul style="list-style-type: none"> Streamlining enforcement of competition policies Strengthening of advocacy activities in the field of competition Implementing a new business architecture for the Competition Council Increasing HR capacity of RCC

¹⁴ The National Reform Program, an EU requirement, is the national response of member states to the Lisbon Strategy, through which they explain how their development strategies are aligned with the latter. The NRP is updated annually and reviewed by the EC. Stating with 2011, the NRP has to be aligned with the objectives of the EU 2020 Strategy.

The Europe 2020 Strategy sets the vision for the EU member countries beyond 2013. Five measurable targets for 2020 steer the process of growth in the EU member countries and give them the direction for reforms in employment, research and innovation, climate change and energy, education, and poverty alleviation. The expression of these reforms in national targets and the adoption of a National 2020 Strategy require Romania to identify the priorities for intervention and the most appropriate actions for accelerating EU convergence.

¹⁵ Ranking reflects RCC staffing for competition enforcement and economic analysis and internal target deadlines to track performance

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<p>2.4 K-ECONOMY & DIGITAL AGENDA Objective: Development of the K-based society and economy</p> <p>Outcome 2.4.1: Increased participation of K-disadvantaged communities in K-based society/economy</p> <ul style="list-style-type: none"> Indicator: % of Population in disadvantaged communities using the Local Community e-Networks as tool for education, business, public administration and are satisfied with the results. <i>Baseline</i> (2005) 0%. <i>Target</i> (2013) 40%. Actual: 25%. Indicator: (new) Level of ICT integration in schools <i>Baseline</i> (2007) 35%. <i>Target</i> 100% by 2013. Actual: 79% 	<ul style="list-style-type: none"> Local Community e-Networks established (Done - 255 local community networks (LCeNs) established in 208 K-disadvantaged communities and 47 small cities) Support for EU Funds Absorption: 812 new projects addressing community needs were developed by LCeNs users and declared eligible for financing with EU structural funds (for a total of €240M) Increased access to quality education through ICT connectivity, knowledge and use (502 primary and secondary schools with some 89,000 students – KE Prj) 	<p>Ongoing</p> <ul style="list-style-type: none"> Knowledge Economy Project (KE)
<p>2.5 RESEARCH, DEVELOPMENT & INNOVATION (RD&I)</p> <p>Outcome 2.5.1: (new) Policy Recommendations available to the Government that support RD&I Sector Reform (Done 2011)</p>	<ul style="list-style-type: none"> New Agricultural Research Law (Enacted in 2009) Reform of four agriculture research institutes (Done - 2009-10) Functional Review¹⁶ of the Research, Development and innovation sector (Done) 	<p>Completed</p> <ul style="list-style-type: none"> FBS Functional Review Research, Development, Innovation (FY11) <p>Ongoing</p> <p>MAKIS project (Agricultural research sub-comp) (cl. FY12)</p>
<p>2.6 EDUCATION Objective (revised): improved organizational capacity in the Education Sector and access to quality education delivered in a fiscally sound manner, with improved outcomes</p> <p>Outcome 2.6.1: Improved efficiency in primary and secondary education by providing more flexible financing, more autonomy and enhanced accountability (focusing on results) to local authorities and school principles</p> <ul style="list-style-type: none"> Indicator: Increase in average class size. (<i>Baseline:</i> 19.6 in school year 2008/09. <i>Target:</i> 23 in school year 2013/14) (in progress - at 21.7 in 2011) <p>Outcome 2.6.2: Financial support to tertiary students in a more equitable manner and with better incentives built into the support.</p> <p>Outcome 2.6.3 (new): Analytical Work completed & Conceptual Frameworks available to Government for development of the Organizational Capacity in the Education Sector (MERYS) and improving Romania's pre-university education system</p>	<ul style="list-style-type: none"> Legislation adopted to enable per capita financing in education (Done – at country level vs. eight counties envisaged, starting with school year 2010/11). Analytical foundation developed, to support the optimization of the schools network, and was share with the Ministry of Education, Research, Youth and Science Student Loan Scheme developed and discussed with Government & stakeholders (Done) First disbursements from student loans scheme begin starting with the school year 2011/12 (On hold because of crisis constraints) Proposal for modified organizational structure of the Ministry of Education, Research, Youth, Science (MERYS) submitted to the Minister 	<p>Completed:</p> <ul style="list-style-type: none"> Rural Education project (cl. FY09) HD Policy Briefs (FY09) TA Decentralization of primary and secondary education (FY09) Public Expenditure& Institutional Review update (FY10) TA Student Loan Scheme (FY11) FBS Functional Review Pre-University Education (I + II) (FY11) FBS Functional Review Higher Education (FY11) <p>Ongoing:</p> <ul style="list-style-type: none"> Knowledge Economy (KE) – Digital Literacy in Schools sub-component Social Inclusion Project – Early Childhood Education IFC financing in private education <p>New:</p> <ul style="list-style-type: none"> FBS TA School Network Restructuring (compl. FY13) FBS TA Development of the Organizational Capacity of the Ministry of Education (compl. FY13) Skills and Competitiveness
<p>2.7 AGRICULTURE AND RURAL DEVELOPMENT (ARD) Objective (revised): provide advisory, technical and financial assistance to support the strengthening the administrative capacity and efficiency of ARD sector and the market-based restructuring and competitiveness of the Romanian agriculture</p>	<ul style="list-style-type: none"> Integrated agricultural offices rolled out nationwide (pilot established –MAKIS; roll out delayed because of new strategy for establishment of Agricultural Chambers) Systematic survey and registration of land property titles in 	<p>Completed:</p> <p>FBS Functional Review on Agriculture (FY11)</p> <p>Ongoing</p> <ul style="list-style-type: none"> Irrigation Reform & Rehabilitation (cl. FY12)

¹⁶ RD&I sector Functional Review covers legal framework and governance, funding, alignment to national priorities, transmitting RD & Innovation to the private sector, private sector participation

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<p>Outcome 2.7.1: Increased capacity of RO advisory and information systems to provide services to farmers and agro-processors in the context of EU membership</p> <ul style="list-style-type: none"> Indicator: Number of trained and graduated advisors <i>Target (revised upward)</i> 2000 by 2013 vs. 0 in 2008 <p>Outcome 2.7.2: Improved convergence of Romania toward EU practice in ARD (in line with the National Rural Development Plan 2007-2013)</p> <ul style="list-style-type: none"> Indicator: Handbook of Socio-Econ Guidance based on EU best practice available to farmers (Volume I completed) <p>Outcome 2.7.3 (new): Increased efficiency of operational management at MADR and selected structures</p> <ul style="list-style-type: none"> Indicator: New Internal Management System in use by MARD's and subordinated structures' management <p>Outcome 2.7.4 (new): Increase in EAFRD¹⁷ funding to Romanian beneficiaries. <i>Baseline:</i> 20% of EAFRD allocation. <i>Target:</i> 40% of EAFRD allocation by 2013</p>	<p>selected rural areas (in progress)</p> <ul style="list-style-type: none"> Piloting of socio-economic advisory services Training and certification of 300 advisors in socio-economic advisory services) Strategies/ tools/ procedures for strengthening the admin capacity and efficiency of ARD sector (per FB TA Agriculture program) developed and applied by MARD (by 2013) (new) Proposal on structure and operation framework for an Advisory Board on ARD Strategy finalized and delivered to the Government (new) Evidence of restructuring the farming sector (partial progress: reorganization of Romanian extension system, reform of agric. Research, reform of irrigation subsidy and tariff setting mechanisms, phasing out of irrigation subsidies, more participatory approach in irrigation: Water Users Organizations operational). 	<ul style="list-style-type: none"> MAKIS project (cl.FY13) CESAR project (cl. FY13) IFC direct lending to agribusiness projects and support to local financial institutions which provides MSMEs lending and agriculture financing <p>New</p> <ul style="list-style-type: none"> FBS Functional review Land Administration (FY12) FB TA Agriculture & Rural Development (compl. FY13) <ul style="list-style-type: none"> Strengthening ARD sector strategy formulation in the Ministry of Agriculture and Rural Development (MARD) Strategic Planning for the Agricultural Administration Implementation of an Internal Management System at MARD Creating and Implementing an Integrated Financial Management IT System at MARD
<p>2.8 ENERGY AND ENVIRONMENT</p> <p>Objective: Support Romania in implementing its energy strategy in line with EU Directives, including EU 20-20-20 targets, and implementing selected environmental directives</p> <p>Outcome 2.8.1: Increased security of electricity supply through integration of regional markets and attracting private sector¹⁸ in the development of energy markets</p> <ul style="list-style-type: none"> Indicator 1: Develop energy transmission services, including availability of ancillary services for stronger integration into regional markets, and absorption of energy generated by renewable sources (Done) <p>Outcome 2.8.2 (new): Reduction of probability of severe accidental mine spills in the Tisza basin</p> <ul style="list-style-type: none"> Indicator: Risk reduced by at least 70% (via remedial works) <p>Outcome 2.8.3: Implementation of the EU Water and Nitrate Directives</p>	<ul style="list-style-type: none"> Romania and its electricity market and power system operates with help of ancillary services from Lotru Rrj (Done) Privatization of Banat and Dobrogea electricity distribution companies (Completed with support of a Partial Risk Guarantee) Best practice knowledge and procedures on environmentally friendly mine closure transferred to Romanian counterparts and implemented (Done Mine Closure Project) Analytical Work completed (including adaption options and greenhouse gas emissions management) and available to the Government for elaboration of a Climate Change Adaption Strategy Water and Waste Water Master Plans for 11 counties completed and adopted by final beneficiaries (Done) 	<p>Completed:</p> <ul style="list-style-type: none"> Energy Community in SEE (cl.FY10) Privatization risk Guarantee Privatization for Banat and Dobrogea electricity distribution companies (Discoms) (cl. FY11) FBS Functional Review Ministry of Economy / Energy (compl. FY11) FBS Functional Review Environment and Forestry (compl. FY11) <p>Ongoing</p> <ul style="list-style-type: none"> Hazards Risks Mitigation and Emergency Preparedness Project – GEF sub-component (cl.FY12) Integrated Nutrient Pollution Control Project and GEF grant (cl.FY13) Municipal Services Project (cl.FY12) Mine Closure and Socio-Economic Regeneration (MC SER) Project (cl.FY12) IFC support to local financial institutions which provided

¹⁷ European Agricultural Fund for Rural Development

¹⁸ Increasing the participation of the private sector remains below expectations because of potential risks to the functioning of the electricity market - specifically GoR plans to consolidate state-owned power generation and coal/lignite mining companies into 1-2 integrated mining and power generation companies.

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<ul style="list-style-type: none"> Indicator : Favorable EU assessment of Romania's progress towards meeting EU Nitrates Directive requirements <p>Outcome 2.8.4 (new): Increasing EU Funds absorption</p> <ul style="list-style-type: none"> Indicator 2: EU grant amount attracted with Bank TA <i>Target:</i> € 1bn by 2013 	<ul style="list-style-type: none"> At least 80 percent of targeted Nitrates Vulnerable Zones show 10 percent reduction in nutrient discharge in water bodies (work in progress) Percentage of population in targeted NVZ area adopting preventive and remedial measures to reduce nutrient discharge (work in progress) 	<p>energy efficiency lending.</p> <ul style="list-style-type: none"> IFC direct lending to power projects and to renewable energy projects (wind and/or biomass). <p>New</p> <ul style="list-style-type: none"> ESW/TA Climate Change (FY12) New DPL (DDO) TBC
<p>2.9 TRANSPORT , HAZARDS RISKS MITIGATION</p> <p>Objective (revised): Improve the transport sector's governance, operational and financial sustainability, including the efficiency of the roads and railways sub-sectors</p> <p>Outcome 2.9.1: Improved road safety (dropped-Transport projects closed w/out reaching target)</p> <ul style="list-style-type: none"> Indicator: Fatalities per 10,000 vehicles. Target: 5 in 2009 vs. 6.7 in 2008 (dropped) <p>Outcome 2.9.2: (new) Improved Ministry of Transport capacity to consistently implement a general strategy that links each strategic item to the overall strategy.</p> <ul style="list-style-type: none"> Indicator: New strategy approved and translated into the approved Investment program for 2014-2020 and in the 2013 and 2014 proposed budgets. <p>Outcome 2.9.3: Improved emergency preparedness and response management in Romania</p> <ul style="list-style-type: none"> Indicator: An Emergency Communication System is created and operational (EMIS elaborated) Indicator: The Emergency Management Information System is extended to include all central and local administration units (in progress) Indicator (revised): Seismic retrofitting of 40 or more public buildings, flood protection works completed in 10 critical locations, (significant progress) 	<p>TRANSPORT</p> <ul style="list-style-type: none"> Road safety activities not done (the Road Agency decided to implement the activities under an EU financed program, than re-considered, but no action taken. Reduction of traffic congestion not achieved – main physical output-by passes construction program-was not finalized. Officially approved national transport sector strategy, and translation into the approved investment program for 2014-2020 and the 2013 and 2014 proposed budgets. Public Private Partnership strategy included in the national transport strategy in line with EU directives <p>HAZARDS RISKS MITIGATION</p> <ul style="list-style-type: none"> Risk assessment of public buildings, dams and waste deposits is undertaken, based on country regulations to enable prioritization of investments (Done) Short term investment and financing plans prepared in accordance with risk assessment & prioritization (Done) 	<p>Completed</p> <ul style="list-style-type: none"> Transport Restructuring Project (cl. FY10) Transport Sector Support Project (cl. FY10) FBS Functional Reviews Transport (compl. FY11) <p>Ongoing</p> <ul style="list-style-type: none"> Hazards Risks Mitigation and Emergency Preparedness Project (cl.FY12) IFC support financing of private sector in financing PPPs <p>New</p> <ul style="list-style-type: none"> FB TA Transport Strategy (compl.FY13) FB TA Public-Private Partnerships (compl.FY13) FB TA Railway Strategy (compl. FY13) New DPL (DDO) TBC
<p>CAS PILLAR 3: SOCIAL AND SPATIAL INCLUSION</p> <p>GOALS: <i>in the short-term, protect the vulnerable from the adverse effects of the crisis; in the medium-term, promote social inclusion and regional development.</i></p> <p>Issues and Obstacles as identified in 2009: <i>The crisis will temporarily increase the number of poor people, especially those involved in service and manufacturing industries. The long-term poor in rural areas and among some population groups remain hard to reach. Some of the social assistance programs are not well targeted. The pension system can be important for poverty reduction, but is currently running a deficit and does not reach all those who need it. Romania's health indicators are lagging the average of those in the EU in important areas.</i></p>		

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<p>3.1 SOCIAL INCLUSION Objective: assist Romania to improve the social inclusion and living conditions of most disadvantaged and vulnerable people in the Romanian society Outcome 3.1.1: Improved social inclusion of Roma living in poor settlements reduced</p> <ul style="list-style-type: none"> Indicator: Gap in living condition index between targeted Roma settlements and neighboring communities <i>Baseline: 504 points¹⁹ Target: 403 points (20% reduction of gap 2013 vs. 2008 level)</i> <p>Outcome 3.1.2: Increased inclusiveness of children in disadvantaged groups in Early Childhood Education services (SIP targeted areas)</p> <ul style="list-style-type: none"> Indicator: Percentage point increase in number of children in disadvantaged groups participating in ECE programs <i>Target: 5 percent in 2013 vs. almost none in 2007</i> 	<ul style="list-style-type: none"> 79% of the disadvantaged localities in the former mining areas reached by Socio-Economic Regeneration (SER) measures extended under the Mine Closure project Improvements in water and road infrastructure evident in targeted Roma communities (in progress) Roma in poor settlements report a closer link (through annual consultations) with the local authorities, for addressing community needs. (In progress) <p>(Note: Indicator to be measured when kindergarten works are completed)</p>	<p>Completed</p> <ul style="list-style-type: none"> Rural Education Project (cl. FY10) <p>Ongoing</p> <ul style="list-style-type: none"> Social Inclusion Project (cl. FY13) Mine Closure and Socio-Economic Regeneration (cl. FY12) FBS Functional Review Regional Development and Tourism (FY11) <p>New</p> <ul style="list-style-type: none"> Results Based Modernization of Social Assistance Project (cl. FY13)
<p>3.2. SOCIAL ASSISTANCE Objective: improve the cost effectiveness and targeting of social assistance programs to mitigate the impact of the crisis on the vulnerable, and promote activation policies</p> <p>Outcome 3.2.1: increase the coverage and adequacy of the most efficient and well targeted social assistance program - the Guaranteed Minimum Income (GMI)</p> <ul style="list-style-type: none"> Indicator : Number of unpaid GMI entitled beneficiaries <i>Target: 0 by 2013 vs. 25 percent in 2009 (in progress²⁰)</i> Indicator : Maintain level of benefit adequacy over time (share of benefits in average household consumption) <i>Target: 25% in 2008 is maintained</i> <p>Outcome 3.2.2 (new): Improved Social Assistance equity (targeting of poorest people) and efficiency (lower admin costs)</p> <ul style="list-style-type: none"> Indicator: Share of SA funds going to poorest quintile <i>Baseline:</i> 37.7% in 2009. <i>Target:</i> 45% by 2013 Indicator: Administrative and client participation costs for means-tested programs. <i>Baseline:</i> TBD <i>Target:</i> Reduction by 20% <p>Outcome 3.2.3: Consolidate SA programs to better serve poor in most</p>	<ul style="list-style-type: none"> Legislation to improve funding and design of well targeted social assistance programs (e.g., GMI) is passed (Done) More transparent and predictable GMI budget allocations & benefits (Done) Enactment of legislation on income-tested child allowances²¹ that offers higher benefits to households earning less than 200 RON/month and to Lone Parent families. (approved by Parliament end 2010 –DPL3). Harmonized means-testing for GMI, family allowance and heating benefits (same) Monthly monitoring reports for 4 programs²² to be produced by National Agency for Social Benefits starting 2011(in progress) 	<p>Completed:</p> <ul style="list-style-type: none"> Programmatic Poverty Monitoring Program (FY08) DPL 1-2 (FY10 / FY11) FB Functional Reviews Labor and Social Protection (FY11) <p>Ongoing</p> <p>Social Inclusion Project (SIP) (cl. FY13)</p> <p>New</p> <ul style="list-style-type: none"> DPL 3 (FY12) Results Based Social Assistance System Modernization Project (cl. FY13) Europe 2020 - Reducing Poverty and Social Protection

¹⁹ Gap between targeted settlements and neighboring communities (measured in points) as calculated for 81 pairs of communities by RSDF

²⁰ Significant progress through combined effect of stronger enforcement of eligibility conditions (which has discontinued GMI payments to 12% of recipients) and increase of the number of families to benefit by the GMI (by 15%)

²¹ The income tested allowances are the complementary child allowance (CCA) and the lone parent allowance (LPA)

²² Family Allowance, Child Raising Benefits, Guaranteed Minimum Income, State Child Allowance

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<p>cost efficient manner</p> <ul style="list-style-type: none"> Indicator: One consolidated program for low-income households <i>Baseline:</i> fragmentation of SA (too many programs) <i>Target:</i> One consolidated program for low-income households by 2013 	<ul style="list-style-type: none"> Thematic Inspections of major SA programs being undertaken annually and remedial action plans produced (in progress). 	
<p>3.3. SOCIAL INSURANCE Objective: strengthen the fiscal viability, integrity and equity of the multi-pillar pension system</p> <p>Outcome 3.3.1: Improved fiscal sustainability of the public, pillar 1 pension.</p> <ul style="list-style-type: none"> Indicator : Deficit of Pension Pillar 1 <i>Target:</i> Deficit (2.95% in 2011) ≤ by 2013 (target was revised upward. The consolidation in 2010 of special pension systems – army, internal affairs- into the public pension system pushed the deficit to 2.95%. →Deficit decrease by 0.5% is now unrealistic) Indicator : Retirement age equalized <i>Target (revised):</i> Gradual increase of retirement age for women to 63 (vs. 65) (in progress per new Pension Law 263/2010) <p>Outcome 3.3.2: Improved equity of pension system</p> <ul style="list-style-type: none"> Indicator: Introduction of a zero pillar to cover elderly poor (dropped) 	<ul style="list-style-type: none"> Legislation enacted on the public pension unitary system to gradually link state pension adjustment to inflation (Done - DPL2 prior action) The new adopted legislation on retirement age (DPL2 prior action), , would gradually equalize through 2030 the retirement age of women and men at the age of 65 The TA on Elderly Farmers Pension Scheme completed (and concluded that a Zero pillar social pension contravenes the Social Assistance Strategy) 	<p>Completed</p> <ul style="list-style-type: none"> Policy Briefs (FY09) Poverty Assessment Series (Phases I and II) (FY08-09) Rapid Assessment of Impact of Economic Crisis on Poverty (FY09) TA Poverty and Social Policy (FY10) TA Rural Elderly Pension Scheme (FY11) DPL1-2 (FY10 / FY11) <p>New</p> <ul style="list-style-type: none"> DPL 3 (FY12)
<p>3.4. HEALTH SECTOR Objective: support the design and implementation of the Government's health sector reform program to improve efficiency and quality of health services; mobilize additional resources for health and improve health outcomes</p> <p>Outcome 3.4.1: Better efficiency and quality of health services</p> <ul style="list-style-type: none"> Indicator: Annual rate of admission to acute care facilities. <i>Baseline:</i> 229 per 1,000 people; <i>Target:</i> below 200 by 2013 Indicator : Share of generic drugs in total compensated drug expenditures (revised and in progress) <i>Baseline:</i> 40% in 2008. <i>Target:</i> >=45% by 2012 Indicator: 24-hour death rate among patients treated in ER and then admitted to hospital. <i>Target:</i> Decrease by 10 percent in 2013 vs. 2007 (in progress) Indicator: Maternal Mortality Ratio <i>Baseline</i> of 0.24%o in 2004 <i>Target:</i> Reduce by 20 percent by 2013 (in progress) <p>Outcome 3.4.2: Additional resources for health mobilized in a transparent and equitable manner</p> <ul style="list-style-type: none"> Indicator : Amount of copayment raised Indicator: Coverage of copayment exemption among eligible population. <i>Baseline:</i> no compayment legislation. <i>Target:</i> < 50% by 2012 (upon approval of legislation) 	<ul style="list-style-type: none"> Adoption of the updated Hospital Rationalization Strategy through a Government Decision in/by 2010 -National Strategy prepared with Bank TA was posted on the MoH site for public consultations. An updated draft would be presented for Cabinet approval in 2011 Adoption of the Rural Primary Care Strategy in/by 2010 - Work initiated–TA under procurement (Health APL2) Adoption of the legislation of the revised benefit package, including (i) the introduction of copayments (pending) and exemption mechanisms for the poor and (ii) transparent mechanisms for inclusion of new technology and new drugs in the benefits package (DPL 3 trigger). Legislation regarding co-payment mechanism (amending Law 95/2006) sent to Parliament but not yet approved. Approval of a new legal framework for drug prescription management (revised DPL3 prior action). Adoption of legislation for voluntary health insurance (dropped) 	<p>Completed</p> <ul style="list-style-type: none"> HD Policy Briefs (compl.FY09) DPL 1-2 series (FY10 / FY11) IFC advisory services and financing to support private sector participation in the health sector FBS – Functional Reviews Health (FY11) Health & Education TA support for DPL (compl.FY12) <p>Ongoing</p> <ul style="list-style-type: none"> Health Sector Reform APL2 Project (cl. FY12) <p>New</p> <ul style="list-style-type: none"> DPL 3 (FY12) Pipeline Health Project (instrument TBD) (cl. FY14) New DPL (DDO) TBC

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS ¹³
<ul style="list-style-type: none"> • Indicator: Percent of households with voluntary insurance. <i>Baseline:</i> NA; <i>Target:</i> 10 percent (dropped) <p>Outcome 3.4.3 (new): Rationalization of medical services provision and integration of the services as nation – wide networks</p> <ul style="list-style-type: none"> • Indicator : Reclassification of 100% hospitals based on new Strategy criteria (Done, 2011) • Indicator: Health Networks operational (per new Strategy) <p><i>Baseline:</i> None. <i>Target:</i> At least 4 regional or local health national networks functionally and legally established, including its Tertiary Hospital by 2013</p>		

Annex 2: Proposed CPS framework based on strategic pillars and cross-sectoral themes (current and new activities in FY12)

CPS Pillars / cross-sectoral themes	Europe 2020	1. Policy reforms to reap benefits of EU membership	2.Modernization of public institutions to enhance resources allocation and absorption of EU funds	3.Complementing EU financing
1.Public sector reforms				
1.1.Public financial management		<i>PREM MAP</i> , DPL2	<i>PREM MAP</i> , CoG MAP	<u>Tax admin, DPL 3, DPL2, PEFA, policy notes 2, DPLDDO²³</u>
1.2.Public administration reform		<i>PREM MAP</i>	<i>PREM MAP, ACIS TA, ANRMAP TA</i>	<u>IDF</u>
1.3.Governance		Judicial Reform Project	<i>MAP justice FR</i>	
2.Growth and competitiveness				
2.1.Financial sector	smart			
2.2.Business env. and competition		<i>CC TA (MAP)</i>	<i>CC TA (MAP)</i>	
2.3. K economy Digital agenda				KE
2.4.Research Devpt Innovation				
2.5.Education		<i>EDU1 MAP, SIP</i>	<i>EDU2 MAP</i>	SIP, KE
2.6.Agriculture and rural development	sustainable	<i>ARD MAP, Irrigation Rehab.</i>	<i>ARD MAP, ANPCI FR, MAKIS, CESAR</i>	CESAR, Irrigation Rehab.
2.7.Energy and Environment			INPCP, Mine Closure	INPCP, Municipal Serv, Mine Closure, <u>climate change TA</u>
2.8.Transport, hazards mitigation		<i>TRANSP MAP, Hazards Mitigation</i>		Hazards Mitigation
3.Social and spatial inclusion				
3.1.Social inclusion	inclusive		SIP	SIP, <u>citizen scorecard ESW</u>
3.2.Social assistance		SASM		SIP, SASM
3.3.Social insurance				SIP
3.4.Health		APL2		APL 2, <i>Health</i>

Legend: in active portfolio in pipeline new activity in FY12

²³ Details to be clarified in the upcoming weeks

Annex 3 - CPS Results Summary

Pillar 1: Public sector reforms

The CPS has been effective in supporting the fiscal sustainability targets in the 2009-2012 GoR program as well as fiscal reforms that are critical to the GoR medium-term agenda. The CPS has complemented the EU and IFM programs and has helped create the premises for improved budget discipline, accountability, efficiency and sustainability of public wage bill.

The CPS contribution (through the Judicial Reform Project) to strengthening the efficiency and accountability of the judiciary has been only partially successful (progress still required in optimization of courts procedures, transparency, etc).

1.1 PF Management : Fiscal sustainability has improved

- MTEF 2009 approved by GOR (DPL1); MTEF 2010-12 submitted to EC through the Convergence Program 2009-12, including fiscal risk analysis (DPL2); MTEF 2011-13 approved by Parliament with ceilings for selected spending ministries
- 1.1.1 Fiscal Responsibility Law 69/2010 enacted (partnership with IMF)
- 1.1.1 Fiscal Strategy 2011-2013 approved by GOR and sent to Parliament and the Independent Fiscal Council –now operational
- 1.1.1 Revenue boosting measures adopted (VAT, social contributions, excises, property taxes)
- 1.1.2 Improvement in Wage Bill sustainable growth in 2010: wage bill increased below inflation rate (2% vs. 5.6%) and has remained below 2009 level as percentage of GDP
- 1.1.2 Functional Reviews of the Public Administration on-going and likely to help improve pay practice

1.2 Public Administration Reform: Public Pay Reform Agenda is in progress, Functional review of Public Administration in progress

- 1.1.2 Unitary Pay Law 330/2009 which reduces non-wage bonuses and allowances approved and gradual implementation in progress.
- 1.1.2 Subsidiary pay legislation approved by Parliament, pay adjustments in 2011 in accordance with UPL targets, new regulations approved by Government to reduce the use of temporary appointments for positions in the public administration
- 1.1.2 Reduction of non-wage personnel expenditures in progress

1.3 Governance: Limited progress in the area of judiciary efficiency and accountability. Targets (under JRP) re-designed in line with GoR needs and likely to be achieved

Strengthening the Capacity of Courts

- 1.3.0. Development of a Resource Management System for the Justice sector in progress
- 1.3.2 Superior Council of Magistracy (SCM) ²⁴ finalized its contribution to the Terms of Reference for the Optimization of Courts TA (to be contracted by Oct 31, 2011).
- New Civil and Criminal Codes and related procedure Codes adopted by Parliament; TA for preparation of enforcement ongoing.

Institutional Development and Reform of the Judiciary

- 1.3.2 SCM has assumed the function of policy formulation and performance monitoring
- 1.3.2 SCM has adopted the new training syllabus for the National School of Clerks
- 1.3.2 Magistrates recruitment regulations modified and including qualification examination procedures
- 1.3.3. New/amended Civil and Criminal Codes and related procedure Codes adopted by Parliament; TA for preparation of enforcement ongoing.

EU2020

- 1.3.4 Support to GoR for ensuring the reflection of Functional Reviews into the National Reform Plan

²⁴ The Optimization of Courts TA is the major Judicial Reform project TA that supports this outcome. The TA will generate Uniform standards for the Courts operational processes and optimization recommendations for the Courts activity. Contract yet to be signed (by Oct 31, 2011)

Pillar 2: Growth and Competitiveness

Bank assistance was successful in helping maintain the viability and stability of the financial sector. The CPS envisaged responses to address solvency problems derived from the financial crises by supporting the preparation of the Guidelines on Corporate Debt Restructuring and Mortgage Debt Restructuring, as well as the amendment of the Insolvency Law to remove obstacles to out-of-court corporate debt restructuring. The review of competition policy helped to focus priorities on achieving full integration of Romanian markets with the EU. The review of the national innovation system set priorities to promote a knowledge-based economy, in line with the EU2020 strategy. Bank support helped improve the quality of education in a fiscally sound manner. A mix of AAA and project lending contributed to encouraging results in agriculture and rural development (ARD), and hazards mitigation. Progress was made in meeting the energy and environment CPS objectives.

2.1 Financial Sector: all Indicative Milestones achieved. Bank system remains well capitalized, solvency levels relatively high.

- 2.1.1 NBR undertook bank stress test to serve as input into its Strategic Action Plan (TA-FSA)
- GoR prepared (DPL1, TA-FSA) a Strategic Action Plan for strengthening the Financial Sector (incl. methodology of potential interventions in the resolution of illiquid Banks)
- 2.1.1 Regulatory framework for Bank resolution, mortgage and corporate debt restructuring was improved
- 2.1.1 The Law on the Political Independence and Financial Autonomy of Financial Sector Regulators and Supervisors passed by Parliament.
- 2.1.2 Internal regulations for Basel II policy & accreditation decisions adopted by NBR (TA – Financial Sector Update)
- 2.1.2 Improved definitions of “Financial Conglomerates” (Ordinance 98/2006) and supervisory arrangements (by NBR, Private pension Supervision Commission, Insurance Supervisory Commission, National Securities Commission)

2.2 Business Environment²⁵ : Improvement of insolvency and bankruptcy regulations

- 2.2.1 Improvement of insolvency and bankruptcy regulations (pre-insolvency procedures introduced in 2010, special insolvency departments created with Romanian courts, rules on out of court settlements for bankruptcy) (DPL2-prior actions)
- 2.2.1. Functional review of the RO Competition Council & Recommendations for its strengthening (FRs)

2.3 Knowledge Economy and Digital Agenda

- 2.3.1 Through the Knowledge Economy project, 255 knowledge disadvantaged communities now have access to and use the Information and Communication Technology (ICT)-based resources in schools, local public administrations, public libraries and public points of access. Specific assistance has been provided to increase the digital competencies and for the utilization of ICT resources in pre-university education.
- 2.3.1 By July 2011 812 new projects addressing community needs were developed by LCEs users and declared eligible for financing with EU structural funds (the total value of the projects declared eligible is €240M)

2.4 Research, Development and Innovation

- 2.4.1. Functional review of the Romanian Research Development and Innovation system & Recommendations for its strengthening (FRs)
- 2.4.2. Reform of agricultural research (legislation, governance and coordination, core financing; four research institutes have implemented reform plans - MAKIS)

2.5 Education: Significant progress

- 2.5.1 GoR, with DPL support, has shifted to per-student financing (starting with 2010-2011 school year). This is a fundamental structural budget reform that aligns labor and capital in the sector to the number and location of students. GOR decided to introduce per-capita financing for the entire school

²⁵ However business taxation remains costly and cumbersome and Romania ranks second but last regarding the number of tax payments according to last Doing Business Report

system as of 2010-11 vs. an initial program of piloting reforms in 8 counties

- 2.5.3 Functional Review Ministry of Education – Recommendations formulated and largely adopted by GoR for strengthening the organizational structure of the Ministry for Education and improving the quality and efficiency of pre-university and higher education.

2.6 Agriculture and Rural Development: Overall Progress although some CPS targets delayed (namely: completion of irrigation sector strategy, systemic registration of land property titles, delivery mechanism of socio-economic advisory services)

- **Support for EU integration and Convergence**
 - Functional network of Border Food Safety Inspection Points (MAKIS)
 - Improved food safety regulation (EU convergence target - MAKIS);
 - Improved information management systems (MAKIS - support to Paying Agency)
 - Improved farmers preparedness for the EU environment through delivery of socio-economic advisory services (MAKIS)
 - Revised National Rural Development Plan (2009) in line with EU requirements
- **Reform and Rehabilitation of Irrigation System**
 - Substantial contributions to irrigation sector institutional restructuring & reforms (subsidies, tariffs setting) (Irrigation Reform and Rehabilitation)
 - Rehabilitation of selected irrigation schemes (Irrigation Reform project)
- 2.6.1 **Supply of advisory services** to farmers, agro-processors, researchers via Training and Information Centers set under MAKIS project (Bucuresti, Cluj, Timisoarea, Iasi) – thousands of persons reached. Awareness about the EU Common Agriculture Policy.
- Knowledge services - Functional Review(s) - Discussions ongoing to implement some of the FRs recommendations under on-going projects – CESAR)

2.7 Energy, Environment:

- 2.7.1 Romania's electricity market operates with ancillary services from the Lotru (Bank financed) project (Energy community in SE Europe). With support by the Privatization Risk Guarantee two Electricity Distribution Companies (Banat and Dobrogea) were privatized.
- 2.7.3 Knowledge and procedures on mine closure aligned to international best practice; 8 mines closed in an environmentally friendly manner; 447 ha of rehabilitated land transferred by mining companies to other parties (Mine Closure and Socio-Econ Regeneration)
- 2.7.3 Romania has participated – on a voluntary, non-binding basis – in the 2008 reporting on the EU Environmental Directives, including the Nitrate Directive. (INPCP)
- 2.7.4 TA provided to Ministry of Environment under the Municipal Services project for preparation of water & waste water projects

2.8 Transport, Hazards Mitigation

- 2.8.x Rehabilitation of 11 bridges affected by floods (emergency task added by GOR)
- 2.8.x Flood emergency repairs at 50 bridges (emergency task added at GOR request)
- 2.8.2 Functional Review & GOR Action Plan Ministry of Transport completed
- 2.8.3 Improved emergency preparedness through implementation of specific risk reduction investment floods protection and dam safety (5 large and small dams retrofitted & reinforced), earthquake (22 public buildings retrofitted) and landslides (Hazards Risk Mitigation Project).

Pillar 3: Social and Spatial Inclusion

Since CPS inception a number of reforms have been implemented, to improve the targeting and efficiency of social spending. An example is the improved financing, administration and targeting of the Guaranteed Minimum Income Instrument. The majority of disadvantaged localities in the former mining areas benefitted from new socio-economic and employment opportunities. Progress was achieved in improving the social and spatial inclusion of Roma communities (via community development work and small investments in partnership with the Romanian Social Development Fund) as well as for the participation of Roma children in early childhood education programs. In addition, budgetary support lending (DPL2) promoted reforms to strengthen the fiscal viability, integrity and equity of the public pension and increased cost-effectiveness in the health sector.

3.1 Social Inclusion: Indicative milestones partially met and in progress

- 79% of the disadvantaged localities in the former mining areas were reached by Socio-Economic Regeneration (SER) measures extended under the Mine Closure & SER project
- US\$25M in socio-economic regeneration micro projects (income generation activities, social services, human development) for disadvantaged populations of former mining communities (Mine Closure & SER Project)
- 3.1.1 Sub-projects worth \$20M for Roma communities (small infrastructure works, kindergartens) in various stages of implementation (SIP)
- 3.1.1 50% of SIP Roma community members consider their living conditions improved
- 3.1.2 The partial impact on improving the lives of Roma communities and including Roma children in ECE programs already witnessed by various counterparts, incl. EU (SIP)

3.2 Social Assistance: improved targeting and predictability of social programs

- 3.2.1 Legislation enacted (DPL1) to increase the eligibility threshold of GMI by 15%
- 3.2.1 More transparent and predictable GMI budget allocations & benefits (DPL2) through (a) 100% financing of GMI from the state budget; (b) GMI budget transferred to MLFSP; (c) transfer of benefits payments from local budgets to NASB26
- 3.2.1 Revised draft legislation for the income tested family allowances to provide higher benefits to poorest families

3.3. Social Insurance: Premises for increasing the public pension system sustainability

- 3.3.1 Pension legislation introduced to gradually link indexation of retirement benefits to inflation and equalize retirement age between men and women (DPL2)

3.4 Health Sector: Improving the financial sustainability of the sector

- 3.4.1 Legislation adopted to increase of tobacco excise and improved framework for drug pricing (DPL1)
- 3.4.1 Technical work and roadmap finalized for inclusion of new technology and drugs in the benefits package using evidence based, transparent mechanisms (TA in support of DPLs)
- 3.4.2 Hospital rationalization strategy developed and consultations in progress (TA in support of DPLs)
- Ministerial order issued on drug pricing and joint order to promote generic drugs in framework contracts.

²⁶ NASB – National Agency for Social Benefits

Annex 4. Bank Support to the Government's Public Administration Reform via fee-based service activities

Work with the Government of Romania and the European Commission

The Government National Reform Program (NRP²⁷) 2011-13 outlines reforms derived from the objectives of the Europe 2020 strategy and informed by World Bank recommendations on key sectors of the economy (the first phase of the Functional Reviews outlined below). The NRP aims to help achieve the country's objective of convergence with the EU in terms of income and living standards. It proposes short and medium term priority reforms grouped in three areas: (i) measures to consolidate the macroeconomic framework ; (ii) policy reforms to address root causes of vulnerabilities; and (iii) administrative capacity building measures.

With support from the European Commission and the World Bank, the Romanian Government has been undertaking far reaching reform to improve the functioning of its public administration. The Bank has been providing its sector and technical expertise to support this effort through a series of fee-based services, which has both informed the NRP and is now supporting its implementation. This evolving program goes well beyond the original scope of the Bank's 2009-13 Country Partnership Strategy.

I. Functional Reviews

Over the past year and a half, the Bank carried out functional reviews (FRs)²⁸ of twelve public institutions in Romania under the overall framework of the MoU signed in June 2009 between the EC and the GoR. Phase 1 (presented to Government in October 2010) covered six areas: Public Finance, Transport, Pre-University Education, Agriculture and Rural Development, the Center of Government, Competition Council. Phase 2 (presented to Government in March 2011) covered: Environment and Forestry, Energy/Economy and Business Environment, Health, Labor and Social Protection, Regional Development and Tourism, Higher Education, Research, and Innovation). The 12 reviews provide operational recommendations on strategic management, organizational structure, sector governance, budgeting, and human resource management to help guide structural reforms.

Cross cutting recommendations of the Functional Reviews

- Improve strategies in Transport, Agriculture, and Education by aligning them to available medium term resources and identifying programmatic trade-offs required for their implementation.
- Strengthen procedures in General Secretariat of the Government and Ministry of Public Finance to assure that new policies are approved only when financing is available over the medium term and rationalize existing public investment portfolio so that projects can be implemented efficiently.
- Develop an annual Government work plan with deadlines for major legislative acts and increase consultation with external stakeholders to improve the quality of policy analysis before adoption of new laws.
- Modernize Tax Administration through implementation of new technologies and reduce reliance on manual procedures and regional office network
- Develop a new organization structure of the Ministry of Education so that it can exercise a more strategic role over the sector and enhance accountability
- Create a more arms-length relationship between the Ministry of Transport and the state companies, starting with the introduction of a professional board of directors and increased public accountability for performance
- Strengthen the qualifications for entry into senior civil service positions to assure that experience is well-aligned to the needs of the ministry.

In the public finance sector, the FR covered the Ministry of Public Finance and identified several key reform areas: (i) improving budget credibility and macro-fiscal discipline, (ii)

²⁷ NRP 2011-13 (adopted in April 2011)

²⁸ EUR 3.2 million received from EU Funds to carry out this work.

strengthening the policy basis for budget preparation, (iii) modernizing budget execution and treasury functions, (iv) improving capacity for absorption of EU funds, (v) modernizing revenue administration, (vi) organizational reform, (vii) IT modernization, and (viii) developing a more strategic management of human resources. Budget planning is also covered by the “Center of Government” Functional Review.

In the agriculture and rural development sector, the FR covered all core functions in central and regional branches of the Ministry of Agriculture and Rural Development, the two agricultural paying agencies,²⁹ and relevant subordinated and associated agencies. The FR conclusions related mostly to (i) promoting changes in the sector governance through a bold vision doubled by a system-wide strategy to set targets for meeting the vision, (ii) addressing the operational management deficiencies which represent the most pronounced constraint to effective policy and service delivery, (iii) enhancing performance through increased consolidation and co-location of institutions and through more integration or outsourcing of functions, and (iv) focusing on the low-performing units to bring them up to speed with the high-performing ones.

In the transport sector, the FR focused on the Ministry of Transport and Infrastructure and the largest land transport state owned enterprises (SOEs). The main conclusions relate to: (i) promoting changes in the sector governance through an improved transport strategy, a rethinking of the roles of government and SOEs and a better contracting of services requested by the state; (ii) improvements in corporate governance of the main transport SOEs; (iii) greater efficiency of SOE operations, especially to increase the absorption of EU funds; and (iv) the need to review policy for public-private partnerships in the transport sector. The GoR has started measures to improve the governance of some SOEs and to increase the efficiency of units responsible for EU funds absorption for roads.

In the education sector, the FR focused on the Ministry of Education, Research, Youth and Sport (MERYS) and its main subordinated agencies. Main recommendations included the need to (i) reorganize the Ministry in the context of decentralization; (ii) improve the management culture and practices of the sector, with a particular focus on the balance between operational management and strategic management and on managers’ skills and accountability; (iii) improve the capacity to absorb Structural Funds; (iv) optimize the school network; (v) improve the availability, use and management of information; and (vi) enhance research on education.

Following the completion of the Functional Reviews, the Government prepared and approved in December 2010, its action plans for Modernization of the Romanian public administration. According to the MOU between the Government of Romania and the EU, the implementation of the first set of action plans need to show progress.

II. Modernization of the Public Administration

The Government requested the Bank to support implementation of some of their action plans. The **Modernization of Administration Program of TA FBS** program (to be financed from EU Structural Funds) currently includes seventeen projects in FR Phase 1 ministries, estimated at about US\$30 million³⁰. In addition to the FR related projects, the program includes three requests for assistance on justice, procurement and EU funds absorption. Together with the DPL program, they will offer options to advance structural reforms, to inform the NRP and ensure it reflects the thrust of the Europe 2020 strategy. Line ministries of agriculture and rural development, education, public finance, transport, justice as well as the Competition Council submitted for approval to the Managing Authority their proposals for approval to be financed from EU funds. The first MAP TA

²⁹ Agency for Payments and Interventions in Agriculture, and Paying Agency for Rural Development and Fisheries.

³⁰ This may be subject to change depending on the legal agreements to be signed in the end

whose financial request was approved in a previous batch of requests was signed on July 22, 2011 and aims to assist the Government at the central level in improving its institutional capacity to facilitate policy coordination, ex-ante impact assessment, and the monitoring and evaluation of public policies. Line ministries are expected to sign the contracts for assistance with the Bank by December 2011/January 2012.

The overall WB assistance package is currently estimated at around US\$30 million for a total of seventeen projects in six sectors - public finance, agriculture and rural development, transport, education, justice and competition³¹. Below is a synopsis of the proposed TA services by sector³².

- **Public Finance - five TAs.** These projects include: (i) treasury/debt management; (ii) strengthening macro forecasting capacity, (iii) improving communication with tax payers; (iv) improving capacity in tax policy analysis; (v) strengthening human resource management.
- **Agriculture and Rural Development – five TAs.** These projects focus on: (i) developing a vision and strategy for capitalizing on the agri-food production potential; (ii) supporting the strategic planning for agriculture and rural development administration; (iii) implementing the management information system of the Ministry of Agriculture and Rural Development; (iv) developing and implementing an integrated IT system for financial management. Also, the Ministry of Administration and Interior officially requested for WB support in conducting a dedicated Functional Review of the National Agency for Cadastre and Real Estate Publicity (ANCPI) and of the institutions under its supervision, and to develop a strategy and action plan for strengthening administrative, human resource and financial capacity to improve efficiency and service delivery of the Agency.
- **Transport and Infrastructure - three TAs.** The three projects aim to, respectively: (i) update the transport strategy and assist with its implementation, focusing on cost recovery mechanisms in the transport sector and contracting arrangements with the main SOEs, including the purchase of services; (ii) support the railway system with a particular focus on the definition and refinement of public service contracts and increasing capacity for applying EU policies; and (iii) support the implementation of public-private partnership projects with a specific emphasis on the road sector.
- **Education - two TAs³³.** These projects cover essential areas including: (i) development of the administrative capacity of the Ministry, strategic management and institutional leadership; (ii) school network optimization and management; and (iii) management of information resources. At this stage, the Bank team considers its role in implementing activities under the first two areas, as they are the most relevant and have the highest potential impact over the short and medium term.

³¹ The following ministries have finalized proposals (called “project forms”) that would involve WB assistance: the Ministry of Public Finance, the Ministry of Agriculture and Rural Development, the Ministry of Administration and Interior, the Ministry of Transportation and Infrastructure, the Ministry of Justice and MERYS. In addition, the Competition Council submitted its own project form for PODCA financing through the General Secretariat of the Government (GSG). The Competition Council is not subordinated to the GoR and therefore is not directly eligible for PODCA.

³² It should be noted that the total amount of a project form may be higher than the amount for Bank TA because part of the project activities may be implemented by the GoR itself or a third party (e.g., administration, or procurement of goods/services not provided by the Bank). Also, the role of the WB will vary with each project form. In some cases the demand is for the Bank to have responsibility for overall project management, in other cases for the WB to deliver directly some activities, and in others still for the WB to supervise firms contracted by the ministry.

³³ The Ministry of Education submitted the project proposals for approval to the funding Managing Authority without having requested yet World Bank support for the implementation of these two projects.

- **Competition - one TA.** The areas of probable intervention are the following: (i) revising the legislative mandate of the Competition Council to promote competition; (ii) strengthening competition advocacy in public and government bodies; (iii) implementing a new business architecture in the Competition Council based on high quality and secure infrastructure, tools and services for information and communication technology; and (iv) increasing human resource capacity on competition matters in the Council as well as in ministries and regulatory agencies.
- **Justice – one TA.** The project covers a functional review of the judicial system and the main areas of WB intervention would cover the analysis and the provision of recommendations for the following: (i) the organizational and functional design of the main judicial institutions; (ii) the HR strategy and the making use of the budgetary allocations for the judicial system; (iii) the IT management system (hardware and software); and (iv) proposal for the setup of a system and business processes for identifying, mitigating and solving the risks in the judicial system.

Action Plans were prepared and adopted by the Government based on the Phase 2 Functional Reviews. The Bank is ready to support implementation of those action plans upon request, comparative advantage, and ability to deliver.

III. World Bank support to Absorption of EU Funds

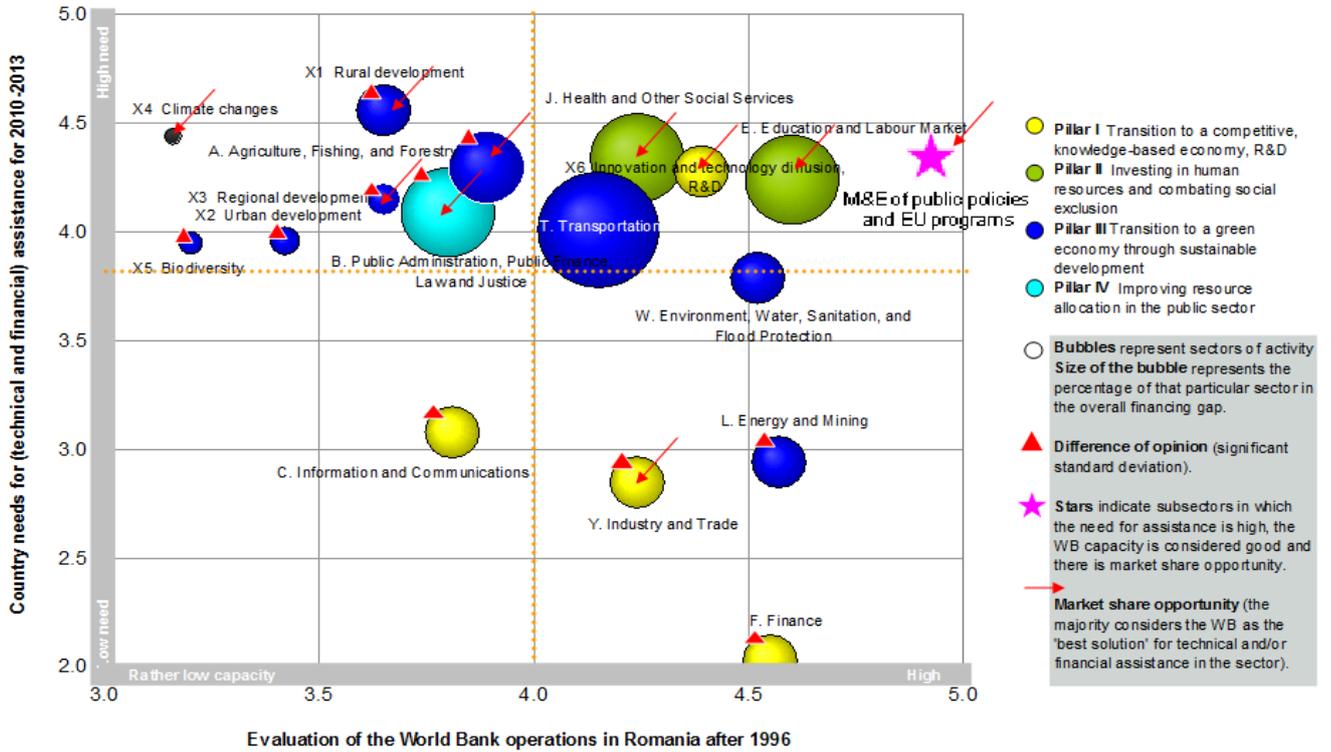
The Bank has also been requested to support capacity building for absorbing EU funds. As of end 2010, the absorption rate of EU structural funds for 2007-2013 was below 3 percent, leaving about EUR 20 billion available. The *Plan of Priority Measures for strengthening the capacity to absorb structural and cohesion funds*, approved by the Government in April 2011, could significantly reduce barriers to absorption.

- (i) The Government, in agreement with the EC, has requested the Bank to carry out an analysis of legislative and policy impediments of EU funds absorption. This work has been requested on a fee for service basis and the proposal is under discussion with the Government.
- (ii) Additionally, in November 2011, a new request has been made by the European Commission and Government of Romania to IFI (EIB, JASPERS, EBRD, and World Bank) support for various TAs to improve the absorption of Structural and Cohesion Funds and to prepare the 2014-2020 programming period. A list of requested TAs has been provided to the IFIs and is currently under evaluation. Further discussions are expected in the upcoming months between DG REGIO, the Ministry of European affairs and IFIs on the possibilities to best respond to the request.

IV. Procurement

The Bank has also been requested to do a Functional Review of procurement and is reviewing this request with the European Commission, the Government and how it interrelates with the other TA work.

Annex 5. Country needs and World Bank comparative advantage



Annex 6: Summary of Sectoral Consultations

General Objective

- Inform WB Country Partnership Strategy (CPS) Progress Report on the perceived stage of CPS implementation and future role of the WB in selected policy sectors

Specific Objectives

- Open a participatory process in drafting the Country Partnership Strategy for 2011-2013
- Evaluation of the knowledge on the World Bank activities in Romania
- Assessment of the stage of implementation of the Country Partnership Strategy for 2009-10
- Identification of main risks and bottlenecks in implementing CPS 2009-2013
- Evaluation of the degree to which the directions of action/pillars respond to Romania's development needs
- Identification of the main directions for action (pillars, sectors, subsectors and assistance tools) in implementing CPS for the period of 2011-2013.

Methodology

- **Primary and Secondary Stakeholders Surveys**³⁴: two main target-groups have been identified for carrying out the surveys: WB Project Management Units (PMUs), considered as CPS primary stakeholders and representatives of NGOs, consultants, researchers, financial institutions, international institutions and organizations, foreign investors, referred to as secondary stakeholders group. Data collection period is December 2009 - February 2010. Primary stakeholders' survey was carried out on a number of WB 31 Project Management Units (PMUs), while secondary stakeholders' survey included a sample of 194 persons (mainly NGO representatives). The response rates are 71% for primary stakeholders' survey and 43% for the secondary group.
- **Sectoral roundtables**³⁵: in order to in-depth grasp the potential WB role in shaping future development in Romania, eight sectoral roundtables have been conducted. More than 45 participants discussed key policy sectors: agriculture and rural development, climate change, education, governance, the social sectors, health, public finance and smart growth (including areas contributing to smart growth, such as: business environment, research, development and innovation, competition and digital agenda). Participants included Government, private sector, NGOs, trade unions and academic representatives. Discussion guidelines conducted in April-May 2011 covered the following topics: acceleration of EU funds absorption, technical support for capacity development, implementation of the functional review recommendations, new policy related to the EU 2020 Strategy and thematic policy notes.

Key findings

- **General remark:** the consultations process provided a forum for discussing essential needs for country development among different stakeholders and has been positively appreciated by

³⁴ Online survey for two target groups. For a complete list of methodological notes and results please refer to the Primary Stakeholders Survey and Secondary Stakeholders Survey Final Reports, February 9, 2011.

³⁵ For summaries of all eight sectoral roundtables please refer to Summary of WB Consultations, June 9, 2011.

participants from both surveys as well as roundtables. The World Bank has a very positive image in Romania, with potential role in various policy fields.

- **Primary and Secondary Stakeholders Surveys**

- Primary and secondary stakeholders were not involved in consultations for CPS 2009-2013.
- WB Pillars of Growth respond to a great extent to Romania's development needs.
- Most of the sectors were evaluated as average in achieving the objectives set in the CPS during the period of 2009-2010.
- For 2011-2013 period, WB should support developments in agriculture & rural development, public administration, education & labour market, social inclusion and health sector.
- Main obstacles in achieving the objectives set in CPS 2009-2013 are the Political System and Human Resource Management.

- **Sectoral roundtables³⁶**

- Theme 1: Policy reforms to reap the benefits of EU membership and meet the objectives of the Europe 2020 strategy
 - ✓ *Strengthen policy coordination.* Lack of coordination mainly between different governmental institutions translates into lack of policy coherence, mentioned by representatives of various policy sectors, from both public and private sectors. A programmatic vision accompanied by a suitable institutional set-up should ensure policy coordination across sectors and institutions, in line with Europe 2020 Strategy and with national initiatives of programming documents - National Reform Program .
 - ✓ *Strengthen policy-based budget prioritization.* The unjustified increased role of MoPF in expenditure prioritization, as perceived by representatives of line ministries, is, according to MoPF representatives, a consequence of lack of expertise in budget prioritization in ministries. In this respect, WB TA programs should address the training needs in MoPF together with line ministries.
- Theme 2: Modernization of public institutions to enhance resource allocation and the absorption of EU funds
 - ✓ *Simplifying administrative procedures at the level of all Management Authorities* for structural funds, through a WB Technical Assistance (TA) project. Absorption of European Funds represents the only viable financial resource, particularly in the context of excessive deficit procedure. The technical assistance needs in this field are represented by uniform procedures for Management Authorities (MA) and training for MA personnel.
 - ✓ *Impact assessment of projects financed from structural funds.* A potential WB role could be materialized under a TA on monitoring and evaluating the outcomes produced from structural funds projects. The project should also include public dissemination activities of results from European-funded projects.
 - ✓ *Reforming HR Management in the public sector* on performance-based. There is a clear need for amendment of Civil Servants Statute, with the goal of establishing a performance-based recruitment, evaluation, promotion and pay system of public personnel.
 - ✓ *Implementation of Functional Review recommendations.* There are high expectations regarding both accomplishments of WB Functional Reviews (e.g. governance, R&D) together with implementation of selected operations from Functional Review recommendations. Moreover, besides the projects already submitted for implementation, WB should continue the problem-identification part addressed with the functional reviews with a monitoring & evaluation exercise in order to ensure implementation of the FR

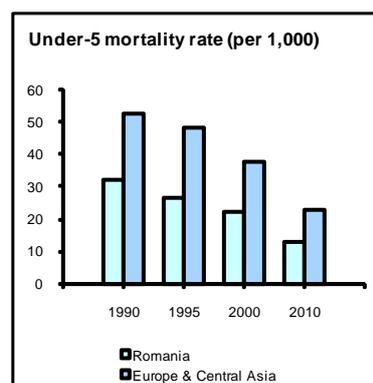
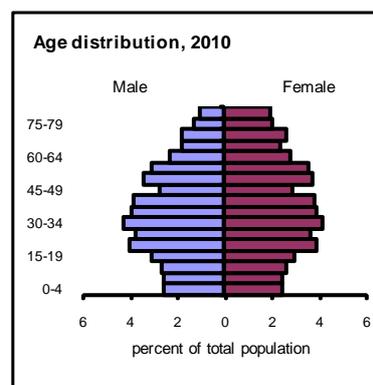
³⁶ The following findings represent a mere selection of cross-cutting issues, grouped under CPS themes for the next period. They do not reflect entirely all the views and opinions expressed during discussions. For a complete list of WB alternatives for action in different policy sectors, please refer to Summary of WB Consultations, June 9, 2011.

recommendations. This type of exercise clearly needs a strong commitment of behalf of the Government.

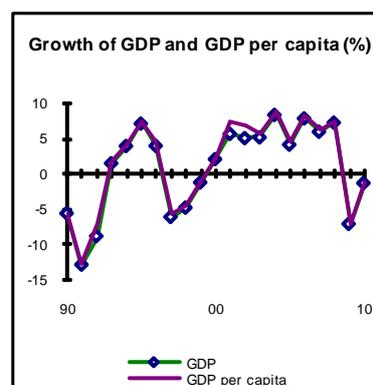
- Theme 3: Support complementing EU funding
 - ✓ *Raising awareness on crucial policy issues.* Representatives of different institutions pointed out the need to bring further on the public agenda crucial topics for Romania's future path of development such as smart growth or climate change. WB is perceived with a competitive advantage on this area, based on its role to streamline coherent policies across multiple stakeholders from both public and private sectors.
 - ✓ *Support financing gap up to the next period of structural funds implementation.* As the next period of structural funds starts only in 2015 and there are numerous areas not covered by the current programming period, which need formulation of immediate response at national level, WB could supplement this financing gap through various assistance tools.

Annex 7. Romania at a Glance

Key Development Indicators	Romania	Europe & Central Asia	Upper middle income
(2010)			
Population, mid-year (millions)	20.0	405	994
Surface area (thousand sq. km)	238	23,549	48,659
Population growth (%)	-0.2	0.6	0.9
Urban population (% of total population)	54	64	76
GNI (Atlas method, US\$ billions)	158.0	2,945	7,403
GNI per capita (Atlas method, US\$)	7,901	7,269	7,423
GNI per capita (PPP, international \$)	13,910	13,302	12,802
GDP growth (%)	-1.3	5.6	4.1
GDP per capita growth (%)	-1.2	5.0	3.2
(most recent estimate, 2005–2010)			
Poverty headcount ratio at \$1.25 a day (PPP, %)	<2	4	<2
Poverty headcount ratio at \$2.00 a day (PPP, %)	4	9	<2
Life expectancy at birth (years)	73	69	71
Infant mortality (per 1,000 live births)	10	20	20
Child malnutrition (% of children under 5)	0	..	0
Adult literacy, male (% of ages 15 and older)	98	99	95
Adult literacy, female (% of ages 15 and older)	97	97	92
Gross primary enrollment, male (% of age group)	100	100	111
Gross primary enrollment, female (% of age group)	99	98	110
Access to an improved water source (% of population)	..	95	95
Access to improved sanitation facilities (% of population)	72	89	84



Net Aid Flows	1980	1990	2000	2010 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	..	243	431	920
<i>Top 3 donors (in 2007):</i>				
n.a.	..	..	..	..
n.a.	..	..	..	..
n.a.	..	..	..	..
Aid (% of GNI)	..	0.6	12	12
Aid per capita (US\$)	..	10	19	42
Long-Term Economic Trends				
Consumer prices (annual % change)	..	..	..	6.1
GDP implicit deflator (annual % change)	2.1	13.6	44.3	4.2
Exchange rate (annual average, local per US\$)	..	0.0	2.2	3.2
Terms of trade index (2000 = 100)	..	83	100	93
Population, mid-year (millions)	22.2	23.2	22.4	20.0
GDP (US\$ millions)	..	38,299	37,053	162,019
<i>(% of GDP)</i>				
Agriculture	16.4	23.7	12.5	6.0
Industry	56.6	49.9	36.4	26.4
Manufacturing	..	33.8	14.5	21.9
Services and constructions	27.0	26.3	51.1	56.5
Household final consumption expenditure	53.7	65.9	78.5	61.2
General gov't final consumption expenditure	12.3	13.3	7.2	7.2
Gross capital formation	36.3	30.2	19.5	30.5
Exports of goods and services	..	16.7	32.7	26.5
Imports of goods and services	..	26.2	37.9	41.2
Gross savings	..	20.7	15.8	35.8



1980–90 1990–2000 2000–10
(average annual growth %)

Population, mid-year (millions)	0.4	-0.3	-0.5
GDP (US\$ millions)	13	-0.6	5.5
<i>(% of GDP)</i>			
Agriculture	19	-19	7.2
Industry	-10	-12	5.9
Manufacturing	..	..	5.6
Services and constructions	..	0.9	5.1
Household final consumption expenditure	..	1.3	6.2
General gov't final consumption expenditure	..	0.8	4.2
Gross capital formation	..	-5.1	11.4
Exports of goods and services	..	8.1	9.5
Imports of goods and services	..	6.0	13.5

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.

a. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade **2000** **2010***(US\$ millions)*

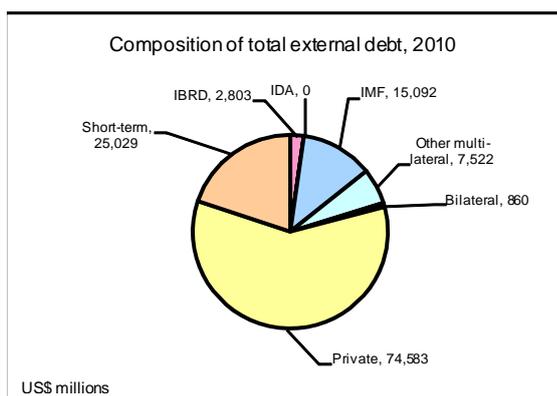
Total merchandise exports (fob)	10,366	49,381
Total merchandise imports (cif)	13,054	57,192
Net trade in goods and services	-1,930	-7,943
Current account balance	-1,355	-8,101
as a % of GDP	-3.7	-5.0
Workers' remittances and compensation of employees (receipts)	96	3,171
Reserves, including gold	3,396	50,308

Central Government Finance*(% of GDP)*

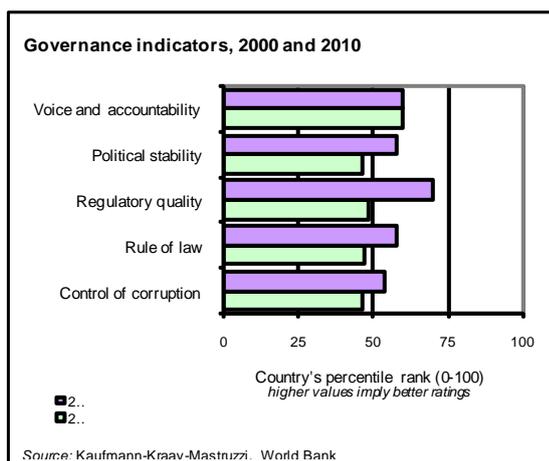
Current revenue (including grants)	31.1	31.3
Tax revenue	29.2	28.0
Current expenditure	31.8	33.7
Overall surplus/deficit	-4.0	-2.7
Highest marginal tax rate (%)		
Individual	..	16
Corporate	25	16

External Debt and Resource Flows*(US\$ millions)*

Total debt outstanding and disbursed	11,160	125,889
Total debt service	2,500	17,624
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	30.1	77.7
Total debt service (% of exports)	20.1	23.2
Foreign direct investment (net inflows)	1,037	3,839
Portfolio equity (net inflows)	58	0

**Private Sector Development** **2000** **2010**

Time required to start a business (days)	-	14
Cost to start a business (% of GNI per capita)	-	3.0
Time required to register property (days)	-	26
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Tax administration	..	35.6
Tax rates	..	34.1
Stock market capitalization (% of GDP)	2.9	22.1
Bank capital to asset ratio (%)	8.6	8.0

**Technology and Infrastructure** **2000** **2010**

Paved roads (% of total)	49.5	30.3
Fixed line and mobile phone subscribers (per 100 people)	29	147
High technology exports (% of manufactured exports)	5.5	7.5

Environment

Agricultural land (% of land area)	65	58
Forest area (% of land area)	27.7	27.7
Terrestrial protected areas (% of surface area)	..	10.7
Freshwater resources per capita (cu. meters)	1940	1971
Freshwater withdrawal (billion cubic meters)	23.2	23.5
CO2 emissions per capita (mt)	3.9	4.2
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	4.2	5.8
Energy use per capita (kg of oil equivalent)	1612	1799

World Bank Group portfolio **2000** **2010***(US\$ millions)*

IBRD		
Total debt outstanding and disbursed	1,898	2,830
Disbursements	384	187
Principal repayments	91	262
Interest payments	104	51
IDA		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
IFC (fiscal year)		
Total disbursed and outstanding portfolio	284	656
of which IFC own account	112	..
Disbursements for IFC own account	17	..
Portfolio sales, prepayments and repayments for IFC own account	5	..
MIGA		
Gross exposure	20	..
New guarantees	0	..

Note: Figures in italics are for years other than those specified. 2009 data are preliminary.

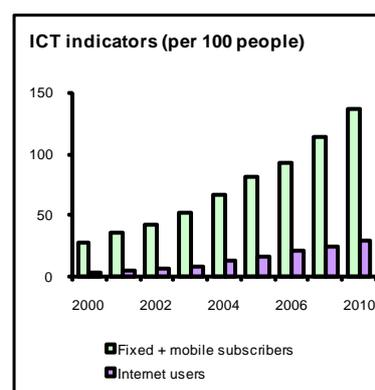
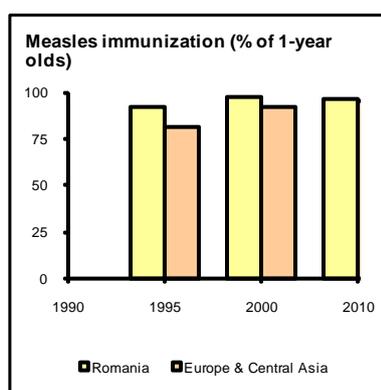
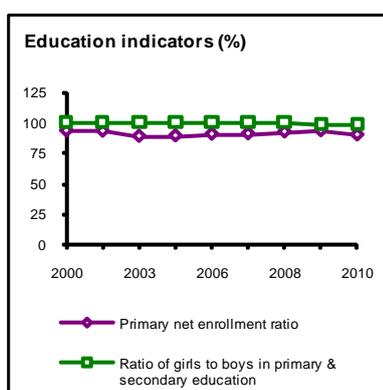
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.. indicates data are not available. - indicates observation is not applicable.

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Romania			
	1990	1995	2000	2010
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	<2	5.0	3.7	<2
Poverty headcount ratio at national poverty line (% of population)	..	25.4	28.9	15.9
Share of income or consumption to the poorest quintile (%)	10.0	8.9	8.2	8.0
Prevalence of malnutrition (% of children under 5)	..	..	3.7	3.5
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	87	94	90
Primary completion rate (% of relevant age group)	96	86	102	96
Secondary school enrollment (gross, %)	102	77	81	91
Youth literacy rate (% of people ages 15-24)	..	..	98	96
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	98	101	100	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	42	42	46	46
Proportion of seats held by women in national parliament (%)	34	7	7	9
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1000)	32	27	22	13
Infant mortality rate (per 1000 live births)	25	22	19	11
Measles immunization (proportion of one-year olds immunized, %)	92	93	98	97
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	170	72	52	27
Births attended by skilled health staff (% of total)	..	99	98	99
Contraceptive prevalence (% of women ages 15-49)	..	57	64	70
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	0.1	0.1	0.1
Incidence of tuberculosis (per 100,000 people)	140	140	170	130
Tuberculosis case detection rate (% all forms)	49	72	74	76
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	..	..	..
Access to improved sanitation facilities (% of population)	71	72	72	72
Forest area (% of total land area)	27.8	27.8	27.7	27.7
Terrestrial protected areas (% of surface area)	..	..	..	10.7
CO2 emissions (metric tons per capita)	6.8	5.7	3.9	4.4
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	2.9	3.5	4.2	6.0
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	10.2	13.1	17.4	23.4
Mobile phone subscribers (per 100 people)	0.0	0.0	11.1	113.7
Internet users (per 100 people)	0.0	0.1	3.6	28.8
Personal computers (per 100 people)	0.2	13	3.2	19.2



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

10/25/11

Annex 8: Selected Indicators of Bank Portfolio Performance and Management

As Of Date 10/31/2011

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation ^a	16	12	12	12
Average Implementation Period (years) ^b	4.3	5.4	6.2	6.6
Percent of Problem Projects by Number ^{a, c}	37.5	41.7	25.0	25.0
Percent of Problem Projects by Amount ^{a, c}	35.9	32.0	17.8	17.8
Percent of Projects at Risk by Number ^{a, d}	37.5	41.7	25.0	25.0
Percent of Projects at Risk by Amount ^{a, d}	35.9	32.0	17.8	17.8
Disbursement Ratio (%) ^e	10.8	29.0	20.4	3.4
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	73	10
Proj Eval by OED by Amt (US\$ millions)	5,662.1	379.5
% of OED Projects Rated U or HU by Number	19.2	20.0
% of OED Projects Rated U or HU by Amt	22.1	16.7

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 9: Social Indicators

Romania Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2003-09	Europe & Central Asia	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	22.7	22.7	21.5	404.2	1,001.7
Growth rate (% annual average for period)	0.5	-0.5	-0.2	0.2	0.9
Urban population (% of population)	49.6	54.0	54.4	64.0	74.9
Total fertility rate (births per woman)	2.3	1.3	1.4	1.8	2.0
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	13.8	..	..
Urban headcount index	..	..	6.8	..	..
Rural headcount index	..	..	22.3	..	..
INCOME					
GNI per capita (US\$)	..	1,470	8,330	6,793	7,502
Consumer price index (2000=100)	..	4	127	141	127
Food price index (2000=100)	0	11	184	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	28.2	31.2	..	..
Lowest quintile (% of income or consumption)	..	8.9	8.1	..	..
Highest quintile (% of income or consumption)	..	37.2	39.3	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	0.0	4.3	3.9	3.8
Education (% of GDP)	..	..	4.3	4.1	4.3
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	87	90	92	93
Male	..	87	91	93	93
Female	..	87	90	92	92
Access to an improved water source					
<i>(% of population)</i>					
Total	..	..	..	95	95
Urban	..	..	..	98	98
Rural	..	..	..	89	86
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	88	93	97	96	93
DPT	95	98	97	95	93
Child malnutrition (% under 5 years)	..	5	..	..	..
Life expectancy at birth					
<i>(years)</i>					
Total	70	69	73	70	72
Male	67	66	70	66	69
Female	73	73	77	75	75
Mortality					
Infant (per 1,000 live births)	25	22	10	19	19
Under 5 (per 1,000)	32	27	12	21	22
Adult (15-59)					
Male (per 1,000 population)	228	270	192	286	201
Female (per 1,000 population)	114	119	82	123	122
Maternal (modeled, per 100,000 live births)	..	72	27	32	82
Births attended by skilled health staff (%)	..	99	99	97	96

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 15 April 2011.

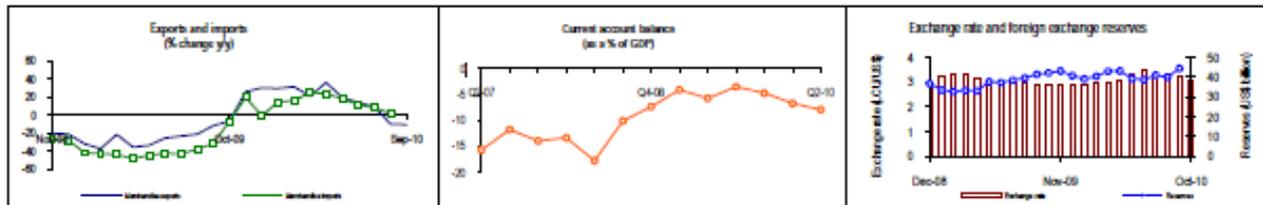
Annex 10: Recent Economic and Financial Indicators

Page 1 of 4

Romania

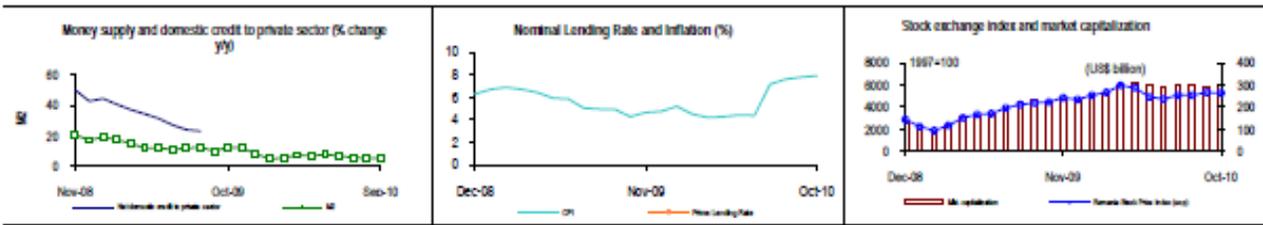
Recent Economic and Financial Indicators

	2007	2008	2009	Q1-10	Q2-10	Q3-10	Jul-10	Aug-10	Sep-10
External Sector									
Current account(% nominal change y/y)									
Total merchandise exports (fob)	24.7	21.9	-17.9	27.2	22.7	-2.9	9.5	-9.6	-10.3
Total merchandise imports (cif)	37.4	19.1	-35.4	19.2	17.8	-	8.3	2.4	-
Private transfers (net)	8.7	32.3	-34.8	-62.3	-38.6	-	-	-	-
Current account balance (US\$ billion)	-22.9	-23.6	-7.2	-2.2	-2.7	-	-	-	-
Current account balance (as a % of GDP)	-13.4	-12.1	-4.5	-6.7	-7.9	-	-	-	-
Trade openness (% of GDP)	72.5	73.9	68.4	84.7	87.0	-	-	-	-
Capital account (US\$ billion)									
Foreign direct Investment (net inflows)	9.6	13.6	6.1	0.8	1.0	-	-	-	-
% of Gross domestic Investment	18.3	21.3	15.1	15.8	10.9	-	-	-	-
Portfolio equity (net inflows)	0.7	-0.8	0.7	1.6	0.3	-	-	-	-
Foreign exchange reserves (excluding gold)	37.2	36.9	40.8	43.1	38.8	44.5	41.0	40.0	44.5
Foreign reserves (as months of merchandise imports)	6.9	5.7	9.8	10.2	8.2	-	8.7	10.0	-
Exchange rate (LCU/US\$ avg)	2.4	2.5	3.0	3.0	3.3	3.3	3.3	3.3	3.3
Exchange rate (LCU/US\$ eop)	2.5	2.8	2.9	3.0	3.6	3.1	3.3	3.4	3.1
REER index trade weighted (2000=100)	188.6	179.1	171.8	178.3	170.1	171.8	171.3	172.0	172.1
Total external debt outstanding and disbursed (US\$ billion)	211.7	288.3	339.5	352.4	380.2	-	-	-	-
Long-term debt	105.2	156.9	221.3	232.7	251.3	-	-	-	-
Short-term debt	106.5	131.4	118.2	119.7	128.9	-	-	-	-
Short-term debt(% of GDP)	62.4	64.3	73.4	72.4	79.0	-	-	-	-
Memo: GDP (Current US\$ billion)	171	204	161	165	163	-	-	-	-

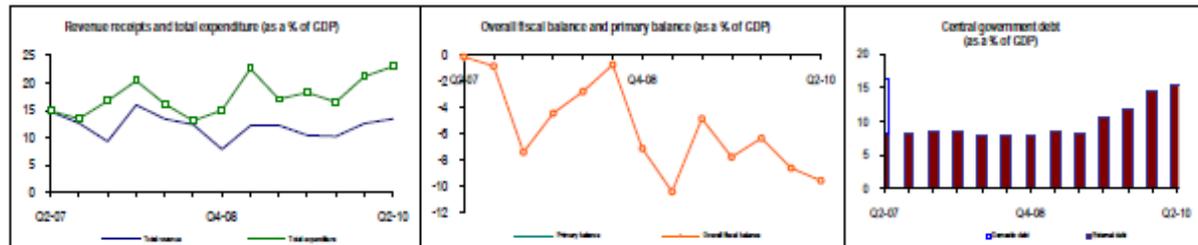


Financial Sector

Monetary survey									
Money Supply (M2) (% change y/y)	34.0	17.3	8.3	7.4	7.1	5.5	5.8	5.4	5.5
M2 - Multiplier (Broad Money/Reserve Money)	3.0	3.4	3.6	4.1	3.9	3.9	4.0	3.9	3.9
M2 ratio to forex reserves	1.6	1.7	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Net Domestic Credit (% change y/y)									
Net Domestic Credit	74.5	42.6	-	-	-	-	-	-	-
To private sector	62.4	34.0	-	-	-	-	-	-	-
Net Domestic Credit (% GDP)									
Net Domestic Credit	34.7	40.1	-	-	-	-	-	-	-
To private sector	34.8	37.7	-	-	-	-	-	-	-
Nominal interest rates (%)									
Monetary Policy Rate (eop)	7.5	10.3	8.0	6.5	6.3	6.3	6.3	6.3	6.3
Interest Rate on Interbank Transactions	7.5	11.5	10.2	5.7	5.3	4.2	4.5	4.1	4.1
Private Banks Lending Rates: Non-Bank Clients [Incl Govt]	13.4	15.0	17.3	-	-	-	-	-	-
Private Banks Deposit Rates: Non-Bank Clients [Incl Govt]	6.7	9.5	12.0	-	-	-	-	-	-
Real interest rates (%)									
Monetary Policy Rate (eop)	2.5	2.2	2.3	1.8	1.8	-1.2	-0.9	-1.3	-1.4
Private Banks Lending Rates: Non-Bank Clients [Incl Govt]	8.1	6.6	11.1	-	-	-	-	-	-
Private Banks Deposit Rates: Non-Bank Clients [Incl Govt]	1.8	1.5	6.1	-	-	-	-	-	-
Banking sector (%)									
Bank nonperforming loans to total gross loans	9.7	13.8	-	-	-	-	-	-	-
Bank capital to assets ratio	7.3	7.0	-	-	-	-	-	-	-
Banking System Indicator (BSI)	D	D	D	-	-	-	-	-	-
Net Loans / Customer & ST Funding	-	-	-	-	-	-	-	-	-
Capital markets									
Stock market index (% change over previous period)	19.9	-39.6	-36.5	16.8	-5.8	0.5	7.0	0.0	5.2
Stock market capitalization (US\$ billion)	86	46	80	401	361	396	301	299	290



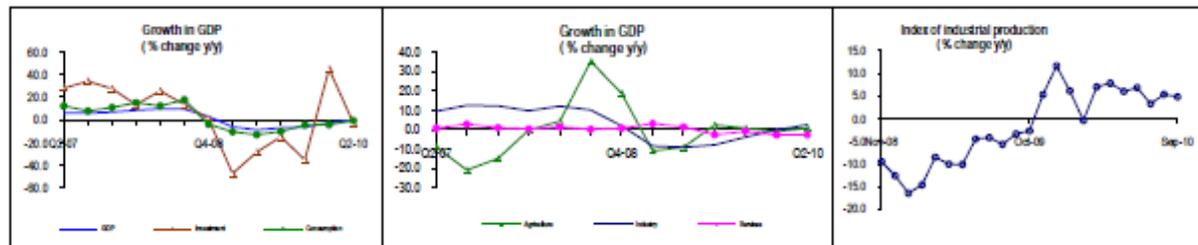
	2007	2008	2008	Q1-10	Q2-10	Q3-10	Jul-10	Aug-10	Sep-10
Fiscal Sector (Central Government)									
(% change y/y)									
Total revenues	20.4	24.6	-10.4	3.2	12.3	-	22.9	75.6	-
Tax revenue	-	-	-	-	-	-	-	-	-
Non-tax revenue	-	-	-	-	-	-	-	-	-
Total expenditure	25.6	25.7	11.1	-6.2	37.7	-	15.7	0.2	-
Current expenditure	-	-	-	-	-	-	-	-	-
Capital expenditure and net lending	-	-	-	-	-	-	-	-	-
(as a % of GDP)									
Total revenues	11.8	11.9	11.1	12.6	13.4	-	-	-	-
Tax revenue	-	-	-	-	-	-	-	-	-
Non-tax revenue	-	-	-	-	-	-	-	-	-
Total expenditure	15.5	15.7	18.3	21.2	23.0	-	-	-	-
Current expenditure	-	-	-	-	-	-	-	-	-
of which: interest payments	-	-	-	-	-	-	-	-	-
Capital expenditure and net lending	-	-	-	-	-	-	-	-	-
Overall fiscal balance	-3.7	-3.9	-7.2	-8.6	-9.5	-	-	-	-
Primary balance	-	-	-	-	-	-	-	-	-
Deficit Financing	3.7	3.9	7.2	8.6	9.5	-	-	-	-
Domestic financing	-	-	-	-	-	-	-	-	-
Foreign financing	-	-	-	-	-	-	-	-	-
Total central government debt	-	-	-	-	-	-	-	-	-
Domestic debt	-	-	-	-	-	-	-	-	-
External debt	8.4	7.9	11.7	14.5	15.3	-	-	-	-
Memo: GDP at current prices (LCU Billion)	416	515	491	491	494	-	-	-	-

**Real Sector and Prices**

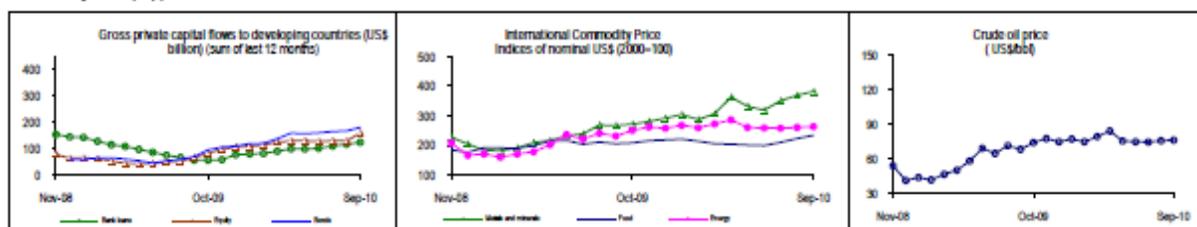
(% change y/y)									
Gross domestic product at factor cost	6.6	8.0	-6.8	-1.3	-0.2	-	-	-	-
Agriculture	-15.3	21.9	-0.5	-0.9	0.7	-	-	-	-
Industry	11.3	7.9	-7.0	-0.2	2.6	-	-	-	-
Services	1.5	0.7	-0.2	-2.7	-2.7	-	-	-	-
Gross domestic product at market prices	6.3	7.3	-7.1	-2.6	-0.5	-	-	-	-
Investment	29.9	11.9	-28.0	45.0	-2.6	-	-	-	-
Consumption	10.5	9.2	-9.5	-4.4	-0.5	-	-	-	-
Private Consumption	10.9	9.4	-10.0	-4.5	-0.5	-	-	-	-
Public Consumption	2.4	5.4	1.2	-3.2	-1.3	-	-	-	-
Exports of goods and services	7.8	7.7	-6.2	21.6	23.2	-	-	-	-
Imports of goods and services	27.9	7.0	-21.3	15.1	25.4	-	-	-	-
Index of industrial production	10.3	2.7	-6.5	4.3	6.8	4.4	3.3	5.3	4.8
Prices (% change y/y)									
Consumer Price Index	4.8	7.8	5.5	4.6	4.4	7.5	7.2	7.6	7.8
Food	3.9	9.2	3.3	0.0	-0.2	3.6	2.3	3.8	4.8
Energy	10.0	-	-	-	-	-	-	-	-
Wholesale Price Index	7.6	15.3	1.9	3.5	6.1	7.2	7.0	6.7	7.9
Food Grains	8.8	17.6	-	-	-	-	-	-	-
Energy	7.6	7.1	-	-	-	-	-	-	-

Wages and Employment

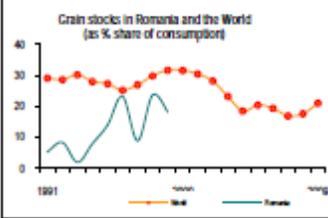
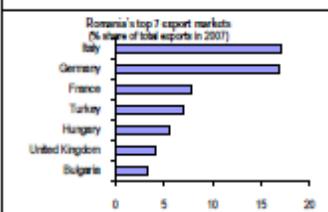
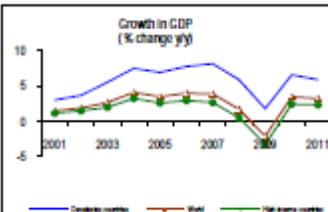
Real wages (% change y/y)	-	5.8	-	8.1	6.8	-	-	-	-
Unemployment rate (%)	6.4	5.8	-	8.1	6.8	-	-	-	-



	2007	2008	2009	Q1-10	Q2-10	Q3-10	Jul-10	Aug-10	Sep-10
Global Linkages									
Gross private financial flows to developing countries (US\$ billion, sum of last 12 months)									
Equity issuance	198	63	106	124	127	158	129	128	158
of which: Romania	0	0	0	0	0	0	0	0	0
Bonds	114	58	109	137	159	180	165	167	180
of which: Romania	0	1	0	1	1	1	1	1	1
Syndicated bank loan commitments	207	145	76	90	101	124	109	116	124
of which: Romania	1	0	0	0	0	0	0	0	0
5-year sovereign credit default swap spread	87	635	279	202	409	351	348	379	351
EMBI global bond spread	--	--	--	--	--	--	--	--	--
Foreign direct investment to developing countries	460	--	--	--	--	--	--	--	--
of which: Romania	10	14	6	1	1	--	--	--	--
Nominal interest rates (% per annum)									
\$ LIBOR (6 month)	4.6	1.8	0.4	0.4	0.8	0.5	0.7	0.5	0.5
Euro LIBOR (6 month)	4.7	3.0	1.0	0.9	1.0	1.1	1.1	1.1	1.1
Romania Terms of trade Index (2000=100)									
Export price Index (2000=100)	3311	-365	-1242	--	--	--	--	--	--
Import price Index (2000=100)	2027	-526	-1284	--	--	--	--	--	--
Prices of primary export commodities (% change y/y)									
Wood (cents/cm)	7.6	10.3	-9.4	-3.2	0.4	14.0	14.6	15.9	11.7
Rubber (\$/MT)	8.9	14.3	-25.7	118.2	124.0	69.3	87.2	61.1	62.7
Aluminum (\$/MT)	2.7	-2.5	-35.3	59.1	41.2	15.3	19.2	9.5	17.9
Prices of primary import commodities (% change y/y)									
Energy (2000=100)	10.8	39.7	-37.3	60.0	30.9	12.9	17.0	8.1	13.9
Iron and Steel (2000=100)	0.2	59.0	-21.5	-23.0	11.9	10.2	9.7	9.5	11.5
Cotton (cents/kg)	10.2	12.8	-12.2	48.0	50.5	44.6	29.9	40.6	63.5
Baltic dry Index (eop)	9143	774	3005	2998	2406	2446	1967	2713	2446



	2007	2008	2009	2010	2011
			Estimate	Projections	Projections
GDP (% change y/y)					
World	8.9	1.7	-2.1	8.6	3.2
Developing countries	8.2	6.8	1.8	8.8	6.8
High-income countries	2.7	0.6	-3.8	2.6	2.3
Italy	1.4	-1.3	-5.1	0.9	1.4
Germany	2.8	0.7	-4.7	2.8	2.3
France	2.3	0.1	-2.5	1.5	2.0
Turkey	4.7	0.9	-4.7	6.3	4.2
Hungary	1.2	0.6	-6.3	0.5	2.5
United Kingdom	2.7	-0.1	-4.9	1.6	2.1
Bulgaria	6.2	6.0	-5.0	0.0	2.5
Exports (GNF\$) volume (% change y/y)					
World	6.7	2.9	-11.2	16.9	6.7
High-income countries	6.4	2.2	-11.7	15.7	6.1
Developing countries	7.6	0.0	-9.6	20.5	8.2
Imports (GNF\$) volume (% change y/y)					
High-income countries	4.6	0.8	-12.4	15.4	6.6
Developing countries	10.5	4.1	-10.6	22.0	8.7
Commodity prices (% change in nominal US\$, y/y)					
Manufacturing (MUV)	4.7	6.7	-4.2	0.0	-3.7
Energy	10.8	39.7	-37.3	22.6	-3.3
Food	25.7	33.9	-17.1	-0.1	-3.0
Metals and minerals	12.0	3.7	-27.7	38.3	1.4
World grain supply and demand (million metric tons)					
Production	2004	2125	2241	2229	--
Ending stocks	346	369	451	490	--
% share of use	17	18	21	22	--
Domestic consumption	2044	2096	2148	2182	--
% change y/y	1.1	2.5	2.5	1.6	--
Memo: Romania's grain stocks as % share of consumption	--	--	--	--	--
World oil demand and supply (million barrels per day)					
World demand	86	86	85	86	--
Non-OPEC oil supply	51	51	51	52	--
Call on OPEC incl. stock changes	30	31	29	29	--
Call on OPEC incl. stock changes (% change y/y)	-1.3	3.0	-8.3	0.4	--



Sources and Notes

External Sector

Current Account

Source: Haver.

Note: Merchandise exports and imports for monthly data are based on customs data; other data are based on BOP classification. Trade openness is defined as exports plus imports of goods and services divided by GDP.

Capital Account

Source: Haver.

Financial Sector

Monetary Survey

Source: Haver.

Interest rates

Source: Haver.

Note: Real interest rates are derived using consumer price inflation.

Banking sector

Source: World Bank, World Development Indicators.

Banking System Indicator (BSI): The BSI is a summary measure of intrinsic banking system quality, or strength, derived from Fitch's long-standing and current Individual Ratings for banks. The BSI measures system quality or strength on a scale ranging from 'A' (very high), through 'B' (high), 'C' (adequate), and 'D' (low), to 'E' (very low). Source: Fitch Ratings: Bank Systemic Risk Report.

Capital markets

Source: Haver.

Fiscal Sector (Central Government)

Source: Haver.

Note: Quarterly debt to GDP ratios are calculated using the sum of GDP for the trailing four quarters.

Real Sector and Prices

Sources: Haver.

Wages and Employment

Source: ILO Labor Survey.

Global Linkages

Gross private financial flows to developing countries and foreign direct investment

Source: Dealogic.

5YR CDS spreads show the 5 YR CDS mid rate spread between the entity and the relevant benchmark curve. Higher values represent higher risk of default. Source: Datastream.
EMBI-Global show the sovereign government's bond spreads benchmarked against the yield of U.S. Treasury notes, expressed in basis points. Higher the value, more expensive terms of borrowing. Source: Datastream.

Nominal interest rates (% per annum)

Source: DataStream

Prices of primary export and import commodities; aggregate international commodities prices; terms of trade

Source: World Bank, DECPG.

Note: Historical data and projections are provided by DECPG.

Baltic dry Index

Source: Bloomberg.

Note: The Baltic Dry Index (BDI) provides an assessment of the price of moving the major raw materials by sea. Short term movements of the index reflect the demand for bulk cargo shipping. Issued daily by the London-based Baltic Exchange.

Real GDP, export volume and import volume projections for partner countries

Source: World Bank, DECPG.

Note: Historical data and projections are provided by DECPG.

Financial flows

Source: World Bank, DECPG.

World grain supply and demand

Source: USDA.

Note: Food grain stocks and domestic consumption exclude feed consumption.

World oil supply and demand

Source: International Energy Association.

Note: Call on OPEC including stock changes is the difference between non-OPEC supply, OPEC natural gas liquids (NGLs) and global demand. OPEC includes Angola and Ecuador.

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Annex 11 Romania Key Exposure Indicators

Indicator	Actual				Estimated		Projections		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total debt outstanding and disbursed (TDO) (US\$m) ^a	88,374	104,943	102,074	116,804	108,394	95,782	82,752	82,752	71,103
Net disbursements (US\$m) ^a	9,316.1	14,390.3	16,269.3	4,534.9	-6,739.6	-10,351.6	-14,336.4	-14,378.7	-12,771.2
Total debt service (TDS) (US\$m) ^a	11,721	18,537	48,360	20,391	19,451.0	17,246.0	13,491	13,490	11,224
Debt and debt service indicators (%)									
TDO/XGS ^b	143.0	149.6	269.7	231.9	199.6	166.5	134.1	124.0	98.5
TDO/GDP	53.2	52.3	63.4	72.3	58.5	47.1	37.2	34.1	26.8
TDS/XGS	39.0	56.0	127.8	40.5	35.8	30.0	21.9	20.2	15.5
IBRD exposure indicators (%)									
IBRD DS/public DS	12.7	12.3	10.2	8.4	9.5	8.5	7.5	3.3	1.7
IBRD DS/XGS	0.6	0.6	0.7	0.6	0.7	0.7	0.6	0.6	0.5
IBRD TDO (US\$m) ^d	2,106	2,879.63	2,609.63	2,911	3,427	5,293	5,619	5,472	5,228
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	2	3	3	3	2	2	2	3	2
IDA TDO (US\$m) ^d	0	0	0	...	...	.....	.....	.....	.....
IFC (US\$m)									
Loans	269.7	278.8	375.5	384.2	579.5				
Equity and quasi-equity ^{/c}	192.0	196.1	112.0	65.8	60.8				
MIGA									
MIGA guarantees (US\$m)									

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees and effective but undisbursed DPL DDOs.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 12: Operations Portfolio IBRD and Grants

CAS Annex B8 - Romania

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 10/31/2011

Closed Projects 82

IBRD/IDA *

Total Disbursed (Active)	568.48
of which has been repaid	89.93
Total Disbursed (Closed)	2,426.61
of which has been repaid	1,324.62
Total Disbursed (Active + Closed)	2,995.09
of which has been repaid	2,014.55
Total Undisbursed (Active)	1,175.53
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	1,175.53

Active Projects

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements ^a		
		Supervision Rating			IBRD	IDA GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd	
		Development Objectives	Implementation Progress								
P100638	CESAR	MS	MS	2008	65			5.9	58.0	52.1	0.7
P075163	HAZ MITIG	MU	MU	2004	150				33.0	33.0	30.4
P081950	HAZARD MITIGATION (GEF)	MS	MS	2004			7		1.8	1.8	1.7
P078971	HEALTH SEC REF 2 (APL #2) (CRL)	S	S	2005	80				29.8	17.0	6.7
P099528	INT. NUTRIENT POLLUTION CONTROL (GEF)	MS	MU	2008			5.5		2.9	-0.2	
P093775	INTEG NUTRIENT POLLUTION CONTROL	MS	MU	2008	68.1				62.6	46.3	
P043881	IRRIG REHAB	MU	MU	2004	80				17.1	17.1	7.6
P090309	JUDICIAL REFORM	MS	MS	2006	130				112.9	95.0	-19.2
P087807	MINE CLOSURE, ENV & SOCIO-ECO REG (CRL)	MS	MS	2005	120				51.0	51.0	
P086949	MOD AGR KNOWLEDGE & INFORM SYST (MAKIS)	MS	MS	2005	50			6.1	21.7	21.1	0.0
P088252	Municipal Services Project	MS	MS	2007	131.7				4.5	-12.5	
P088165	RO Knowledge Economy	MS	MS	2006	60				25.1	25.1	6.8
P093096	SOC INCL PROG (CRL)	MS	MS	2006	58.5				49.4	42.5	5.6
P121673	Soc. Asst. System Mod.-Results	S	S	2011	710.4				710.4		
Overall Result					1704		12.5	12.0	1180.3	389.2	40.4

Annex 13: Summary of Analytical and Advisory Activities

FY2009	FY2010	FY2011	FY2012	FY2013
Education Reform	Financial Sector TA	Fiscal decentralization	Justice Functional Review	Tax Administration TA (TBC)
RO FSAP Update (ESW)	IT TA Support to NBR	Social Protection Coverage to Elderly Farmers	Modernization of Administration Program (CoG, Public Finance, Education, Transport, Agriculture)	
HD Policy Briefs & Dialogue (ESW)	Consumer Protection and Financial Literacy (REG)	Students Loan Scheme	ANRMAP Functional Review (TBC)	
	PEIR Update (ESW)	Health and Education TA to support DPL	ANPCI Functional Review	
	PFM Civil Service Pay	Policy notes on growth and competitiveness (I)	ACIS TA	
		<u>NEW</u> : Accounting and External Auditing	Policy notes on growth and competitiveness (II)	
	Poverty & Social Policy	<u>NEW</u> : Fee Based TA – Functional Reviews Phase 1 Agriculture, Transport, Finance, Pre-University Education 1, Competition, Core of Government	Citizen Scorecard/Social Accountability ESW	
	<u>NEW</u> : Sector Notes: power, water, roads maintenance, environment, and agriculture	<u>NEW</u> : Fee Based TA – FR 2 Health, Economy/Energy/Business Environment, Labor and Social Protection, Regional Dev & Tourism, Pre-Univ Education 2, Higher Education, R&D, Cross-cutting	Public Expenditure Framework Assessment	
			Climate Change	
			Regional study on Skills and competitiveness	

Note: NEW refers to assistance provided during the period and which was not initially captured under the CPS. The new TAs need to be clearly defined for the implementation of the Functional Reviews.

Annex 14: IFC Committed and Disbursed Outstanding Investment Portfolio, Romania
As of 10/31/2011
(In USD Millions)

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/R M</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/R M</u>	<u>Partici pant</u>
2007/08	Arabesque SRL	36.1	0.0	0.0	0.0	33.6	36.1	0.0	0.0	0.0	33.6
2005/08/09	ATE Romania	10.0	3.5	0.0	0.0	0.0	10.0	3.5	0.0	0.0	0.0
0	Banat Construct Banca	0.0	0.0	5.4	0.0	0.0	0.0	0.0	3.2	0.0	0.0
2003/04/06/09	Comerciala	107.7	0.0	0.0	0.0	0.0	107.7	0.0	0.0	0.0	0.0
2011	Bancpost	80.7	0.0	0.0	17.6	0.0	80.7	0.0	0.0	17.6	0.0
2011/12	Cernavoda Power	59.1	0.0	0.0	0.0	21.4	59.1	0.0	0.0	0.0	21.4
2007	Credit Europe bk	20.4	0.0	0.0	0.0	0.0	20.4	0.0	0.0	0.0	0.0
2004	DomeniaCredit	1.6	0.0	0.0	0.0	0.0	1.6	0.0	0.0	0.0	0.0
2012	Garanti Bank Ro	31.5	0.0	0.0	0.0	0.0	31.5	0.0	0.0	0.0	0.0
2007/10/12	Medlife SA	19.1	3.2	0.0	0.0	56.1	19.1	3.2	0.0	0.0	37.0
2012	Pestera ProCreditRomani	37.2	0.0	0.0	0.0	13.7	37.2	0.0	0.0	0.0	13.7
2002/03/04/07/10/11	a	3.3	5.6	0.0	0.0	0.0	3.3	5.6	0.0	0.0	0.0
2004/05/10	Schwarz Group	43.8	0.0	0.0	0.0	34.5	43.8	0.0	0.0	0.0	34.5
2004/05/07/09/10/11	TransilvaniaBank	120.0	18.1	16.8	0.0	0.0	120.0	18.1	16.8	0.0	0.0
2008	Tts romania	0.0	0.0	10.5	0.0	0.0	0.0	0.0	10.5	0.0	0.0
2006	Tts sa	8.8	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0
Total Portfolio: 660.2, of which:		579.7	30.3	32.7	17.6	159.3	579.7	30.3	30.5	17.6	140.2

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

