# World Bank – Romania Partnership Program Snapshot


April 2012

# I. RECENT ECONOMIC DEVELOPMENTS

## 1. Growth and External Performance

**Romania's prudent macroeconomic management has enabled it to recover quickly from the global financial crisis.** In 2012, following the implementation of macro stabilization and structural measures, Romania is expected to experience a modest economic recovery of around 1.5 percent. In 2011, the GDP rise was 2.5 percent year on year, mostly due to higher exports and better agriculture harvests. Foreign Direct Investment (FDI) inflows continue to be weak, at 1.4 percent in 2011, and expected to reach 1.9 percent in 2012. The unemployment rate has remained relatively constant for the past three years at around 7.2 percent. There was a steady and sustainable drop in inflation, which eased to 3.1 percent at end-2011 from 7.9 percent in December 2010.

**Romania's current account deficit narrowed to 4.3 percent in 2011** mainly due to a significant decrease in the trade gap. The shrinking net FDI, the scarcer external financing and hopefully the better absorption of EU funds are the key drivers of the dynamics affecting the balance of payments in the short run.

**There are risks to maintaining growth, and they include uncertainty in the eurozone, exports markets, political developments in the context of elections, and low absorption of EU funds.** Sustainable long-term growth, in light of these risks, entails a transformation of the Romanian economy with three underpinning factors: (i) measures to assure compliance with fiscal targets while clearing arrears, improving quality of spending and strengthening tax collections; (ii) progress on the structural reform agenda with a focus on energy and transport sectors; and (iii) ensuring continued financial-sector stability. The new precautionary program (2011-13) agreed between the Government of Romania, the International Monetary Fund (IMF), and the European Commission (EC), details the measures and priorities for the reform agenda focusing on fiscal consolidation and state enterprises reform, and structural reforms for sustainable economic growth. This EUR 3.5 billion Stand-by Arrangement (SBA) is in conjunction with precautionary support from the EU in the amount of EUR 1.4 billion and a DPL-DDO from the World Bank of EUR 1 billion, which aims to provide a cushion against potential future shocks.

## 2. Fiscal Performance

**Improvements in revenue collection, optimization of expenditures, better targeted assistance to the poor and vulnerable, stringent expenditure controls, and further measures will be critical to reach the deficit objective.** The deficit reached 4.2 percent of GDP in 2011. The budget deficit remained significant, despite fiscal performance in 2010 being better than expected. At a global level, Romania is part of the EU Fiscal Treaty. Continued fiscal consolidation has improved Romania's credibility and lowered financial costs. The deficit of the general Government remained below the 4.2 percent-of-GDP target in 2011. This year's 1.9 percent-of-GDP target is very ambitious but the Government has committed itself to bring down the deficit in European System of Integrated Economic Accounts (ESA'95) terms to less than 3 percent of GDP before 2013.

## 3. Financial Sector

**The National Bank of Romania (NBR) and the Government took strong measures to safeguard the stability of financial markets, and banks weathered the stress well**. Since the international financial support package, the exchange rate has remained broadly stable. The banking sector remains well capitalized and liquid.. Prudential regulations were strengthened to address the risks of contagion from the turmoil in European financial markets. Contingency plans mandated by the Strategic Action Plan for strengthening the financial sector are being reviewed by the NBR to verify the credibility of the assumptions and robustness of the banks' emergency funding arrangements. The reporting framework the NBR has put in place monitors exposures that do not appear in the banks' balance sheets.

**The contagion effect in the financial sector is being mitigated in several ways.** Greek banks account for about a sixth of the assets in Romania's banking system and concern over the impact of Greece's debt crisis leads to occasional turbulence in the RON exchange rate. In an extreme event, some effects on the financial sector might occur (given the presence of several subsidiaries of eurozone

periphery banks in Romania), but strong capital buffers in banks, tight banking supervision, and healthy reserves in the National Bank should mitigate this risk.

## Structural reform agenda

**The crisis prompted long-needed reforms.** The financial difficulties gave rise to a series of reforms, with support from the IFIs, in health, education, the financial sector, public financial management (such as treasury and debt management, macro forecasting capacity, strategic prioritization in the budget process), public administration, social insurance, and social assistance. Some of these reforms address short-term responses to the crisis, while others are anchored in a coherent longer-term strategy.

**Structural reform priorities in 2011-12 include public finance, energy and health.**

**The Fiscal Compact requires Romania to take measures that ensure its public financial management framework meets the binding standards imposed by the Treaty.** This is not an easy task and in the coming years the Government will need to focus on adopting good practices in revenue and expenditure management. This will consolidate macroeconomic stability, allow a better alignment of the budget formulation and execution processes with the development priorities of the country and the public policy framework, and result in a more efficient allocation of the public resources. The national fiscal planning should adopt a multi-annual perspective, so as to attain the medium term objective of the balance of the general government, with a limit of a structural deficit of up to 1 percent of the gross domestic product. The numerical fiscal rules assumed under the medium-term fiscal framework for 2012-15 should also promote compliance with the Treaty reference values for deficit and debt.

**The performance of the energy sector (dominated by state-owned enterprises—SOEs) carries significant risks for Romania's fiscal stability, energy security, and economic growth.** SOEs poor financial performance affects Romania's fiscal sustainability. The largest SOEs are in energy and gas, where they represent 53 percent of all economic activity; transport and storage (34 percent); and mining and quarrying (27 percent). Despite some moderation during the pre-crisis period, arrears accumulation remains an endemic phenomenon at the level of the state-owned or state-controlled enterprises. The state is the sole owner of the transmission grids for gas and electricity, all major electricity generators, three out of eight electricity distributors, all gas storage, and the hard coal and lignite mines. Half of the electricity and gas markets are fully regulated—consumers purchase energy at prices regulated by ANRE, and power or gas producers are required to supply at regulated prices.

**There are risks for the fiscal stability due to losses of potential revenue and arrears, risks to energy security and economic growth due to interruptions of supply, and risks to fair competition, due to distortion of competition in the downstream markets.** To address these problems, the Government has initiated measures to improve the governance of energy SOEs, enhance competition, and attract the private capital needed to boost competitiveness in the sector. The Government's 2012-14 program includes improved governance and contracting practices, legislative and regulatory measures to improve competition to attract private investment and to align the energy sector with the EU's energy acquis, improved heating services and containment of the cost of heating for households and municipal budgets, increased private sector participation in the financing and management of the energy sector, and updated tax and royalty regulations for the oil and gas sector.

**In health, Romania spends less than 5 percent of GDP, compared with a European average of 6.5 percent and an EU average of 8.7 percent.** Access to health care in Romania is skewed towards wealthier groups. Almost half of the poor do not seek care when required, compared with around 20 percent of those in the top income quintile. Of the public funds allocated for healthcare, much is wasted on inefficient and unnecessary services or treatments. The current health system is heavily biased towards inpatient hospital care. The lack of an appropriate Health Technology Assessment for new drugs and medical devices has resulted in a health system also biased towards high cost technology. The reforms continue the agenda of 2009-2011 that aimed to contain rising costs and improve the quality of services delivered. The Government's medium-term reform program in health promotes cost-effective outpatient and primary care services instead of costly in-patient

services, introduces co-payments, rationalizes hospital infrastructure, regulates the introduction of new drugs and technologies, and reviews the basic benefit package reimbursed by the public health insurance system.

## II. RECENT SECTORAL DEVELOPMENTS

### 1. Sustainable Development

#### (i) Agriculture

**Agriculture plays an important role in Romania in terms of the size of the rural population and employment, making it central to Romania's European integration and social cohesion goals**. Romania has one of the best resource endowments in Europe and was once widely considered a breadbasket for Europe, but the sector is underdeveloped. Despite the highest proportion of rural population (45 percent) in the EU, Romania has the highest incidence of rural poverty (over 70 percent) and gap in living and social standards between rural and urban areas, and one of the lowest competitiveness in agriculture. Although almost 30 percent of employment is in agriculture (compared to some 2 percent in EU15 and 3-14 percent in EU8), Romania imports an increasing proportion of its food needs.

**Average yields are half of those in the EU-27.** Less than optimal production factors led to low average yields in Romanian farming, at only half of those in the EU-27 for most field crops and livestock. Even at this low productivity level, agriculture's share in the country's total gross value added is 7 percent compared to 1.7 percent in the EU-27. Also, agricultural production is vulnerable to natural calamities and the inability to effectively prevent and contain animal diseases.

**Transforming agriculture and delivery of public goods to rural areas is, therefore, central to Romania.** Despite EU financial support, the considerable agricultural potential remains insufficiently tapped and additional national actions are vital both for benefiting from EU membership and for addressing key sectoral shortcomings.

**Removing constraints to competitiveness is a key priority.** Key issues include addressing land tenure security and high transaction costs in the land market, creating off-farm employment to absorb surplus labor in agriculture, rethinking pension benefits and social security, addressing deficiencies in administration, improving quality of services provided to beneficiaries of the EU Common Agriculture Policy, and enhancing capacity to monitor and enforce food safety and quality standards. Improvement of quality of life in rural space is an overarching goal also involving development and modernization of rural infrastructure.

**The Bank is supporting agricultural sector and rural development** through three ongoing projects: the *Modernizing Agricultural Knowledge and Information Systems (MAKIS) Project* (to improve competitiveness of farmers and agro-processors through improved advisory services to modernize agricultural research and improve food safety, in line with EU requirements), the *Complementing EU Support for Agricultural Restructuring (CESAR) Project* (to support implementation of land tenure and titling reform and enabling better absorption of EU funds), and the *Irrigation Rehabilitation and Reform (IRR) Project* (to support the increase in agricultural productivity and sector reform).

**To further develop the sector, immediate action should include**: (i) developing a sector strategy focused on improving the access of local producers to domestic and external markets; (ii) initiating the programming process for the National Rural Development Program for 2014-20; (iii) improving MARD, streamlining decision-making and honing targeting of the national programs, and (iv) continuing to scale up the government's program of property title registration of land assets in rural areas to improve the security of property rights and the functioning of rural land markets.

#### (ii) Environment

**Romania is below the EU average and has yet to take advantage of the EUR 4.5 million EU Structural Funds for Environmental Protection and Climate Change.** In light of its commitments to achieve the EU 20/20/20 energy-climate change package, and the EU "Low Carbon Roadmap" for building a competitive low-carbon Europe by 2050, Romania needs to: (i) thoroughly analyze the opportunities, options and related costs for the medium and long-term to meet these commitments; (ii) prepare a comprehensive program for funding climate change and green growth under the next

programming period for EU financing (2014-20); (iii) improve climate-change mitigation by enhancing inter-ministerial cooperation; (iv) adapt to the economic risks of climate change by preparing and implementing an adaptation strategy; (v) streamline the environmental permitting process; and (vi) invest in "Green Growth" with a view to develop a comparative advantage in this nascent industry. Another key commitment of Romania is to comply with EU water directives, which will also be a major focus of the next EU cohesion funds programming period.

The Bank has two ongoing projects – ***Mine Closure, Environmental and Socio-economic Regeneration, Integrated Nutrient Pollution Control*** – that directly support the environment sector in Romania through investments in environmentally-friendly mine closures, assisting Romania in meeting EU environmental directives by financing water, wastewater, and waste-management infrastructure, and providing institutional support to the Ministry of Environment.

**At the request of the Government, the Bank completed (in June 2011) a functional review of the Environment, Water, and Forestry sector,** which resulted in a significant number of recommendations spanning strategy formulation, priority setting and human resource management, regulatory effectiveness, sustainable forest management, and absorption of EU Structural Funds.

### (iii) Infrastructure

**A considerable share of the Bank's assistance program previously was directed to the rehabilitation of Romania's infrastructure.** While most Bank financing went for investment and equipment for rehabilitation and expansion, loans typically also included a technical assistance component for improving the policy-making capacity of the ministry in charge and for developing plans for restructuring the sectors to make them efficient. Often the rationale for the Bank's involvement was to facilitate sector restructuring to promote competition and private-sector investment, by involvement in railway rehabilitation, petroleum sector rehabilitation, power rehabilitation, telecommunications, and the electricity market.

## 2. Human Development

### (i) Health

**Romania has made notable improvements in health; nonetheless, challenges remain and there is much to be done.** Many basic health indicators have shown improvements. Reductions in infant and maternal mortality have been remarkable; the infant mortality rate fell from 43.5 per 1,000 infants in 1970, to 21.7 in 1995, and 11.6 in 2008. Correspondingly, there have been improvements in life expectancy at birth during the same period (from 68.5 years in 1970 to 73.4 in 2008). That said, notable challenges remain; life expectancy at birth is five years below EU averages and maternal and infant mortality is among the EU's highest, with high mortality rates more concentrated in low-income rural areas.

**Romania has historically committed a relatively low share of national wealth to health care**. The public fraction of health care spending has increased from 2.9 to 3.7 percent of GDP, but still remains well below other EU countries. Coverage increased; however, quality and results of health care is still far behind EU standards. The generous basic package of health services can no longer be covered by the health insurance system in a sustainable manner. The sector is plagued with problems including lack of investment, which had as a result deteriorated health facilities, disgruntled the workforce, and created public dissatisfaction with the health system.

**Romania's health infrastructure still suffers from fragmentation, inefficiency, and poor regulation.** The current facilities providers are characterized by small private businesses in primary health care, abundant low, mid- and high-level hospitals, and a few facilities for specialized outpatient services/secondary ambulatory care (diagnosis and treatment). Projects include *Health Services Rehabilitation*, *Programmatic Adjustment Loans (APL 1 and 2)*, and *Health Sector Reform* projects. Also, several elements of health sector reforms were implemented under the framework of budget-support loans such as the *Programmatic Adjustment Loan and DPL series*.

**New reforms should build on those already completed**, such as hospital rationalization, streamlined provider payment mechanisms and the recently approved copayment law—by: (i) reducing

arrears, eliminating waste of resources by the use of generic drugs, and bringing additional resources into the system through reviewing the legal framework for hospital accreditation, in connection to the quality of provided services, and through the claw-back tax; (ii) reviewing the benefits package; (iii) implementing transparent mechanisms for new technology and new drugs (*Health Technology Assessment*); and (iv) developing a legal basis for introducing private health insurance.

**The Bank will further support the health sector.** The Bank is preparing a future operation for the health sector aiming to enhance the service delivery system, strengthen financing and payment methods, and improve governance in the health system.

**(ii) Education**

**One of Romania's key priorities continues to be upgrading the skills of its population to meet Europe 2020 targets.** The economic crisis has exposed the weaknesses of the economy, and in particular the lack of competitiveness, partly due to the level of skills. A highly skilled workforce depends on an education system that can produce graduates with the right skills and quality. The challenge is to bring the level of achievement of Romanian children in key subjects to current levels found in most European countries. To this end, the content of education delivered in schools needs to be better aligned with the requirements of a knowledge-based economy; the quality of the teaching and the learning process needs to be improved; and the system's efficiency should be increased.

**The system has been strengthened in a number of ways over past decades, although there is a significant unfinished agenda in provision of education.** Comprehensive reforms were initiated in the 1990s with World Bank and other donor support.

**In 2009-10, *Development Policy Loans (DPL) 1 and 2* have promoted key reforms on per capita financing to increase the system's efficiency and effectiveness.** At the same time, an important contribution to advance the country's social inclusion agenda is currently provided under the *Early Childhood Education Component of the Social Inclusion Project*. These include development of new curriculum and application guidelines for inclusive early childhood education, associated teacher training, as well as the ongoing rehabilitation and construction of kindergartens in communities with a significant Roma population. Substantial Bank assistance is also ongoing through the *ICT in Schools* component of the *Knowledge Economy Project*. This is aimed at improving primary and lower secondary education through the integration of ICT in the teaching-learning practices at the classroom level, thereby improving students' skills and knowledge. At the tertiary level, technical assistance was provided for introducing a student loan scheme in Romania, which is expected to be implemented in the future. The *Functional Review on the Pre-university Education Sector* as well as the *Functional Review of the Higher Education Sector*, undertaken in 2010 and 2011, supported the education program by providing detailed recommendations for the improvement of the sector's performance, which were reflected by the Ministry of Education in specific action plans. Selected activities are expected to be further implemented with the help of the World Bank.

**The Government has moved forcefully in advancing the reform agenda.** A new National Education Law has been in force since early 2011 promoting changes in virtually all important education areas: new education cycles and a focus on early childhood education; a shift to competence-based curriculum; new systems for professional development; evaluation and assessment; pre-university financing in the decentralization context; classification of universities; a new approach to university management; a focus on lifelong learning, etc. In order to meet the ambitious targets of the Europe 2020 strategy, one of Romania's key priorities will continue to be upgrading the population's skills. To this end, the education sector should focus on: (i) implementation challenges related to the comprehensive National Education Law, with particular attention to the alignment of education services delivered at the pre-university and tertiary levels with labor market requirements; (ii) increasing the capacity of the Ministry of Education to focus on core business, and enhance operational efficiency and accountability in the system; and (iii) using the schools network and teaching force more efficiently.

**(iii) Poverty and Social Protection**

**Poverty declined in 2009 due to a generous increase in social protection and pension**

**spending.** Romania's poverty rate[1] declined dramatically between 2000-2008, from 36 percent in 2000 to 5.7 percent in 2008. In 2009, poverty declined further to 4.4 percent, due to increased social protection and insurance spending. However, despite large strides, the poverty rate in Romania is still among the highest in the EU.

**In 2010 social issues were very present on the public agenda for crisis, post-crisis, and other unrelated reasons:** (i) unemployment levels remained high despite declining from over 8.3 percent in early 2010 to around 7 percent currently; (ii) the unfavorable climatic conditions that affected rural populations; (iii) the increase in inflation, which reduced real incomes across the board; (iv) the massive cuts in the compensation of public sector employees, who lost not only 25 percent in basic salaries, but also numerous other benefits; and (v) the cuts in untargeted social transfers.

**The impact of the cuts in untargeted social transfers and public sector wages is mitigated by several factors.** First, the incidence of poverty among public servants is very low. There is a minimum wage floor of 600 RON per month. Second, the social assistance programs that have been reduced are programs with low targeting performance that affect mostly middle- and upper-income households. The main measures include reducing the "child raising" allowance by 15 percent, revising the eligibility rules for family allowances, and removing the package ("trusou") and allowance for newborn babies, and, most importantly, the budget of the income-tested program has been protected.

**Before 2010, the Bank's overall objective in social protection and poverty alleviation focused on**: strengthening the capacity of labor offices to provide employment services; strengthening the Ministry of Labor and Social Protection to monitor and evaluate employment and social protection programs; labor retraining; pension reform; improved targeting of social assistance; and promoting Community-Driven Development.

**Significant progress is visible in social protection**, including through support from the Bank-financed Employment and Social Protection and Social Sector Development Projects. A National Agency for Employment was created in 1998, comprising a network of offices with countrywide reach, and is operating effectively. Progress was also made toward pension reform that further led to the introduction of private pension funds.

**The public pension system has improved considerably**. A new Pension Law was adopted in 2001, which promoted the gradual increase in the retirement ages and introduced a new point- value benefit formula based on contribution. As a result, the burden of the public pension system on public finances was reduced (until 2007 when the process started to reverse). Beginning in January 2011, the public pensions system was reformed again, in order to improve its medium- and long-term financial sustainability. At the same time, progress has been made in the capacity to evaluate poverty status by the Romania Antipoverty and Social Inclusion Commission. The Child Welfare project (1998) actively promoted community-based approaches as sustainable and cost-effective alternatives to institutionalized child welfare. The most tangible result was the large reduction in the number of children in state-run institutions.

**Over the short term, the key challenge is to reign in social protection spending, by focusing on the needs-based social assistance programs. Over the medium term, a key objective is to improve labor market participation and earnings while reducing dependence on social transfers.** While the recently adopted Social Assistance Framework Law creates the foundation for a streamlined, less- costly social assistance system that stimulates work and human capital accumulation, materialization of results would require that secondary legislation and regulations be developed based on careful analyses; service delivery systems being strengthened; activation policies developed and implemented; and reduction of error and fraud.

**The Bank is currently working with the Ministry of Labor, Family and Social Protection to support social assistance reforms in Romania.** *The Social Assistance System Modernization Project* provides the vehicle for World Bank support to the Government's new Social Assistance Law. The project rewards operational results set out in a series

[1] The total poverty line is set at RON258.9 (US$86) per adult equivalent per month, expressed in January 2009 prices. The poverty rate (headcount) shows the number of persons below the poverty line.

of 20 disbursement-linked indicators (as opposed to financing project inputs).

**The project covers a wide range of reforms to improve the overall performance of Romania's social assistance system.** There are four key areas of reform: (i) strengthening performance management, to ensure that monitoring reports are produced frequently and used by the Ministry to inform decision-making; (ii) improving equity, which aims to ensure that the share of social assistance funds going to the poorest quintile is increased; (iii) administrative efficiency, which aims to reduce the administrative and client participation costs of means-tested programs; and (iv) reducing error and fraud, which should reduce leakage from the system and increase the public's trust.

**The Bank carried out a Functional Review of the Ministry of Labor, Family and Social Protection** to provide advice regarding the administrative functioning of the ministry, including areas such as: structure, personnel, budgeting and organization.

## 3. Public Sector Reform

### (i) Reform of the Public Administration

**Functional Reviews[2] of the Romanian public administration were completed in June 2011**. The Functional Reviews (FR) were operational and managerial assessments of 12 ministries, agencies, and other public bodies conducted by the Bank in two stages starting in March 2010. The reviews were agreed in an MoU signed in June 2009, between the Government of Romania and the European Commission, and were financed out of EU structural funds. The Bank has been requested to support the modernization of the administration. The aim of the FRs was to provide the basis for a series of action plans, as the Government's intention was to use the reports in developing its medium-term reform agenda. The process will result in a strengthened effectiveness and efficiency of the public administration.

### (ii) Governance/ Institutional Development

**Institutional development has gradually become a central element of the Bank's assistance strategy.** Like other countries in Eastern Europe after the fall of communism, Romania lacked the basic institutions needed to support the transition to a market economy: an appropriate legal and regulatory framework, separation of regulatory and commercial interests, and a financial system that could operate on a commercial basis to enforce a hard budget constraint on borrowers. Unlike some of its neighbors, Romania had hardly experimented with even limited policy or institutional reforms to separate commercial and regulatory functions or to promote private sector activity.

**Despite the lack of basic institutions 20 years ago, Romania has made considerable progress since then in developing institutions compatible with a market economy**. But the country lagged behind other Central and Eastern European countries in policy reform and institutional development, until the prospect of EU membership became a driving force for reform and modernization.

## 4. Private sector development

**Positioning Romania to become more competitive in a global market requires renewed effort to attract investment and enhance productivity through innovation.**

- **Competition**: priority actions should aim at reducing the dominant role of the state in the economy (e.g. transport, energy, communication) and at consolidating capacity of the Competition Council to enforce competition policy.
- **Business environment**: Romania lags behind the EU, and globally, in terms of the number of tax payments to which SMEs are subjected and the number of procedures and days to register property. . Globally, the functions regarding the investment climate should be consolidated in the Ministry of Economy, Commerce and Business Environment, which, in turn, should move closer to the central coordination of the Government, eventually in the General Secretariat of the Government.
- **Research Development and Innovation**: A preeminent task is to strengthen the governance of the Research, Development and Innovation system. The first step could be activating the National Council for Science, Technology and Innovation Policy at the Prime Minister's level, thus ensuring high-level government oversight

[2] More details about FRs in pages 23-24.

and enforcement of accountability for performance.

## III. WORLD BANK GROUP PROGRAM

**Romania joined the International Bank for Reconstruction and Development (IBRD) in 1972, the International Finance Corporation (IFC) in 1991, and the Multilateral Investment Guarantee Agency (MIGA) in 1992.** The World Bank has been active in Romania for almost 40 years. Lending was discontinued in the early 1980s and resumed in 1991. Up through 2012 IBRD committed US$7.06 billion through 58 projects. Bank lending since 1991 was extended in four main stages: (i) support to the transition of Romania's command economy to a market economy, FY91-94; (ii) support to reforms in energy, education, infrastructure and the land market, FY94-04, and to poverty reduction, reform of the state and environmental protection, FY97-04; (iii) support for institution building, governance reform and EU accession, FY05-10; and (iv) support to systemic reforms (public finances, public administration, financial sector, education, health, social assistance, social security, mobilization of EU funds) and mitigation of economic and financial crisis, FY10-12. The change in Government priorities translated into an increasing share of policy-based lending, from 10 percent in FY05-08 to 73 percent in FY10-12.

**The ongoing Bank Portfolio consists of lending and grant-financed projects and analytical and advisory work.** While the number of investment lending projects in the portfolio is declining, the Bank program of analytical and advisory (AAA) work is growing. As of February 2012 the active portfolio included 12 investment projects totaling US$1.7 billion and some grants (two co-financing Global Environmental Facilities, one Prototype Carbon Funds, and one Japanese grant for policy making for People with Disabilities). The Bank analytical work program includes work on public finance, education, health, regional development, labor and social protection, and the Modernization of the Public Administration (MAP).

**The Bank's support to Romania is focused on three EU related cross-sectoral themes.**

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

**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 were supported in 2011 via development policy lending. The 2012 Government Program reconfirms that policy reforms in social assistance, health, tax administration, energy, transport, and SOEs must continue, and these are likely areas for a new budget-support operation that is under preparation. Issues on macroeconomic stability and building blocks for sustainable growth may be considered. Also, inclusion and participation requires attention, especially on the significant challenges to provide opportunities for the Roma while overcoming prejudice and stigma. A set of *Policy Notes on Growth and Competitiveness* provides a framework to orient policy dialogue concerning challenges to EU convergence and propel Romania's growth and competitiveness.

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

**Over the past year and a half, the Bank carried out Functional Reviews (FRs) of 12 public institutions in Romania**[3] as mentioned earlier. The reviews are providing operational recommendations on strategic management, organizational structure, sector governance, budgeting, and human resources management to help guide structural reforms. Phase 1 FRs (presented to the Government in October 2010) covered Transport, Pre-University Education, Agriculture and Rural Development, Public Finance, and the Center of Government, Competition Council. Phase 2 FRs (presented to the 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 the action plans derived from the recommendations of the first phase, part of which the Bank may support

[3] See pages 24-25.

under the EU-financed *Modernization of Romanian Public Administration Program* (see below). The Government has approved the Action Plans derived from the second phase of the Functional Reviews recommendations and submitted them to the European Commission.

**The Bank engaged with the Government in strengthening administrative capacity through the Modernization of Public Administration (MAP)**, including the promotion of better policy coordination and monitoring and evaluation activities. So far, the Bank has been asked to provide technical support to the Government to implement its action plans derived from the Phase 1 Functional Reviews recommendations – currently 17 projects under a Modernization of Public Administration Package (MAP) that have provisionally been agreed upon. The Bank has also received a request for similar assistance in justice (this TA is signed and begun implementation), procurement and EU funds absorption, as part of the MAP. The MAP package supports several interventions both on policy reforms and institutional capacity building. Government action plans for the second phase have been approved and the Bank is ready to support their implementation upon request. However, the key current issue is to finalize signing the MAP activities to be able to start implementation.

**The Bank has been asked to provide technical assistance for increasing absorption of EU funds**. The Government aims to achieve a 20 percent EU-funds absorption rate in 2012, which is an ambitious agenda. The Plan of Priority Measures for strengthening the capacity to absorb structural and cohesion funds 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 GoR, through its Ministry of European Affairs and in agreement with the EC, requested Bank support (on a fee basis with EU financing) to implement a series of actions, including an analysis of policy impediments constraining EU funds. In this sense, a Memorandum of Understanding between the Government and the Bank was signed on January 26, 2012 and covers priority areas of intervention.

**Strengthening the center of Government to prioritize, monitor and proactively manage the reform process.** A successful reform program and medium-term strategy require the center of government to be strengthened in order to fulfill core functions: prioritization and coordination of reform initiatives that are fully incorporated into the National Reform Programme (NRP) and the Government Program, and monitoring, evaluation and reporting of their results and impact.

**Theme 3: Complement to EU funding**

**The availability of Structural Funds makes Bank financing a minor instrument for Romania.** However, the Bank can complement EU support by financing activities that are not covered by Structural Funds or alternative instruments. For example, development policy lending and results-based operations can support improved outcomes and provide additional financing to the current budget. Sub-national 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 could be explored.

**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, however, IFC will 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.

**Additional lending operations were envisaged for the following two years**, mainly focusing on budget support operations (DPL) and key sectors such as tax administration and health (see table below). This potential new lending is indicative and actual delivery will depend on the GoR's request, Bank resources, Romania's performance, and global economic developments.

The Government has expressed interest in a new budget support operation (development policy loan) in 2012, with a deferred drawdown option. This would focus on key reform areas being supported by IFIs, such as tax administration, health, energy, SOEs, transport, corporate governance and the financial sector.

**IBRD lending (US$ million)**

| Project | Commitment |
|---|---|
| **FY2011** | |
| DPL2 | €300 (US$426) |
| SASM[4] | €500 (US$710) |
| **TOTAL** | **€800 (US$1136)** |

| Project | Commitment |
|---|---|
| **FY2012** | |
| DPL 3 | €400 (US$560) |
| New DPL DDO | €1000 (US$1380) |
| **TOTAL** | **€1400 (US$1940)** |

| Project | Commitment |
|---|---|
| **FY2013 (tentative)** | |
| Tax Admin | €75 (US$100) |
| Health | €250 (US$344) |
| **TOTAL** | **€325 (US$444)** |

## IV. INTERNATIONAL FINANCE CORPORATION

**IFC has invested a total of US$1.37 billion in 52 projects, supporting around US$3.3 billion in investment**, since the start of its operations in Romania. IFC's Committed Portfolio in Romania stands at US$650 million (US$583 million outstanding). At present, Romania is IFC's fourth largest country exposure in the CEU region after Russia, Turkey and Ukraine, accounting for 1.8 percent of the outstanding global portfolio. Portfolio composition is 92 percent debt and loan type quasi-equity, 4 percent equity and quasi-equity, and 4 percent guarantees. There are currently no NPLs out of a total of 32 projects. IFC has played an active crisis-response role in Romania. From FY09 to FY12, IFC invested approximately US$580 million of its own funds and mobilized an additional US$242 million in 18 projects in various sectors. Particular support was provided to the financial, renewable energy and health sectors.

**IFC is targeting commitments of around US$160 million in FY12, not including mobilization.** While vulnerabilities from the eurozone crisis and global economic downturn persist, IFC will continue to play a countercyclical role through selective private sector investments. In the real sector, this includes supporting projects that create jobs, increase investment in underserved frontier regions, contribute to the growth and competitiveness of local firms in promising sectors such as agribusiness and infrastructure, and improve resource efficiency. As vulnerabilities related to the eurozone crisis recede, it is anticipated that IFC will make increasingly selective investments targeting commitments of around US$100 million per year through FY15.

**FY12 commitments to date total US$271 million in 6 projects, including US$93 million mobilized from partners.** Commitments in the financial sector included a trade finance line with Bancpost, a US$32.5 million senior loan to Garanti Bank to provide on-lending to SMEs, with 50 percent of the loan earmarked for female-owned enterprises. Infrastructure commitments this fiscal year consist of a US$75 million loan package for Cernavoda and Pestera wind power plants. IFC also mobilized a US$57 million B loan to support Medlife, a leading private sector provider of healthcare services and long term client of IFC, and provided a US$67 million senior loan to Lidl, a discount grocery chain with strong linkages to Romanian suppliers. In the agribusiness sector, IFC provided US$16 million in senior debt to Agricover Credit IFN, a non-bank financial institution, to finance the investment and working capital needs of farmers.

IFC has implemented 25 Advisory Services projects in Romania since 1990 in a variety of sectors. IFC has no active advisory programs in Romania, but is developing a possible PPP advisory project in the healthcare sector.

## V. MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

MIGA has guaranteed 13 projects in Romania, including Raiffeisen Zentralbank, Austria's equity investment in Banca Agricola. It also guaranteed the loans accommodated by Volksbanken Austria to modernize Colţea Clinical Hospital and those provided by Raiffeisen Bank for enlarging loan operations for small- and medium-enterprises (SMEs). MIGA's outstanding guarantee portfolio in Romania consists of three contracts in the financial sector. At the end of FY 2010, the agency's gross exposure in Romania is about US$102 million (equivalent to 1.4 percent of MIGA's gross exposure), while the exposure net of reinsurance amounts to about US$55 million (also equivalent to 1.4 percent of MIGA's net exposure).

As an investor country, Romania's gross exposure is US$9.6 million, representing one project in Moldova's financial and leasing sector.

[4] Social Assistance System Modernization

## HEALTH SECTOR REFORM APL 2 PROJECT

**Approved:** December 16, 2004
**Effective:** June 27, 2005
**Restructured:** February 16, 2011(level 2)
**Closing:** December 15, 2012(R)

**Financing in million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 80 |
| Government of Romania | 44.8 |
| Co-financier: EIB | 81.7 |
| **Total Project Cost** | **206.5** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 80 | 69.5 | 10.5 |

* **as of March 15, 2012.**
***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***


The Health Sector Reform 2 project continues the support provided to the Romanian Government by the World Bank in implementing key elements of the program set out in 2000 through the first Health Sector Reform project, also adding support for the rehabilitation of the maternity and neonatal care units.

**Project Objective:** The strategic purpose of this program is to improve health in Romania, with lower morbidity and fewer premature deaths, equitable access to health services, and improved efficiency of the health system.

The objectives of the project are to: (a) provide more accessible services of increased quality and improved health outcomes for those requiring maternity and newborn care and emergency medical care, and (b) to provide support for the preparation of the primary health care strategy.

**Key Expected Results and Current Achievements:**

Project interventions in the areas of mother and child care and emergency services are targeted at priority areas of preventable morbidity and mortality, and are expected to contribute to improving the health status for conditions where Romania lags behind other EU recent member countries.

- In the area of mother and child care, the project supports the procurement and delivery of medical equipment for the entire network of maternities, as well as the training of the medical staff (both doctors and nurses) in order to improve the quality of services delivered. A new referral system was developed, and its implementation is well under way. The Maternal Mortality Rate decreased from 0.24 percent in 2004 to 0.14 percent in 2009, while the Neonatal Death Rate decreased from 9.6 percent to 5.6 percent within the same time frame.
- In the area of emergency health services, the Project supported the establishment of: in-take emergency units and intensive care units in the emergency hospitals, as well as the improvement of the communications for the integrated emergency dispatch centers under the EU unique call number (112). As a result, the response time for emergency services decreased for all types of emergencies. Also, the 24-hour death rate among the patients treated in the in-take rooms and then admitted to the ICU decreased from 5.78 percent to 3.67 percent.

## SOCIAL ASSISTANCE SYSTEM MODERNIZATION

**Approved:** May 26, 2011
**Effective:** N/A
**Closing:** September 30, 2014

**Financing in million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 710.4 |
| Government of Romania | 0 |
| Co-financier: | 0 |
| **Total Project Cost** | **710.4** |

**World Bank Disbursements, million US Dollars*:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 710.4 | 0 | 710.4 |

* **as of March 15, 2012.**




**Project Objective.** The project aims to improve the overall performance of Romania's social assistance system by strengthening performance management, improving equity and administrative efficiency, and reducing error and fraud.

**Key Expected Results and Current Achievements:**

The project aims at improving the performance of Romania's social assistance system, with a focus on the Government's main programs for low-income households, the disabled, and families with children. It is organized around four key results areas, each contributing to the project objective:

- Strengthened Performance Management: Romania's social assistance reform is implemented following a results-oriented strategy and action plan and is supported by a performance management M&E system;
- Improved Equity: The share of social assistance funds going to the first poorest quintile of the population increases to 45 percent from 37.7 percent at baseline (in 2009);
- Improved Administrative Efficiency: Reduction in administrative and client costs for means-tested programs by 15 percent from baseline value; and
- Reduced Error and Fraud: Programs for low-income households, disability benefits and family policy programs have strengthened information systems, and oversight and control procedures including detection of error and fraud using risk-based investigation, data matching, data quality audits, and consolidated beneficiary registries.

Important progress is being made with the reform and institutional development agenda. Several significant steps have been taken to consolidate, harmonize, audit, and target some key benefits. The counterparts have set an ambitious agenda for further reforms with several key steps that were anticipated during 2011. The Ministry of Finance is ready to submit a withdrawal application for seven out of 20 DLIs once the project becomes effective. Work has begun on the Terms of Reference for key elements of the technical assistance agenda that will underpin some of the more complex reform efforts, as well as an accompanying communications strategy. This technical assistance will be financed from the Social Inclusion Project.

**Project contribution to the CPS outcome indicators:** Although not envisaged in the CPS, the Project is fully consistent with the objectives and pillars of the strategy. The project is directly linked with Pillar 3, Social and Spatial Inclusion.

## SOCIAL INCLUSION PROJECT

**Approved:** June 13, 2006
**Effective:** March 17, 2007
**Restructured:** Feb 16, 2011 (level 2); March 9, 2011 (level 1)
**Closing:** February 1, 2013(R)

**Financing in million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 58.5 |
| Government of Romania | 15.9 |
| **Total Project Cost** | **74.4** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 58.5 | 23.8 | 34.7 |

* **as of March 15, 2012.**

***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***

In the pre-accession years, Romania took a significant number of actions to facilitate a smooth integration with the European Union. Social inclusion and poverty-reduction measures, targeted at disadvantaged groups, were meant to contribute to Romania's continued stability, social cohesion, participation in growth, and economic integration. Romania and the European Commission signed a *Joint Inclusion Memorandum* on June 20, 2005, aimed at preparing the country for full participation in the "open method of coordination" on social inclusion. The memorandum identified as vulnerable social groups the Roma minority, children at high risk, persons with disabilities, youth over 18 leaving the state child protection system, and victims of domestic violence.

**Project Objective:** The overall objective is to improve the living conditions and the social inclusion of the most disadvantaged and vulnerable people in Romania by: (i) improving living conditions and social inclusion of Roma from poor settlements; and (ii) strengthening the administration of social assistance benefits.

**Key Expected Results and Current Achievements:**

Key Project outcome indicators are:

- reduction in the gap between targeted settlements and neighboring communities, measured by living conditions index;
- improvement of basic living conditions acknowledged by the Roma from targeted poor settlements;
- increased participation of children from vulnerable groups in targeted communities to early childhood education;
- compliance with the quality of standards for the social services for persons with disabilities; and
- an increase in the employment rate for youth 18+ from multifunctional centers.

The project is highly relevant in all respects. Almost 72.4 percent of the loan funds had been committed under selected investment subprojects relating to Roma priorities, kindergartens for children at risk, shelters for victims of domestic violence, and persons with disabilities. Thus in 130 poor Roma settlements, the living conditions are being improved as a result of the investments in community infrastructure (sanitation, water supply, roads, and electricity supply) as access to social services has increased from the establishment of community centers of social interest. The construction and rehabilitation of kindergartens (currently underway) in 27 selected communities with a majority of Roma population will improve the access of Roma children to inclusive early childhood education, preparing them for school attendance. The tenders for the construction/rehabilitation of the 38 sub-projects for social assistance services (short- and long-term care for persons with disabilities and multifunctional centers for youth at risk) were launched, but more time is needed for the completion of works. The Social Inclusion Project was restructured (reallocation of savings to support further improvement in community infrastructure in Roma settlements and other activities supporting the reforms of the cash benefits transfers).

## ROMANIA IRRIGATION REHABILITATION AND REFORM PROJECT

**Approved:** July 31, 2003
**Effective:** April 29, 2004
**Closing:** June 30, 2012 (R)

**Financing in million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 80.00 |
| Government of Romania | 20.65 |
| Beneficiaries | 2.33 |
| **Total Project Cost** | **102.98** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 80.0 | 70.0 | 11.9 |

* **as of March 15, 2012.**
***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***

Irrigation is vital to Romanian agriculture because it offsets the rain deficit that amounts to about 200-350 mm in the country's semi-arid southern and eastern regions. A large area was equipped for irrigation during the socialist regime (30 percent of arable land), but much of it is uneconomical under the market economy because of the high energy consumption required for pumping water to high terraces and significant water losses. Land reform enabled the restitution of land to previous owners, but led to severe fragmentation of land holdings, making it difficult to apply modern farming and irrigation practices. The project established water users organizations (WUO) as part of a structural sector reform including institutions and financing systems.

**Project Objective:** The primary objectives of the project are to: (a) achieve more economic use of irrigation resources through changes in behavior of farmers and the Land Reclamation Agency; and (b) increase agricultural productivity in the project area.

**Key Expected Results and Current Achievements:**

- **Component 1** is rehabilitating primary irrigation infrastructure on about 100,000 ha in four schemes ("project areas"), eight major pumping stations covering about 90,000 ha, and tertiary infrastructure owned by WUOs covering about 150,000 within and outside project area. To date, over 75 percent of the above targets have been met and, as a result, energy efficiency increased by 27 percent due to both improved pumps parameters and reduction of water losses. It is expected that by project-end, energy efficiency will increase, on average, by 30 percent in each scheme.
- **Component 2** is supporting institutional development of the sector through development and strengthening of at least 150 WUOs, reform of irrigation financing, reform of the irrigation agency, and support to the Ministry of Agriculture and Rural Development. To date, 435 WUOs have been established covering over 1 million ha, of which the project provided support to 135 WUOs covering over 300,000 ha through irrigation and office equipment, training, and communication equipment.
- **Component 3** will study the use of new technologies for on-farm reduction of energy and water consumption applicable in Romania and demonstrate it on pilot basis.

**Project contribution to the CPS outcome indicators.** The project is directly linked with Pillar 2, Growth and Competitiveness of CPS through its support to development of competitiveness in agriculture and also absorption of EU funds.

**Donor coordination:** Strong collaboration with USAID and Government of The Netherlands.

## ROMANIA HAZARD RISK MITIGATION AND EMERGENCY PREPAREDNESS PROJECT

**Approved:** May 20, 2004
**Effective:** October 20, 2004
**Restructuring:** July 30, 2010 (level 1); Dec 9, 2010 (level 2)
**Closing:** June 30, 2012(R)

**Financing in million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 150.00 |
| Government of Romania | 46.66 |
| GEF | 7.00 |
| **Total Project Cost** | **203.66** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 143.3 | 126.3 | 22.0 |

* **as of March 15, 2012.**

Romania is severely exposed to natural disasters, particularly earthquakes and floods, causing economic and human losses. Since 1908, 14 earthquakes of magnitude VII or greater and 18 major floods were recorded, affecting over 2 million people and causing massive economic losses. The 1977 earthquake, measuring 7.2 on the Richter scale, resulted in economic losses well in excess of US$2 billion, while the 2005 flood caused damages estimated at over EUR 1 billion, affecting a large area of about 6,500 km², and damaged more than 45,000 houses. In 2005-2010, floods caused damages estimated at over EUR 2 billion. Romania also faces risk of water pollution from mining accidents.

**Project Objective:** The project objective is to assist the Government in reducing environmental, social, and economic vulnerability to natural disasters and catastrophic mining accidental spills of pollutants through: (i) strengthening institutional and technical capacity for disaster management and emergency response by upgrading communication and information systems; (ii) implementing specific risk reduction investments for floods, landslides, and earthquakes; (iii) improving safety of selected water-retention dams; and (iv) improving management and safety of tailings dams and waste dump facilities on a pilot basis.

**Key Expected Results and Current Achievements:**

- Under **Component A**, an Emergency Management Information System (EMIS) is under implementation, a public awareness and preparedness campaign was prepared, and technical work and institutional framework for launching of the Romanian Catastrophe Insurance Program (RCIP) was undertaken. RCIP is active and insurance policies subscribed.
- Under **Component B**, to assist the Government in reducing seismic vulnerability of at least 40 priority technical and social infrastructure through the retrofitting of at least 40 key structures (hospitals, public administration, emergency response facilities, education facilities). To date, 23 buildings have been finished and construction works are underway for another 17.
- Under **Component C**, to reduce flood risk and vulnerability in 10 critical areas in Romania, to improve safety of four large and three small dams to function as designed, and to map and model the risk of landslides in order to reduce losses and provide for better land use planning tools. Works for all flood protection sites and safety of five dams have been completed.
- Under **Component D**, the reduction of risk of water and soil contamination and loss of human and aquatic life from catastrophic mining accidental spills of pollutants is supported by the rehabilitation of at least five tailings management facilities. The global environmental objective to demonstrate and provide for replication for the reduction of catastrophic accidental spills of trans-boundary pollution loads from mine operations flowing into the Danube and Black Sea basins is supported by the development of a computer-based monitoring system applicable in the mining sector.

**Project contribution to the CPS outcome indicators:**
Linked with Pillar 2, Growth and Competitiveness through support to reduction of environmental, social, and economic vulnerabilities to natural and technological disasters.

## MODERNIZING AGRICULTURAL KNOWLEDGE AND INFORMATION SYSTEMS PROJECT

**Approved :** November 16, 2004
**Effective:** June 24, 2005
**Restructuring:** September 14, 2010 (level 1)
**Closing:** September 25, 2012(R)

**Financing in million EUR:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan EUR | 40.6 |
| IBRD Loan US$ | 43.9 |
| Government of Romania | 18.2 |
| **Total Project Cost EUR** | **58.8** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 43.9 | 28.9 | 15.0 |

* **as of March 15, 2012.**

**Project Objective.** The development objective of the Modernizing Agricultural Knowledge and Information Systems (MAKIS) project is to help Romania comply with the agricultural *acquis communautaire* and to help the agrifood sector take advantage of the benefits and opportunities arising from EU membership.

**Key Expected Results and Current Achievements:**

The primary beneficiaries are small- and middle-sized farmers with the potential to become commercial.
The project impact would be measured in terms of:

- better implementation of the inspection control measures in food safety matters;
- increased access to and adoption of improved farm practices, marketing, and post-harvest technologies;
- effective provision of EU agricultural supports funds (CAP payments).

The intermediary results of the project demonstrate steady progress towards achieving most project targets. For example:

- three Border Inspection Posts have been constructed and equipped in accordance with EU specifications to assure the safeguarding of the European Food Safety Standards at Romania's external EU borders;
- regional laboratories for food safety have been established;
- investments in phyto-sanitary units throughout the country to improve implementation of food safety controls;
- significant reform in the structure and governance of agricultural research;
- agricultural research institutions were transformed into National Research Institutes, they are now internationally recognized and successfully competing on the European market. The institutes are also generating substantial revenue through third-party funding;
- fundamental reform of the Agricultural Research Law, to include improved research sector oversight and coordination, and the provision of core-funding for public good elements generated by these institutes;
- 1.3 million farmers and rural entrepreneurs have been provided with effective knowledge and advisory service, particularly in the area of EU common Agricultural Policy requirements.

The main project activities still to be implemented are the rehabilitation/construction works at the research institutes supported under the project and procurement of equipment for four agricultural research institutes.

**Project contribution to the CPS outcome indicators**

The project contributes to the objectives of promoting knowledge-based economic growth, building institutional capacity to meet EU requirements and address the competitive challenges faced by the agricultural sector, and providing opportunities for farmers and agro-processors to access European markets.

**Donor coordination, if any**

The project has provided highly relevant assistance to Romania for complying with its EU agricultural accession and membership obligations and the absorption of EU rural funds. Further, assistance to the Paying Agency (APIA) is being provided in response to deficiencies in the management of EU CAP funds identified by the European Commission.

## ROMANIA INTEGRATED NUTRIENT POLLUTION CONTROL PROJECT

**Approved:** October 30, 2007
**Effective:** December 8, 2008
**Closing:** December 31, 2013

**Financing in million EUR:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 50 |
| IBRD Loan US$ | 68.1 |
| Government of Romania | 1.1 |
| Beneficiaries | 5.06 |
| GEF Grant | 5.5 |
| **Total Project Cost** | **81.6** |

**World Bank Disbursements, million US$ *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 68.1 | 9.8 | 58.3 |

* **as of March 15, 2012.**


Romanian agriculture is dominated by individual and household farms, around 4 million agricultural holdings of less than 1 ha to 2,000 ha. Few households have controls to prevent direct seepage of effluents into the soil and groundwater. Small- and medium-size farms typically do not take into account environmental impacts, and there is a lack of awareness to comply with the Nitrates Directive, which requires compliance in order to qualify for farm subsidy payments in Nitrate Vulnerable Zones (NVZ). The combination of underdeveloped sanitation, poor livestock management, and a large number of small farms results in significant nitrate and microbial contamination of shallow groundwater.

**Project Objective.** The Integrated Nutrition Pollution Control loan and associated Global Environment Facility (GEF) grant will help Romania meet the EU Nitrates Directive requirements by reducing pollution discharge into bodies of water and strengthening institutional and regulatory capacity. The overall development objective is to support the Government of Romania to meet the EU Nitrates Directive requirements by reducing nutrient discharges into water bodies, promoting behavioral change at the communal level, and strengthening institutional and regulatory capacity. The global environment objective of project is to reduce over the long-term, the discharge of nutrients into water bodies leading to the Danube River and Black Sea through integrated land and water management.

**Key Expected Results and Current Achievements:**

The proposed interventions will build on the successes of a pilot activity in Calarasi County, and help to implement priority actions identified in the Black Sea-Danube Strategic Partnership Nutrient Reduction Investment Fund, the Danube River Strategic Action Plan, and the Danube River Basin Pollution Reduction Program supported by the GEF.

The project's key outcomes include:

- At least 80 percent of targeted NVZs show a 10 percent reduction in nutrient discharge in water bodies.
- Around 50 percent of the population in the project area adopting preventative and remedial measures to reduce nutrient discharges.
- Improved inter-governmental coordination and capacity to assess, monitor, and report on progress with implementation of the EU Nitrates Directive.

The project will finance investments in handling the animal waste, in more than 70 NVZs; investments in wastewater in 10-12 NVZs, as well as public awareness campaigns and activities for promotion of good agricultural practices in order to reach farmers with more practical and replicable approaches – e.g. the nutrient management plans at farm level. It will also test/demonstrate the feasibility of biogas/energy co-generation from manure/organic household waste.

**Project contribution to the CPS outcome indicators**:

The project is directly linked with Pillar 2, Growth and Competitiveness of CPS through its support to EU convergence goals through more efficient agriculture, and for meeting EU climate change targets.

**Donor coordination, if any:** The nitrates reduction investments were identified as an urgent priority by the Ministry of Environment and Forests (MEF) and were highlighted in an MoU between the Prime Minister, the Ministry of Public Finance, and the MEF as a high priority for IBRD funds. The GEF has also cleared eligibility of a concept for approximately US$5.5 million under the Danube Black Sea Strategic Partnership to provide incremental support for nutrient control measures under the proposed project.

## COMPLEMENTING EU SUPPORT FOR AGRICULTURAL RESTRUCTURING PROJECT

**Approved :** November 27, 2007
**Effective:** March 9, 2009
**Restructured:** March 9, 2011 (level 2)
**Closing:** June 30, 2013

**Financing in million EUR:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 43.4 |
| IBRD Loan US$ | 59.1 |
| Government of Romania | 3.7 |
| **Total Project Cost** | **47.1** |

**World Bank Disbursements, million US$ *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 59.1 | 7.4 | 51.7 |

* **as of March 15, 2012.**
***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***

**Project Objective:** The objective of the Complementing EU Support for Agricultural Restructuring (CESAR) Project is to facilitate market-based farm restructuring by enhancing the ability of farmers, farm family members, and farm workers to manage their assets and income. Under this overarching objective, the CESAR project helps Romania in completing the property title registration of land assets in rural areas to improve the security of land property rights and reduce transaction costs on rural land markets. Equally important, the project assists the Romanian government in improving the delivery of guidance services that enable the agricultural population to more sustainably manage its income and assets and thus contribute to the absorption of available national and EU support programs.

**Key Expected Results and Current Achievements:**

Project impact will be measured in terms of:

- Improvement of property rights security through implementation of systematic survey and registration of properties in selected rural localities;
- Enhanced functioning of rural land markets;
- More effective provision of socio-economic guidance services to the agricultural population, enabling it to make informed decisions about income opportunities and asset transfers and to access national and EU CAP support programs.

The project was restructured in March 2011to revise the project targets, cancel an amount of EUR 4.3 million, and revise the Socio-Economic Guidance Component to follow up on implementation of recommendations emerging from the Functional Review of Ministry of Agriculture and Rural Development undertaken in 2010.

## MINE CLOSURE, ENVIRONMENTAL AND SOCIOECONOMIC REGENERATION PROJECT

**Approved:** December 16, 2004
**Effective:** June 27, 2005
**Restructuring:** May 6, 2010 (level 2)
**Closing:** May 30, 2012(R)

**Financing in million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 88.9 |
| Government of Romania | 29.5 |
| **Total Project Cost** | **117.4** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 88.9 | 74.3 | 14.6 |

* **as of March 15, 2012.**

***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***

The communist policy of economic self-sufficiency since the 1950s created an excess of mines opened in Romania without consideration of viability or environmental concerns. By the late 1990s, many of these mines had become a major drain on resources, but bringing the production to a halt was expected to produce significant adverse environmental and social consequences. In 2004, a new Mining Sector Strategy was approved to transform the mining industry according to EU standards. One of the objectives required a considerable downsizing of the mining sector. Since closures and downsizing threatened both the health and the livelihoods of people in surrounding communities, the Mine Closure, Environmental and Socioeconomic Regeneration Project was designed to ensure that these could be done in a socially and environmentally sustainable way.

**Project Objective:** The development objective of the project was to strengthen the Government's ability to undertake mining sector reform. The Project has two components: The Mine Closure and Environment component aims to: (i) complete the closure and rehabilitation of mine sites where production is terminated and thereby reduce environmental impacts and the environmental legacy of the mining sector in line with accession requirements for EU, and return former mine land to other social and economic purposes; and (ii) improve the mining sector environmental performance. The Socio-Economic Regeneration component is designed to: (i) scale up the job creation measures implemented under the first loan; (ii) support local development activities through community capacity building and financing of economic infrastructure and social services; and (iii) strengthen the Borrower's capacity to implement the socio-economic regeneration program.

**Key Expected Results and Current Achievements:**

As of October 31, 2011, under the socioeconomic regeneration component, the following has been achieved: (i) over 7,666 jobs created, (ii) 187 localities supported to develop local economic development plans, (iii) 522 small grants schemes and 189 social development schemes for mining communities successfully implemented; (iv) 21 municipal infrastructure projects completed; (v) 56 percent of local public authorities from the operating area have issued strategic development plans in a participatory manner; (vi) 62.1 percent of assisted communities in the operating area are funding the priorities identified in the strategic plans, by accessing national, and EU programs; and (vii) an average 79 percent increase in the local budget revenues in the operating area after the mining companies stopped contributing to local budgets as a result of mine closure.

The following has been achieved under the mine closure component: (i) the mine closure manual and technical norms and regulations for the closure works were revised to enable closure implementation according to EU and international best practices; (ii) 26 mines and mining enterprises have been permanently closed in an environmentally and technically sound manner; and (iii) 467 hectares of land previously under mining company usage has been rehabilitated and transformed for public or private use in localities. In addition, 658 people have received training and capacity building in International Federation of Consulting Engineers conditions of contract management, and environmentally sound mine closures.

**Key Partners:** The Ministry of Economy, Trade, and Business Environment (MEC) has overall responsibility for implementing the strategy.

## ROMANIA - KNOWLEDGE ECONOMY PROJECT

**Approved :** November 29, 2005
**Effective:** January 25, 2006
**Restructured:** June 25, 2010 (level 2)
**Closing:** February 28, 2013 (R)

**Financing from all co-financiers, million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD | 60.00 |
| Government of Romania | 0.00 |
| Total Project Cost | **60.00** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 60.00 | 35.4 | 24.6 |

*** as of March 15, 2012.**
***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***

The Government of Romania has launched an ambitious program advancing an information society and fulfilling the requirements of e-Europe+. The focus of the program is to facilitate Romania's progression towards a knowledge-based economy and to work towards bridging the country's digital divide with EU countries.

**Project Objective** is to accelerate the participation of knowledge-disadvantaged communities in the knowledge-based society and economy in Romania.

The Project Components addressed a range of interconnected sector issues through (i) Access to ICT in Disadvantaged Communities and Improved Digital Literacy; (ii) Development and Promotion of e-Government Services; and (iii) Promotion of e-Commerce and Innovation Support for Micro-, Small- and Medium-Size Enterprises (MSMEs).

**Key Expected Results and Current Achievements:**

- *The first stage towards meeting the project objective (Access) was achieved*: ICT access was provided to people in about 44 percent of most knowledge-disadvantaged communities in Romania. Thus 255 local community electronic networks (LCeNs) were established in 208 communes and 47 small cities, covering about 1.8 million people. Selection of communities was done through a competitive and transparent selection procedure, built on community ownership commitments.
- *Activities planned under the last two project stages (Use – Benefits) are in different status of implementation and preparation.* Significant progress has been achieved in increasing the benefits for communities by leveraging access to information provided by the LCeNs with provision of technical assistance. Thus, communities have been supported to prepare and submit local development projects for financing from EU structural funds. 741 projects have been prepared, of which 430 were declared eligible by the EU structural funds' Managing Authorities with a total value of EUR 175 million. The project is also contributing to enhancing secondary education through the integration of ICT into the classroom: 93 percent of the schools in the 255 communities now have Internet access; have enhanced their certified digital skills (4,476 students); and ICT policy in education has been approved and digital competence is required in the draft new education law as a key competence for students. The e-community portal launched in 2009 has progressively developed content (number of users increased to 9,000). The project also provided matching grants (of about US$1.2 million) to 41 firms to implement e-business solutions in their organizations. Project activities have started for the implementation of the G2C e-government service for the online registration of the civil status information.

**Key Partners:** Ministry of Communication and Information Society, which is responsible for overall project implementation, the Ministry of Education, Research, Youth and Sports and the Ministry of Administration and Interior, 255 Local Public Administrations, the European Commission.

## JUDICIAL REFORM PROJECT

**Approved:** December 15, 2005
**Effective:** May 26, 2006
**Restructured :** October 6, 2010 (level 2)
**Closing:** March 31, 2013 (R)

**Financing in million US Dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 130.00 |
| Government of Romania | 41.86 |
| **Total Project Cost** | **171.86** |

**World Bank Disbursements, million US$ *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 130 | 48.6 | 81.4 |

*** as of March 15, 2012.**
***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***

Institutional reforms, similar to economic reforms, have accelerated since 2000 after a slow start early in the transition period. When the Romanian government embarked on an ambitious economic development program to enhance economic growth, reduce poverty, and integrate smoothly into the European Union, it was evident that sustained progress in growth and investment also requires institutional reforms. A weak judicial system, poor accountability, and widespread perception of corruption were seen as liabilities to business and therefore to private sector investment and growth.

**Project Objective.** The project's development objectives are: (i) improvement of judicial efficiency and transparency; (ii) upgrading of court infrastructure and automation; and (iii) institutional building for the main judicial governing bodies, all with the purpose to improve accountability of the judiciary and address corruption concerns.

**Key Expected Results and Current Achievements:**

In order to reach the goals of *efficiency* and *accountability,* the following areas require support under the project:

- Rehabilitation of at least 15 court houses in line with international standards;
- Improvement of judicial efficiency in pilot courts through a program of case delay reduction
- Implementation of a Resource Management System (RMS) for the judiciary, to assist the Ministry of Justice (MoJ) strengthen its overall administrative oversight of the courts and the financial management of the sector;
- Institution building for the main judicial governing bodies (e.g. Superior Council of Magistrates, High Court of Cassation and Justice and Ministry of Justice).

To date:

- Ten contracts for rehabilitation of judicial buildings are completed, four contracts are on-going in Pitesti, Tulcea, Iasi, Sibiu, and one in Oradea is under procurement.
- All four new codes – Civil, Criminal, Civil Procedure, and Criminal Procedure codes – have been adopted by the Parliament; and TA for impact assessment of their implementation was provided to MoJ. Most technical assistance assignments are completed. Two assignments added in 2010: Strengthening the Insolvency mechanism in Romania, and Information System for Audio Recording of Courts Proceedings, are on track. The Bank has conducted an evaluation of the legal and institutional framework for creditor-debtor regimes and insolvency system.
- Objective and merit-based tests are in place for all new magistrates recruitments; new teaching techniques including e-learning and distance learning systems are being used for training the magistrates and court clerks.

**Project contribution to the CPS outcome indicators:**

The project contributes to CPS Pillar 1 – Public Sector Reform. Its policy reform agenda mirrors the Government's priorities outlined in the Strategy for the Development of Justice as a Public Service 2010-2014[5] and responds to the EU's Cooperation and Verification Mechanism benchmarks[6]. The project will also help with the four new codes.

[5] The document "Strategy for the Development of Justice as a Public Service 2010-2014" (April 2010) identifies the successful completion of this project as one of the important goals of the Government.

[6] When Romania joined the European Union in January 2007, a Co-operation and Verification Mechanism (CVM) was set up by the EC to help the new Member State engage in far reaching judicial reform sand the fight against corruption.

## MUNICIPAL SERVICES PROJECT

**Approved :** July 13, 2006
**Effective:** May 31, 2007
**Closing**: June 30, 2011; March 31, 2012 (R) (only for part I Bucharest Municipality)

**Financing in million US dollars:**

| *Financier* | *Financing* |
|---|---|
| IBRD Loan | 131.7 |
| Beneficiaries (Municipality of Bucharest/Municipality of Arad) | 38.9 |
| **Total Project Cost** | **170.6** |

**World Bank Disbursements, million US Dollars *:**

| | *Total* | *Disbursed* | *Undisbursed* |
|---|---|---|---|
| IBRD | 131.7 | 131.7 | - |

*** as of March 15, 2012.**
***Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.***




As an EU member, the Romanian Government has adopted the relevant environmental protection legislation–specifically its water and wastewater directives. The investment costs to meet the EU directives for water and wastewater services are estimated at EUR 5.6 billion and EUR 9.5 billion respectively (by end-2018). These costs stem from the need for investments to increase the coverage of piped water supply, develop sewerage networks, and build wastewater treatment plants.

**Project Objective:** The Municipal Services Project was designed to assist Romania in meeting EU environmental directives in the water and wastewater sector, thereby improving the quality and coverage of water and wastewater services.

**Key Expected Results and Current Achievements:**

The project's objective will be met through:

- Tthe support of infrastructure development in the municipalities of Bucharest and Arad to improve water and wastewater service and storm water management; and
- Preparation of priority water and wastewater projects in 10 counties. The proposed projects will be submitted for financing by EU Structural and Cohesion grants along with other co-financing.

In 2006 at the time of project approval, about 20 percent of the 2.2 million residents in Bucharest did not have piped water supply and relied on water from wells, with quality standards far below those set in EU legislation. The project included investment to extend water supply coverage to those areas of the city using groundwater and not connected with sewerage, and using low-quality septic tanks (increasing the risk of contamination of groundwater). The closing date for this component in Bucharest was extended from June 30, 2011 until March 31, 2012 to enable the Municipality to complete the remaining civil works.

In Arad, a city with a population of 190,000, about 90 percent of the citizens in the project areas did not have access to sewerage networks. The project supported the development and expansion of the sewerage network. It also provided investments in storm water drainage to reduce flooding in both cities.

The project also aimed at supporting Romania's efforts to meet its commitment to the EU through the identification and full preparation of a pipeline of priority water and wastewater investments for financing by EU Structural Funds.

**Project contribution to the CPS outcome indicators:** The Project is directly linked with Pillar 2, Growth and Competitiveness of CPS through its support to EU convergence goals through more efficient water infrastructure, and absorption of EU funds.

**Donor coordination, if any:** The component for preparation of priority investments in 10 counties is coordinated, by the main client (the Ministry of Environment), with JASPERS and the European Commission (DG Regio).

## ROMANIA: FUNCTIONAL REVIEWS (PHASE 1)

**Key Dates**

**Start of FBS Program: March 2010**
**Completion Date: March 2011**

**The objective** of the FBS was to help the Government of Romania (GOR) to develop a series of medium-term action plans to strengthen the effectiveness and efficiency of public administration in the six key sectors or functions that supported Romania's implementation of the Europe 2020 Strategy. In its Memorandum of Understanding with the GOR in June 2009, the European Commission (EC) expressed the aim of seeing Romania undertake structural reforms that were to be identified with assistance from the World Bank through functional reviews (FRs) of public administration. The EC envisioned 12 functional reviews in two stages. This FBS represented the first of the two stages, and it included the following six sectors: transport, education, agriculture and rural development, public finance, center of government, and the Competition Council.

**To achieve this objective,** the program considered the following priority areas:

- Analyzing sector practices and constraints with respect to strategic and performance management, organizational structure and governance, budget management, human resource management, and other internal management systems and practices that were relevant in order to understand the primary barriers to performance in each sector/function.
- Conducting the work in a collaborative manner to ensure the proposed action plans took into account the strategic priorities of the ministry and the relevant political economy concerns.

**Results:** The prime minister of Romania hosted and moderated an inter-ministerial conference in October 2010, at which the relevant ministers, World Bank experts, the EC, and the IMF discussed key recommendations and next steps. By December 2010, the government had approved reform action plans based on the FRs, which included timelines, estimated resource needs, and levels of priority. The actions plans were submitted to the EC, and the GOR recently agreed to report quarterly to the EC on implementation progress.

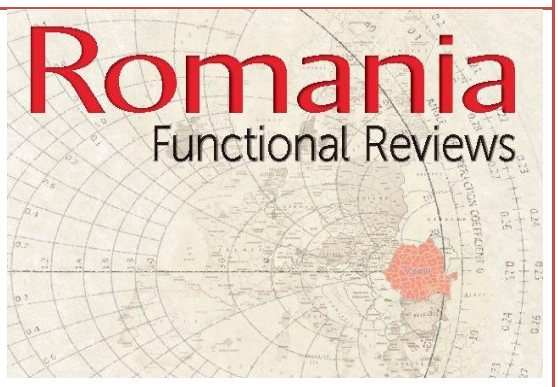
**Impact:** Each of the ministries and agencies has submitted requests for technical assistance to help them implement key elements of their action plans. The GOR's Letter of Intent to the IMF, as part of the Stand-By Agreement, included reform actions that were inspired by the FRs. A few specific actions have already been taken in the sectors, including: (i) the General Secretariat of the government has begun to prepare an annual work plan to reflect legislative priorities and will launch a project to improve capacity to monitor implementation of government-wide reform activities; (ii) the Ministry of Education has revised the per capita education formula and advanced the methodologies for implementation of the new education law; (iii) the Ministry of Finance is preparing a project to modernize tax administration as a means to reduce the compliance burden on taxpayers and increase tax yields; (iv) the Ministry of Transport is requesting technical assistance to improve the strategic planning capacity of the sector and the governance of state companies; and (v) the Ministry of Agriculture has obtained financing to improve performance monitoring across its network of programs.

**Key Partners:** Romania's General Secretariat of the Government (GSG) was the primary partner for the Bank and coordinated the functional reviews on behalf of the government and in collaboration with the EC's Secretariat General (SG). In each sector, the relevant minister provided his or her own leadership team to offer day-to-day assistance to the Bank. There was also close collaboration between the Bank and the EC, especially those Directorate Generals that had specific policy expertise in a given sector (e.g., DG Regio for issues on transport, DG Competition for competition policy, etc.)

**ROMANIA: FUNCTIONAL REVIEWS (PHASE 2)**

**Key Dates**

**Start of FBS Program: November 2010**
**Completion Date: July 2011**




**The objective** of the FBS was to help the Government of Romania (GOR) to develop a series of medium-term action plans to strengthen the effectiveness and efficiency of public administration in the six key sectors or functions that supported Romania's implementation of the Europe 2020 Strategy. In its Memorandum of Understanding with the GOR in June 2009, the European Commission (EC) expressed the aim of seeing Romania undertake structural reforms that were to be identified with assistance from the World Bank through functional reviews (FRs) of public administration. The EC envisioned 12 functional reviews in two stages. This FBS represented the second of the two stages and it included the following six sectors: health, labor and social protection, regional development and tourism, environment and forestry, energy and business environment, and higher education, research and innovation.

**To achieve this objective,** the program considered the following priority areas:

- Analyzing sector practices and constraints with respect to strategic and performance management, organizational structure and governance, budget management, human resource management, and other internal management systems and practices that were relevant in order to understand the primary barriers to performance in each sector/function
- Conducting the work in a collaborative manner to ensure that the proposed action plans took into account the strategic priorities of the ministry and the relevant political economy concerns

**Results.** The government approved the reform action plans based on the FRs, which included timelines, estimated resource needs, and levels of priority. The actions plans were submitted to the EC, and the GOR recently agreed to report quarterly to the EC on implementation progress. Some ministries have begun to seek technical assistance to address some of the barriers to the absorption of European Union (EU) structural funds that were identified in the FRs. Recommendations from the FR for energy have been used in the government's Stand-by Agreement with the IMF.

**Impact.** A few specific actions have already been taken in the sectors. For example, the GOR resumed the implementation of energy reform, which had stalled in 2007. The GOR and electricity suppliers worked toward a solution to clear CFR Railways arrears, leading to an improved cash flow for electricity distributors and the elimination of penalties for the railway company. In addition, institutions administering social assistance (SA) were restructured, which improved their capacity to design better targeted SA programs and to fight against error, fraud, and corruption in the safety nets sector. The Ministry of Health is revising the basic package of health services so as to exclude goods and services that are not cost efficient, and is moving forward on the reduction of hospital beds. Finally, the Ministry of Regional Development is requesting technical assistance to help improve the absorption of EU funds.

**Key Partners.** Romania's General Secretariat of the Government (GSG) was the primary partner for the Bank and coordinated the functional reviews on behalf of the government and in collaboration with the EC's Secretariat General (SG). In each sector, the relevant minister provided his or her own leadership team to offer day-to-day assistance to the Bank. There was also close collaboration between the Bank and the EC, especially those Directorate Generals that had specific policy expertise in a given sector (e.g., DG Regio for issues on regional development, DG Environment for environmental policy, etc.).

**Annex on AAA Synopsis**

**Analytical and Advisory Work (AAA) complements Bank lending**

- In 1995-2002, the Bank's AAA focused on core diagnostics related to transition to the market economy, restructuring, and privatization of the financial and enterprise sectors.
- Later, the AAA has diversified its functions to due diligence for the Bank (*macro-monitoring, poverty profiling and monitoring, CPARs,* etc), development of policy options and advice for the Government (in sectors including *education, social protection, energy, transport*).
- In 2005, the AAA program provided inputs to lending or serving as a platform for dialogue with the (new) Government.
- AAA work was particularly useful in the pre-accession period (2006-2007). At that time Romania was interested in the Bank helping identify the next generation of policies and issues that would be important in the future, such as the *Challenges of EU Accession in Romanian and the* Policy Note *Implementation of Regional Development and Integration with Other EU Operational Programs*.
- Under the CPS 2009-2013, the AAA program is complementing the DPL series, helping the Government design and implement specific reforms. A *Public Expenditures Review* focused on identifying opportunities for budget savings and efficiency gains in major expenditures categories of the public budget, including education, health, transport and agriculture. Later, a *PER update* (FY09) focused on improving budget formulation and execution. In addition a *Financial Sector Assessment* (FY09) *and a Financial Sector TA* contributed toward meeting the mid-term CPS milestones in the Financial Sector.
- In 2010, Romania participated in the *regional Diagnostic Review on Consumer Protection and Financial Literacy*. The work was carried out closely with the EC.
- In March 2010, the Bank signed the first Fee Based Service agreement with Romania for a series of *Functional Reviews for 12 ministries* or sectors of the Romanian administrations, financed jointly from EU Structural Funds and Government funds, and supporting reforms for improved fiscal sustainability and operability in line with the EC requirements.
- The FY11 AAA included, in addition to the Functional Reviews, the *Fiscal Decentralization and Tax Administration TA* that would feed into a new operation to help authorities establish more effective revenue administration procedures; one *TA to the Health and Education ministries* to support the design of specific DPL reforms (introduction of a co-payment system with exemptions for the poor; a reform of education financing in primary and secondary education and, at tertiary level, the introduction of a Student loans scheme); TA for development of a *Student Loan Scheme*; a newly added *Accounting and Audit Strengthening TA, and a series of policy Notes on Growth and Competitiveness*.
- The Phase 1 of the FBS Functional Reviews was completed in November 2010 (reports discussed and accepted by the Government). FBS Phase 2 Functional Reviews (Environment & Forestry, Ministry of Economy & Energy, Health, Labor and Social Protection, Regional Development, Higher Education & Research and Development) is completed.
- For FY12, in addition to the *series of FBS TAs on the Modernization of the Administration* program, the following activities are planned: the continuation of the *Policy Notes on Growth and Competitiveness, Citizens Scorecard/Social Accountability* ESW, and *Climate Change TA*.

**Annex Mapping Country Needs and World Bank Program**