World Bank - Romania Partnership

Program Snapshot

September 2012
RECENT ECONOMIC DEVELOPMENTS

Growth and External Performance

Prudent macroeconomic management has enabled Romania to reduce its imbalances and gradually recovery economically from the global financial crisis. Since late 2008, Romania has had to cope with persistent economic difficulties, exacerbated by the protracted economic turmoil in the European Union (EU). In 2011, the implementation of a bold package of macrostabilization and structural measures, supported by a multilateral program with the International Monetary Fund (IMF), the European Commission (EC), and the World Bank, began to yield results. Romania experienced a modest economic recovery of 2.5 percent in that year, led by exports and a good agricultural harvest. Inflation eased to 2.9 percent at the end of 2011, down from 6.1 percent in December 2010, driven by a tight monetary policy stance, a disciplined fiscal approach (see below), and a restrictive wage strategy in the public sector. The crisis led to a sharp curtailment of the current account deficit, which narrowed from 11.6 percent of GDP in 2008 to 4.4 percent in 2011. Unemployment has remained relatively constant for the past three years at around 7.2 percent of the labor force.

Economic activity will continue to be subdued in 2012, and will likely remain so over the medium term. GDP growth is expected to slow to 0.9 percent in 2012, due to the weak external demand that is in turn due to the recurrent recession throughout the eurozone, diminished consumer and business confidence, and continued low inflows of capital, in particular, the low absorption of EU funds (less than 10 percent of the 2007–13 available envelope was drawn as of August 2012). The severe and unrelenting drought will shrink this year’s agricultural output. Foreign direct investment (FDI) remains very weak, unlikely to exceed 1 percent of GDP in 2012. Productivity gains and increased investment, including from a gradual improvement in the absorption of EU structural and cohesion funds, will contribute to a pickup in economic growth, to an estimated 2.5 percent in 2013, and 3–3.5 percent over the medium term.

In spite of these challenges, inflation and the current account deficit are expected to remain under control. Headline inflation picked up in August 2012 to 3.9 percent year on year as the favorable base effects on food prices receded. Inflationary pressures are expected to increase due to the pass-through of the recent depreciation of the leu triggered by the political crisis, rising domestic and international food prices, and the planned increases in administrative tariffs, mainly for gas and electricity. Nevertheless, a disciplined macroeconomic policy should ensure that headline inflation does not exceed 4.5 percent at end-2012. Given the sizable output gap, inflation should abate to below 3.5 percent by end-2013. The current account deficit should stabilize at around 4.0–4.5 percent of GDP during 2012–13, as net capital inflows remain low and domestic demand sluggish.

The economic outlook entails significant downside risks, particularly in the short run. A deep or protracted recession in the eurozone will undermine Romania’s growth prospects, and a financial crisis would have a major negative impact on its exports, currency, and banking sector, leading to significant financing difficulties. The ongoing precautionary programs with the IMF, the EC, and the World Bank (the €1 billion deferred policy loan [DPL] development drawdown option [DDO] program) partly mitigates some of these risks. Nevertheless, a protracted political instability associated with the forthcoming December 2012 general elections and subsequent difficulties in forming a solid government may hamper economic policy making and delay or derail the implementation of the program with the international financial institutions (IFIs). The precautionary program with the IMF and the EC expires in April 2013, but the Government is likely to request a successor two-year program with the IMF. Discussions on the content of this program are expected to start in November 2012.

Fiscal Performance

Romania has embarked on a significant fiscal adjustment since 2009 and the Government is determined to exercise continued expenditure restraint in 2012 and 2013. The general government deficit (European System of Accounts [ESA] terms) has been brought down from 9 percent of GDP in 2009 to 5.2 percent in 2011, and it is targeted to reach 3 percent of GDP in 2012, as committed under the EU Excessive Deficit Procedure (EDP). This was achieved through strict expenditure containment, including cuts in public sector wages and pensions, and the adoption of revenue-enhancing measures, particularly an increase in value added tax (VAT) from 19 to 24 percent in 2010. The dynamics of the structural fiscal balance (cash basis) illustrate the boldness of the fiscal adjustment package pursued by the Government; it declined from 7.5 percent of GDP in 2008 to an anticipated 0.9 percent in 2012. The fiscal deficit target (cash basis) has been set at 2.2 percent of GDP in 2012 and the Government seems determined to meet it. To protect against possible adverse developments, the Government has frozen 10 percent of state budget allocations this year. Further fiscal consolidation is envisaged for 2013, when the Government targets a consolidated deficit of 2.0 percent of GDP. Under the EU Fiscal Compact, Romania has set a medium-term objective of 0.7 percent of GDP for the structural fiscal deficit.
Financial Sector

Despite increasing strains, the Romanian banking sector maintains significant buffers to deal with pressures and mitigate risks. Driven by the weak economic environment, depreciation of the leu, and limited ability of the banks to write them off, nonperforming loans (NPLs) increased to 16.8 percent in June 2012, from 14 percent at end-2011. However, the capitalization of the banking sector remained strong at 14.7 percent at end-June, albeit with differences between banks, reflecting continued shareholder support and retained earnings. All banks except one have a capital ratio above the regulatory minimum of 10 percent. Greek banks continue to exhibit capital buffers exceeding the system average, owing to capital injections from parent banks. The introduction of International Financial Reporting Standards (IFRS) provisioning in early 2012 has gone smoothly, and the maintenance of a prudential filter and proactive bank supervision has ensured that a prudent provisioning regime remains in place.

The authorities have introduced several regulatory and legislative changes that aim to safeguard financial stability and strengthen crisis management arrangements and contingency planning. The National Bank of Romania (NBR) adopted measures in 2011 to restrict foreign currency lending to unhedged household borrowers; it has also continued to closely oversee bank practices to avoid ever-greening to ensure that IFRS loan-loss provisioning and collateral valuations, as well as the assessment of the credit risk of restructured loans, remain prudent and in line with good international practices. In June 2012, the fiscal code was amended to ensure a neutral tax treatment of bank receivables sold to Romanian firms in order to enable banks to improve their balance sheet management. In January 2012, amendments to the bank resolution legislation were adopted that introduced bridge bank and other resolution powers for dealing with failing banks. The NBR, Deposit Guarantee Fund (DGF), and Ministry of Public Finance (MOPF) continue to coordinate the implementation of operational preparedness plans.

Structural Reform Agenda

The crisis prompted long-needed reforms. The financial difficulties gave rise to a series of reforms, with support from 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 on Stability, Coordination and Governance in the Economic Monetary Union. 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 procedures with the development priorities of the country and the public policy framework, and result in a more efficient allocation of public resources. National fiscal planning should adopt a multiannual perspective, so as to attain the medium-term objective of balance across the general government, with a limit of a structural deficit of up to 1 percent of the GDP. The numerical fiscal rules assumed under the medium-

Table 1. Key Economic Indicators Source: IMF, August 2012

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<th>2008</th>
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<th>2010</th>
<th>2011</th>
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<tr>
<td>Real GDP growth (%)</td>
<td>7.3</td>
<td>-6.6</td>
<td>-1.6</td>
<td>2.5</td>
<td>0.9</td>
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<tr>
<td>Domestic demand (%)</td>
<td>8.3</td>
<td>-13.5</td>
<td>-1.6</td>
<td>3.2</td>
<td>0.6</td>
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<tr>
<td>Consumer price index (% average)</td>
<td>7.8</td>
<td>5.6</td>
<td>6.1</td>
<td>5.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Fiscal balance (% of GDP)</td>
<td>-4.8</td>
<td>-7.4</td>
<td>-6.4</td>
<td>-4.1</td>
<td>-2.2</td>
</tr>
<tr>
<td>Structural fiscal balance (% of GDP)</td>
<td>-7.5</td>
<td>-6.8</td>
<td>-4.9</td>
<td>-3.0</td>
<td>-0.9</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-11.6</td>
<td>-4.2</td>
<td>-4.4</td>
<td>-4.4</td>
<td>-3.7</td>
</tr>
<tr>
<td>Foreign direct investment balance (% of GDP)</td>
<td>6.7</td>
<td>3.0</td>
<td>1.8</td>
<td>1.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Gross external debt (% of GDP)</td>
<td>51.8</td>
<td>68.6</td>
<td>74.5</td>
<td>72.1</td>
<td>70.2</td>
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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, or SOEs) carries significant risks for Romania’s fiscal stability, energy security, and economic growth. The 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 precrisis 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 the Romanian Energy Regulatory Authority (ANRE)—and power or gas producers are required to supply the energy at regulated prices.

There are risks to fiscal stability due to losses of potential revenue and arrears, risks to energy security and economic growth caused by interruptions in supply, and risks to fair competition from the 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 enhanced governance and contracting practices; legislative and regulatory measures to improve competition to attract private investment and align the energy sector with the EU’s energy acquis; improved heating services and containment of household heating and and municipal budget costs; 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.

Romania spends less than 5 percent of GDP on health care, 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 health care, much is wasted on inefficient and unnecessary services or treatments. Moreover, the current health care system is heavily biased towards inpatient hospital care. The lack of an appropriate Health Technology Assessment for new drugs and medical devices has produced a health care system that is also biased towards high-cost technology.

The reforms continue the 2009–11 agenda 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 copayments, rationalizes hospital infrastructure, regulates the introduction of new drugs and technologies, and reviews the basic benefit package reimbursed by the public health insurance system.

**RECENT SECTORAL DEVELOPMENTS**

**Sustainable Development**

(i) Agriculture

Agriculture plays an important role in Romania because of the size of the rural population and as a source of 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 remains underdeveloped. Despite the highest proportion of rural population (45 percent) in the EU, Romania has the highest incidence of rural poverty (over 70 percent), the largest gap in living and social standards between rural and urban areas, and one of the lowest rates of agricultural competitiveness. Although almost 30 percent of employment is in agriculture (compared to some 2 percent in the EU15 and 3–4 percent in the EU8), Romania imports an increasing proportion of its food needs.

Average yields are half those in the EU27. Less than optimal production factors led to low average yields in Romanian farming, at only half those in the EU27 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 EU27. Agricultural production in Romania is also vulnerable to natural calamities and the country’s current inability to effectively prevent and contain animal diseases.

Transforming agriculture and ensuring the delivery of public goods to rural areas are, therefore, critical for Romania. Despite EU financial support, the considerable agricultural potential remains insufficiently tapped. Additional national actions are thus vital for Romania’s ability to both benefit from EU membership and address its key sectoral shortcomings.

Removing constraints to competitiveness is a key priority. Important 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 the quality of services provided to beneficiaries of the EU Common Agriculture Policy, and enhancing the capacity to monitor and enforce food safety and quality standards. Improvement of the quality of life in rural space is an overarching goal that involves the 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 the competitiveness of farmers and agro-processors through improved advisory services to modernize agricultural research and improve food safety, in line with EU requirements; and the Complementing EU Support for Agricultural Restructuring (CESAR) Project to support the implementation of land tenure and titling reform, thus enabling better absorption of EU funds. The Irrigation Rehabilitation and Reform (IRR) Project to support an increase in agricultural productivity and sector reform closed at end-FY12.

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 the Ministry of Agriculture and Rural Development (MARD)by streamlining its decision making and honing its 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 €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’s Low Carbon Roadmap to build a competitive low-carbon Europe by 2050, Romania needs to: (i) thoroughly analyze the opportunities, options, and related costs over 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 developing a comparative advantage in this nascent industry. Another Romania’s key commitments 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 and Integrated Nutrient Pollution Control—that directly support the environmental sector in Romania through investments in environmentally friendly mine closures. This will assist Romania in meeting EU environmental directives by financing its water, wastewater, and waste management infrastructure, and also provide institutional support to the Ministry of Environment.

At the request of the Government, the Bank in June 2011 completed a functional review of the environment, water, and forestry sector. This 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 was previously directed toward the rehabilitation of Romania’s infrastructure. While most Bank financing went to investment in 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 to improve the efficiency of the sectors. Often the Bank’s rationale for involvement was to facilitate sector restructuring to promote competition and private sector investment by involvement in the rehabilitation of the railway, petroleum, telecommunications, and power supply sectors, as well as the electricity market.

Human Development

(i) Health

Romania has made notable improvements in the health of its population, but challenges remain and additional efforts are required. 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. For example, 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 has increased, but the quality of and results from the health care system are 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 a lack of investment, leading to deteriorating health facilities, a disgruntled workforce, and public dissatisfaction with the health system.

Romania’s health infrastructure still suffers from fragmentation, inefficiency, and poor regulation. The current facilities providers in primary health care are characterized by small private businesses, abundant low-, mid-, and high-level hospitals, and few facilities for specialized outpatient services/secondary ambulatory care (diagnosis and treatment). Bank 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 APLs and DPL series.

New reforms should build on those already completed. These include hospital rationalization, streamlined provider payment mechanisms, and the recently approved copayment law. New efforts can be effectively: (i) reducing arrears, eliminating waste by using generic drugs, and bringing additional resources into the system through reviewing the legal framework for hospital accreditation in connection with 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 that aims 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 due partly 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 the levels currently found in most European countries. To this end, the content of education in schools needs to be better aligned with the requirements of a knowledge-based economy; the quality of the teaching and 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 the 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 promoted key reforms on per capita financing to increase the system’s efficiency and effectiveness. 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 recent efforts include the development of new curriculum and application guidelines for inclusive early childhood education, associated teacher training, and 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 information and communications technology (ICT) in the teaching-learning practices at the classroom level, thereby improving students’ skills and knowledge.

At the tertiary level, technical assistance was provided to introduce a student loan scheme in Romania, which is expected to be implemented in the future. The Functional Review on the Pre-university Education Sector and 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 in specific action plans from the Ministry of Education. 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 curricula; new systems for professional development; evaluation and assessment efforts; preuniversity financing in the decentralization context; classification of universities; a new approach to university management; a focus on lifelong learning, and so on. 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) tackling implementation challenges related to the comprehensive National Education Law, with particular attention to aligning education services at the preuniversity and tertiary levels to labor market requirements; (ii) increasing the capacity of the Ministry of Education to focus on its core business, and enhancing operational efficiency and accountability within 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 declined dramatically, 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, postcrisis, and other unrelated reasons. These include (i) persistently high unemployment levels despite the decline 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 lei per month. Second, the social assistance programs that have been reduced are those with a low targeting performance affecting mostly middle- and upper-income households. Key measures have included reducing the child care allowance by 15 percent, revising the eligibility rules for family allowances, and removing the package (trusou) and allowance for newborn babies. However, 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; retraining the labor force; reforming the pension system; improving the 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 a gradual increase in the retirement age and introduced a new point-value benefit formula based on contributions. As a result, the burden of the public pension system on public finances was reduced (at least 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, the Romania Antipoverty and Social Inclusion Commission has improved its ability to evaluate poverty status. 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 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. Although 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, further results would require that secondary legislation and regulations be developed based on careful analyses; service delivery systems be strengthened; activation policies developed and implemented; and error and fraud reduced.

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 specified in a series of 20 disbursement-linked indicators (as opposed to financing project inputs), and 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 to ensure that the share of social assistance funds going to the poorest quintile is increased; (iii) enhancing administrative efficiency to reduce the administrative and client participation costs of means-tested programs; and (iv) reducing error and fraud to 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 in such areas as: structure, personnel, budgeting, and organization.

**Public Sector Reform**

(i) Reform of Public Administration

Functional Reviews of public administration in Romania were completed in June 2011. The Functional Reviews (FRs) were operational, and managerial assessments of 12 ministries, agencies, and other public bodies were conducted by the Bank in two stages starting in March 2010. The reviews were agreed to in a memorandum of understanding (MoU) signed in June 2009 between the Government of Romania and the EC, and were financed out of EU structural funds. The Bank was requested to support the modernization of public administration. The aim of the FRs was to provide the basis for a series of action plans, in light the Government’s intention to use the reports in developing its medium-term reform agenda. The process will result in the strengthened effectiveness and efficiency of 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 during its communist period 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 had made considerable progress since then in developing institutions compatible with a market economy. However, the country continued to lag 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.

**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 to reduce the dominant role of the state in the economy (e.g., transport, energy, communication) and consolidate the 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 small and medium enterprises (SMEs) are subject and the number of procedures and days involved 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 latter’s General Secretariat.

- **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 and enforcement of accountability for performance.

**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, the IBRD committed US$8.954 billion through 60 projects. Bank lending after 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 and EU convergence (public finances, public administration, financial sector, judiciary, education,
health, social assistance, social security, mobilization of EU funds) and alleviation of the economic and financial crisis, FY11–13. The lending program was complemented by US$41 million in grant financing.

A change in Government priorities has reshaped the use of Bank instruments during last three fiscal years. Through FY05–08, policy-based lending represented 11 percent in new Bank approvals, and investment operations the remaining 89 percent. Through FY10–13, policy-based lending represented 79 percent of the new approvals, including a large DDO DPI representing a fiscal buffer to the Government equivalent to four months of budget financing. The remaining 21 percent represent a results-based operation to support Government reforms in the social assistance sector. An important new development of Bank assistance is the increased emphasis on knowledge sharing via an evolving package of fee-based technical assistance programs that support EU convergence reforms in public administration.

The ongoing FY13 Bank Portfolio consists of 10 lending projects and seven pieces of analytical and advisory work. The share of investment lending projects in the Portfolio is declining sharply and the Bank program of analytical and advisory (AAA) work is growing. As of September 2012, the net undisbursed commitment of the active portfolio was US$2.129 billion, of which undisbursed specific investment loans (SILs) total US$298 million. The Portfolio also includes one cofinancing Global Environment Facility for nutrients pollution control, one Prototype Carbon Funds, one Japanese grant for policy making for people with disabilities, and one Institutional Development Fund (IDF) grant for the monitoring and evaluation (M&E) of policy making. The Bank analytical work program includes a Country Economic Memorandum (CEM) shared as a sequence of thematic Policy Notes on long-run fiscal sustainability, increasing the competitiveness of the business environment, and reforming the labor markets and the infrastructure sector for competitive growth; the modernization of public administration (judicial system, public investment framework, competition); and a Citizens Report Card on social accountability.

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 the National Reform Programme (NRP) will be critical for Romania to achieve greater convergence with EU member states. Reforms in health, education, the 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 state-owned enterprises (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 providing opportunities for Roma while overcoming prejudice and stigma. The set of Policy Notes on Growth and Competitiveness (CEM) provides a framework to orient policy dialogue concerning challenges to EU convergence, and to propel Romania’s growth and competitiveness.

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

As mentioned above, over the past year and a half, the Bank has carried out FRs of 12 public institutions in Romania. 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, Preuniversity Education, Agriculture and Rural Development, Public Finance, 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 under the EU-financed Modernization of Romanian Public Administration Program (see below). The Government has also approved the action plans derived from the second phase of the FRs’ recommendations and submitted them to the EC.

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 M&E 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 FRs’ recommendations, currently 16 projects under a MAP package that have provisionally been agreed upon. The Bank has also received a request for similar assistance in the justice sector (this TA has been signed and implementation has begun), 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 the signing of the MAP activities in order to start implementation.

The Bank has been asked to provide technical assistance for facilitating the 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 Government, through its Ministry of Economic 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. On this matter, a MoU between the Government and the Bank was signed on January 26, 2012, and covers priority areas of intervention.

Efforts have also been made to strengthen 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: the prioritization and coordination of reform initiatives that are fully incorporated into the NRP and the Government Program, and the 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. Subnational activities, access to financial markets via guarantees, and areas of national responsibility (i.e., education, health, justice) for which structural funds are not typically allocated could be explored.

The IFC is investing in Romania on a selective basis. The IFC has withdrawn from sectors and business lines where the private sector is ready to take over; however, the 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. The 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 Government’s request, Bank resources, Romania’s performance, and global economic developments. The Government has expressed interest in a new budget support operation (DPL) 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 estimates)**

<table>
<thead>
<tr>
<th>Project</th>
<th>Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY2011 (approved)</strong></td>
<td></td>
</tr>
<tr>
<td>DPL.2 (disbursed)</td>
<td>€300 (US$426)</td>
</tr>
<tr>
<td>Social Assist System Mod Project</td>
<td>€300 (US$426)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>€600 (US$852)</td>
</tr>
<tr>
<td><strong>FY2012</strong></td>
<td></td>
</tr>
<tr>
<td>DPL.3 (disbursed)</td>
<td>€400 (US$560)</td>
</tr>
<tr>
<td>DPL DDO</td>
<td>€1000 (US$1333)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>€1400 (US$1893)</td>
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<tr>
<td><strong>FY2013 (tentative)</strong></td>
<td></td>
</tr>
<tr>
<td>Tax Admin</td>
<td>€76 (US$100)</td>
</tr>
<tr>
<td>Health</td>
<td>€250 (US$344)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>€326 (US$444)</td>
</tr>
</tbody>
</table>

**INTERNATIONAL FINANCE CORPORATION**

The IFC has invested a total of US$1.37 billion in 52 projects, supporting roughly US$3.3 billion in investment, since the start of its operations in Romania. The 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 Central and Eastern Europe (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. The IFC has played an active crisis-response role in Romania. From FY09 to FY12, the 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.

**The IFC is targeting commitments of approximately US$160 million in FY12, not including mobilization.** While vulnerabilities from the eurozone crisis and global economic downturn persist, the IFC will continue to play a counter-cyclical 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 the 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 six projects, including US$93 million mobilized from partners.** Commitments in the financial sector included a trade finance line with Bancpost, and 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. The IFC also mobilized a US$57 million B loan to support Medlife, a leading private sector provider of health care services and long-term IFC client, and provided a US$67 million senior loan to Lidl, a discount grocery chain with strong linkages to Romanian suppliers. In the agribusiness sector, the IFC provided US$16 million in senior debt to Agricover Credit IFN, a nonbank financial institution, to finance the investment and working capital needs of farmers.

The IFC has implemented 25 Advisory Services projects in Romania since 1990 in a variety of sectors. The IFC currently has no active advisory programs in Romania, but is developing a possible public-private partnership (PPP) advisory project in the health care sector.

**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 Colțea Clinical Hospital and those provided by Raiffeisen Bank for enlarging loan operations for SMEs. MIGA’s outstanding guarantee portfolio in Romania consists of three contracts in the financial sector. At the end of FY10, the agency’s gross exposure in Romania was about US$102 million (equivalent to 1.4 percent of MIGA’s gross exposure), while the exposure net of reinsurance amounted to roughly 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.
## ROMANIA: HEALTH SECTOR REFORM APL 2 PROJECT

<table>
<thead>
<tr>
<th>Approved: December 16, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective: June 27, 2005</td>
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<tr>
<td>Restructured: February 16, 2011 (level 2)</td>
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<tr>
<td>Closing: December 31, 2011 (R)</td>
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</table>

**Financing in million US Dollars:**

<table>
<thead>
<tr>
<th>Financier</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan</td>
<td>80</td>
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<tr>
<td>Government of Romania</td>
<td>44.77</td>
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<tr>
<td>Co-financier: EIB</td>
<td>81.72</td>
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</table>

**Total Project Cost:** 206.49

### World Bank Disbursements, million US Dollars *

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>80</td>
<td>70</td>
<td>10</td>
</tr>
</tbody>
</table>

* as of June 30, 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 the implementation of 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 was a healthy Romania, with lower morbidity and fewer premature deaths, equitable access to health services, and an improved and more efficient health care system. The objectives of the project were 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) provide support for the preparation of a primary health care strategy.

### Key Expected Results and Current Achievements:

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

- In the area of mother and child care, the project supported the procurement and delivery of medical equipment for the entire network of maternity clinics, 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 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. The 24-hour death rate among the patients treated in the in-take rooms and then admitted to the ICU also decreased, from 5.78 to 3.67 percent.

Due to a revision of the technical designs, there were delays in the implementation of the construction work on the rehabilitation of the 22 maternity clinics included in the project. A project restructuring was completed in February 2011 to add technical assistance (TA) activities to the APL2, support the implementation of the National Strategy for Hospitals and sanitary System Rationalization, and extend the closing date. The Government has committed to finalize the health project investment program by the extended closing date.
ROMANIA: SOCIAL ASSISTANCE SYSTEM MODERNIZATION

Approved: May 26, 2011
Effective: Expected by October 2011
Closing: September 30, 2014
Financing in million US Dollars:

<table>
<thead>
<tr>
<th>Financier</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan</td>
<td>710.4</td>
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<tr>
<td>Government of Romania</td>
<td>0</td>
</tr>
<tr>
<td>Co-financier:</td>
<td>0</td>
</tr>
</tbody>
</table>

Total Project Cost: 710.4

World Bank Disbursements, million US Dollars:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>710.4</td>
<td>192.2</td>
<td>447.8</td>
</tr>
</tbody>
</table>

* as of June 30, 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 to improve 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 according to 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 will increase 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 anticipated during 2011. An assessment of the Disbursement Linked Indicators (DLIs) was made, one of which (dissemination of the action plan pertaining to the reform strategy) has already been met; five others are assessed as being on track for achievement in 2011. This schedule is in line with the project's original assumptions. Work has begun on the Terms of Reference for key elements of the TA agenda that will underpin some of the more complex reform efforts, as well as an accompanying communications strategy. This TA will be financed from the Social Inclusion Project.

Project contribution to the Country Partnership Strategy (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 to Pillar 3, Social and Spatial Inclusion.
In the preaccession years, Romania took a significant number of actions to facilitate a smooth integration into the EU. 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 EC 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 social inclusion of the most disadvantaged and vulnerable people in Romania by: (i) improving the 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:**

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

The project is highly relevant in all respects. Although the disbursement is quite low (14.6 percent of loan funds), 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), and access to social services has increased from the establishment of community centers of social interest. The construction and rehabilitation of kindergartens (currently underway) in 19 selected Roma communities 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 subprojects 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 their completion. 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) and its closing date extended to March 2013.
ROMANIA: MODERNIZING AGRICULTURAL KNOWLEDGE AND INFORMATION SYSTEMS

PROJECT

Approved: November 16, 2004
Effective: June 24, 2005
Restructuring: September 14, 2010 (level 1)
Closing: September 30, 2011(R)

Financing in million EUR:

<table>
<thead>
<tr>
<th>Financier</th>
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</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan €</td>
<td>40.6</td>
</tr>
<tr>
<td>Government of Romania</td>
<td>18.2</td>
</tr>
</tbody>
</table>

Total Project Cost € 58.8

World Bank Disbursements, million US Dollars *:

<table>
<thead>
<tr>
<th></th>
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<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>40.6</td>
<td>29</td>
<td>11.6</td>
</tr>
</tbody>
</table>

* as of June 30, 2012.

Project Objective. The development objective of the Modernizing Agricultural Knowledge and Information Systems (MAKIS) project was 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 were small- and middle-sized farmers with the potential to become commercial. The project impact was measured in terms of:

- better implementation of inspection control measures in food safety matters;
- increased access to and adoption of improved farm practices, marketing, and post-harvest technologies;

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

- three Border Inspection Posts were 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 were established;
- investments were made in phytosanitary units throughout the country to improve the implementation of food safety controls;
- significant reform was undertaken in the structure and governance of agricultural research;
- agricultural research institutions were transformed into National Research Institutes, which 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 was made to include improved research sector oversight and coordination, and core-funding for public good elements generated by these institutes was established;
- 1.3 million farmers and rural entrepreneurs were provided with effective knowledge and advisory services, particularly in the area of EU CAP requirements.

The main project activities still to be implemented are the rehabilitation/construction works at the research institutes supported under the project.

Project contribution to the CPS outcome indicators:

The project contributed 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:

The project provided highly relevant assistance to Romania to comply with its EU agricultural accession and membership obligations and the absorption of EU rural funds. Further, assistance to the Paying Agency (APIA) was provided in response to deficiencies in the management of EU CAP funds identified by the EC.


**Romania: Integrated Nutrient Pollution Control Project**

- **Approved:** October 30, 2007
- **Effective:** December 8, 2008
- **Closing:** December 31, 2013
- **Financing in million EUR:**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
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<td>50</td>
</tr>
<tr>
<td>Government of Romania</td>
<td>1.1</td>
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<tr>
<td>Beneficiaries</td>
<td>5.06</td>
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<tr>
<td>GEF Grant</td>
<td>5.5</td>
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<tr>
<td><strong>Total Project Cost</strong></td>
<td>81.6</td>
</tr>
</tbody>
</table>

**World Bank Disbursements, million EUR:**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Disbursed</th>
<th>Undisbursed</th>
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</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>50</td>
<td>15.3</td>
<td>34.7</td>
</tr>
</tbody>
</table>

*as of June 30, 2012.

Romanian agriculture is dominated by individual and household farms, around 4 million agricultural holdings of fewer than 1–2,000 hectares. 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 awareness is still low of potential alternatives to comply with the Nitrates Directive, required to qualify for farm subsidy payments in Nitrate Vulnerable Zones (NVZ). The combination of underdeveloped sanitation, poor livestock management, and the 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 to meet the EU Nitrates Directive requirements by reducing pollution discharge into bodies of water and strengthening institutional and regulatory capacity. The overall development objective of the project is to support the Government of Romania to meet the EU directive requirements by reducing nutrient discharges into water bodies, promoting behavioral change at the community level, and strengthening institutional and regulatory capacity. The global environment objective of the Integrated Nutrient Pollution Control 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 showing 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 animal waste in more than 70 NVZs; investments in wastewater in 10–12 NVZs, and public awareness campaigns and activities for the promotion of good agricultural practices in order to reach farmers with more practical and replicable approaches—for example, the nutrient management plans at farm level. It will also test/demonstrate the feasibility of biogas/energy cogeneration from manure/organic household waste.

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

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

**Donor coordination:** The nitrates reduction investments were identified as an urgent priority by the Ministry of Environment and Forests (MEF) and were highlighted in a Memorandum of Understanding 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.
**ROMANIA: 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:**

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</thead>
<tbody>
<tr>
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<tr>
<td>Government of Romania</td>
<td>3.7</td>
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Total Project Cost: 47.1 million EUR

**World Bank Disbursements, million EUR *:**

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<tr>
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</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>39</td>
<td>5.3</td>
<td>33.7</td>
</tr>
</tbody>
</table>

* as of June 30, 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 to complete the property title registration of land assets in rural areas in order 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:

- improved property rights security;
- enhanced functioning of rural land markets;
- more effective provision of socioeconomic guidance services to the agricultural population, enabling it to take informed decisions about income opportunities and asset transfers and to access national and EU CAP support programs.

The project was restructured in March 2011, focusing on the revision of project targets, the partial cancellation of €4.3 million, and revision of the Socio-Economic Guidance Component to follow up on the implementation of recommendations emerging from the recent Functional Review of the Ministry of Agriculture and Rural Development.

The project is making progress towards achieving the development objective. The contracts for the pilot systematic registration in 19 locations have been signed and teams are now in the field working with residents to survey their properties and collect ownership documents. Contracts with socioeconomic guidance providers were signed for 11 of the project counties. Current commitments amount to 13 percent of the loan proceeds.
ROMANIA: MINE CLOSURE, ENVIRONMENTAL AND SOCIOECONOMIC REGENERATION PROJECT

Approved: December 16, 2004
Effective: June 27, 2005
Restructuring: May 6, 2010 (level 2)
Closing: November 30, 2011
Financing in million US Dollars:

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World Bank Disbursements, million US Dollars *:

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<tbody>
<tr>
<td>IBRD</td>
<td>89</td>
<td>77.2</td>
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* as of June 30, 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 halting the production 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 had two components: The Mine Closure and Environment component aimed to: (i) complete the closure and rehabilitation of mine sites where production was terminated and thereby reduce environmental impacts and the environmental legacy of the mining sector in line with EU accession requirements and return former mine land to other social and economic purposes; and (ii) improve the mining sector’s environmental performance. The Socio-Economic Regeneration (SER) component was designed to: (i) scale up the job creation measures implemented under the first loan; (ii) support local development activities through community capacity building and the financing of economic infrastructure and social services; and (iii) strengthen the borrower’s capacity to implement the socioeconomic regeneration program.

Key Expected Results and Current Achievements:

As of June 30, 2011, the following had been achieved under the socioeconomic regeneration component: (i) over 7,666 jobs had been created, (ii) 187 localities had been supported to develop local economic development plans, (iii) 425 small grants schemes and 181 social development schemes for mining communities had been successfully implemented; (iv) 17 municipal infrastructure projects had been completed with an additional six under implementation; (v) 56 percent of local public authorities (LPAs) from the operating area had issued strategic development plans in a participatory manner; (vi) 62.1 percent of assisted communities in the operating area were funding the priorities identified in the strategic plans (by accessing national, EU, etc., programs); and (vii) there had been an average 79 percent increase in own revenues of the local budgets in the operating area after the mining companies stopped contributing to local budgets as a result of mine closure. As of June 30, 2011, the following had been achieved through the mine closure component: (i) the mine closure manual and technical norms and regulations for the closure works had been revised to enable closure implementation according to EU and international best practices; (ii) 10 mines and mining enterprises had been permanently closed in an environmentally and technically sound manner; and (iii) 467 hectares of land previously under mining company usage had been rehabilitated and transformed for public or private use in localities. In addition, under this component 602 persons have received training and capacity building in International Federation of Consulting Engineers (FIDIC) conditions of contract management and environmentally sound mine closure.

Key Partners. The Ministry of Economy, Trade, and Business Environment (MEC) had overall responsibility for implementing the strategy.
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.** The aim is to accelerate the participation of knowledge-disadvantaged communities in the knowledge-based society and economy in Romania.

The project components address 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 roughly 44 percent of the most knowledge-disadvantaged communities in Romania. Thus 255 local community electronic networks (LCeNs) were established in 208 rural communities 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 the provision of technical assistance. Thus, communities have been supported in preparing and submitting local development projects for financing from EU structural funds. Fully 741 projects have been prepared, of which 430 were declared eligible by the EU structural funds’ Managing Authorities with a total value of €175 million. The project is also contributing to enhancing secondary education through the integration of ICT into the classroom: 93 percent of schools in the 255 communities now have access to the Internet; 29 percent of teachers have enhanced their certified digital skills (approximately 1,948 teachers); 39 percent of students have enhanced their certified digital skills (4,476 students); and ICT policy in education has been approved and digital competence is now required in the new draft education law as a key competence for students. The e-community portal launched in 2009 has progressively developed content (the number of users has 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 on implementation of the G2C e-government service for the online registration of 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; the Ministry of Administration and Interior; 255 local public administrations; and the European Commission.
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.

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 reforms and the fight against corruption.

**ROMANIA: JUDICIAL REFORM PROJECT**

**Approved:** December 15, 2005  
**Effective:** May 26, 2006  
**Restructured:** October 6, 2010 (level 2)  
**Closing:** March 31, 2013  
**Financing in million US Dollars:**

<table>
<thead>
<tr>
<th>Financier</th>
<th>Financing</th>
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<tbody>
<tr>
<td>IBRD Loan</td>
<td>130</td>
</tr>
<tr>
<td>Government of Romania</td>
<td>41.86</td>
</tr>
<tr>
<td><strong>Total Project Cost</strong></td>
<td><strong>171.86</strong></td>
</tr>
</tbody>
</table>

**World Bank Disbursements, million Euro:**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
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<tbody>
<tr>
<td>IBRD</td>
<td>110</td>
<td>42</td>
<td>68</td>
</tr>
</tbody>
</table>

* as of June 30, 2012.  
*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Institutional reforms, as with 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 EU, it was evident that sustained progress in growth and investment also required institutional reforms. A weak judicial system, poor accountability, and the 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) institution building for the main judicial governing bodies, all with the purpose of improving the accountability of the judiciary and addressing 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 for the judiciary, to assist the Ministry of Justice (MoJ) in strengthening 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 MoJ);
- Finalization of four court buildings, and ongoing rehabilitation work (or procurement) on an additional 16;
- Adoption of all four new codes—civil, criminal, civil procedure, and criminal procedure codes—by the parliament, and TA for an impact assessment of their implementation for the MoJ;
- Development of objective and merit-based tests for all new magistrate recruitments, as well as new teaching techniques, including e-learning and distance learning systems 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 and responds to the EU’s Cooperation and Verification Mechanism benchmarks. The project will also help in the preparation of the enforcement of the four new codes.

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1 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.

2 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 reforms and the fight against corruption.
Key Dates

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

The fee-based service (FBS) objective was to help the Government of Romania (GOVERNMENT) strengthen public administration effectiveness and efficiency in six sectors supporting Romania’s Europe 2020 Strategy. Romania sought to develop sector structural reforms with assistance from the Bank through function reviews (FRs) of public administration. Twelve FRs were undertaken in two stages. This FBS represented the first of the two stages, and 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 reviews:

- Analyzed 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 relevant for performance improvement in each sector/function
- Developed specific, pragmatic recommendations for improvement that were expected to yield short- to medium-term results, as well as identify longer-term reform measures
- Conducted the work as a joint exercise with government and sector counterparts to ensure the proposed action plans had higher ownership and took into account the strategic priorities of the ministry and the relevant political economy concerns

Results. By mobilizing substantive international and local experts to work intensively with the sector ministries, the Bank helped Government to initiate reforms within each of the six sectors and to identify cross-cutting challenges in public administration. Based on the reviews, sectoral action plans were approved by Government and submitted to the EC; the Government recently agreed to report quarterly to the EC on implementation progress. Some specific measures from the action plans have already been taken in the sectors (see below for details). Each of the ministries and agencies has submitted requests for technical assistance to help implement action plans, demonstrating a clear move toward implementation and results.

Impact. The prime minister of Romania hosted an inter-ministerial conference in October 2010 that included relevant ministers, World Bank experts, the EC, and the IMF, to discuss key FR findings and next steps. By December 2010, the government approved FR reform action plans, including timelines, estimated costs, and priority actions. The Government submitted the actions plans to the EC, and will report quarterly on implementation. Some FR reform actions have been picked up under the IMF-Government Stand-By Agreement. A few specific sectoral measures have already been taken: (i) the General Secretariat of the Government (GSG) has begun annual government work plans to improve coordination and a project to monitor government-wide reform implementation; (ii) the Ministry of Education revised the per capita education formula and advanced implementation of the new education law; (iii) the Ministry of Finance is preparing a tax administration modernization project to reduce the compliance burden and increase tax yields; (iv) the Ministry of Transport is requesting technical assistance to improve sector strategic planning and 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 GSG was the primary partner and coordinated on behalf of the Government and with the EC’s Secretariat General (SG). Each relevant sector minister provided a leadership team for day-to-day assistance to the Bank. Close collaboration between the Bank and the EC occurred, especially Directorate Generals with specific policy responsibility for a sector (e.g., DG Regio for transport issues, DG Competition for competition policy, etc.).
The objective was to help the Government strengthen public administration effectiveness and efficiency in six sectors supporting Romania’s Europe 2020 Strategy. Romania sought to develop sector structural reforms with assistance from the World Bank through FRs of public administration. Twelve FRs were undertaken 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 reviews:

- Analyzed 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 relevant for performance improvement in each sector/function
- Developed specific, pragmatic recommendations for improvement that were expected to yield short- to medium-term results, as well as identify longer-term reform measures
- Conducted the work as a joint exercise with government and sector counterparts to ensure the proposed action plans had higher ownership and took into account the strategic priorities of the ministry and the relevant political economy concerns

Results. By mobilizing substantive international and local experts to work intensively with the sector ministries, the Bank helped the Government to initiate reforms within each of the six sectors and to identify cross-cutting challenges in public administration. Based on the reviews, sectoral action plans were approved by the Government and submitted to the EC and the Government recently agreed to report quarterly to the EC on implementation progress. Recommendations from the FR for energy have been used in the government’s Stand-by Agreement with the IMF. Some specific measures have already been taken in the sectors as a result of the FRs (see below for details).

Impact. The Government resumed the implementation of energy reform, which had stalled in 2007. The Government 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 FRs 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 daily 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.).
# ROMANIA: IMPROVE THE NATIONAL FRAMEWORK FOR PREPARING AND IMPLEMENTING PUBLIC INVESTMENT PROJECTS

**Key Dates:**
- **Approved:** June 27, 2012
- **Duration:** 9 months
- **Value:** $0.97 M. (EUR 0.78 M.)
- **Invoices Paid:** $0.09 (EUR 0.07)

**Project Objectives:** The objective of the Advisory Services is to provide the Government with actionable proposals that would contribute to the absorption of structural funds by simplifying the bureaucratic procedures that broadly affect public investment. The Bank would draw on its previous work and conduct new research to recommend practical measures for improving the efficiency and effectiveness of the various stages for preparing and implementing a public investment project, focusing on national legislation for public investments and related requirements. The link with the procedures specifically related to the use of EU funds will be highlighted only if exemptions for these types of projects are foreseen in national legislation.

The project has five components: (i) assessment of the cross-cutting budgetary and legislative framework for public investment in Romania; (ii) evaluation of project-specific procedures that impact preparation and implementation; (iii) a case study description of the project cycle for selected projects; (iv) a comparison to other EU member states; and (v) recommendations for streamlining institutional interventions.

**Key Partners:** Ministry of European Affairs of Romania

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# ROMANIA: ASSISTANCE TO THE MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT FOR STRENGTHENING THE AGRI-FOOD SECTOR STRATEGY FORMULATION IN THE MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

**Key Dates:**
- **Approved:** July 3, 2012
- **Duration:** 20 months
- **Value:** 1.34 M. $ (RON 4.32M)
- **Invoices Paid:** 0

**Project Objectives:** The objective of the Advisory Services is to assist the Recipient in strengthening its administrative capacity with regard to the management of the public policy cycles of the agri-food sector. In particular, the Advisory Services will help strengthen the capacity of the Recipient to develop, implement, monitor, and evaluate public policies through: (i) developing a set of public policy documents pertaining to the Recipient’s mandate, and (ii) developing instruments, methods, and actions for their implementation, monitoring, and evaluation.

**Key Partners:** Ministry of Agriculture and Rural Development
**ROMANIA: ASSISTANCE TO THE MINISTRY OF JUSTICE TO ASSESS THE PERFORMANCE OF THE JUDICIAL SYSTEM**

**Key Dates:**
- **Approved:** February 17, 2012
- **Duration:** 9 months
- **Value:** $0.9 M. (EUR 0.7 M.)
- **Invoices Paid:** $0.09 (EUR 0.07)

**Project Objectives:** The objective of the Advisory Services is to: (i) analyze the functioning of Romania’s judicial institutions and (ii) provide analytical and advisory input to enable the recipient to formulate an action program to improve the performance of the judicial system.

In meeting this objective, the Bank will undertake, through the Advisory Services, to examine: (i) the functioning and organization of the judicial system and the efficiency of the management of the system’s institutions: the Ministry of Justice (the HCCJ), the Superior Council of Magistracy (the SCM) and its subordinate institutions—the National Institute of Magistracy (the NIM) and the National School of Clerks (the NSC), judicial inspection agencies, courts, and prosecutor's office; (ii) the distribution and management of human and financial resources in the judicial system; and (iii) the contribution of ICT to the performance of the judicial system.

**Key Partners:** Ministry of Justice, the Public Ministry, High Court of Cassation and Justice, the Superior Council of Magistracy, the National Institute of Magistracy, and the National School of Clerks

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**ROMANIA: ASSISTANCE TO THE MINISTRY OF TRANSPORT AND INFRASTRUCTURE TO STRENGTHEN STRATEGIC PLANNING IN THE TRANSPORT SECTOR**

**Key Dates:**
- **Approved:** March 19, 2012
- **Duration:** 24 months
- **Value:** $4.36 M.
- **Invoices Paid:** $0.37 (EUR 0.30)

**Project Objectives:** The objective of the Advisory Services is to assist the Recipient in: (i) strengthening strategic planning and transport sector governance; (ii) improving its capacity to evaluate road and railway infrastructure funding requirements, financing mechanisms, and cost-recovery options consistent with EU regulations; (iii) increasing the capacity to assess and monitor the effectiveness of road construction costs; and (iv) developing its capacity for the coordination and strategic planning of urban transport in the Bucharest metropolitan area.

**Key Partners:** Ministry of Transport and Infrastructure
ROMANIA: ASSISTANCE TO THE ROMANIAN COMPETITION COUNCIL

Key Dates:
Approved: June 4, 2012
Duration: 24 months
Value: $2.6 M. (EUR 1.96 M.)
Invoices Paid: $0.23 M (EUR 0.19 M.)

Project Objectives: The objective of the Advisory Services is to increase the effectiveness of competition policies in relation to sectoral policies. The FR of the Recipient highlighted the need for a whole-of-government approach to mainstream competition principles in Romania’s administrative agencies. The effective enforcement of competition policy requires the coordinated support of key policy agencies and regulators, as well as the enhancement of the capacity of the Recipient to perform its mission.

The project has four main components: (i) review of the legal and regulatory framework governing market competition; (ii) strengthening of the advocacy activities in the field of competition in public and governmental bodies; (iii) implementation of a new business architecture for the Recipient that promotes high quality and security by using ICT; and (iv) human resources capacity building.

Key Partners: Romanian Competition Council
Annex 1: 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 a market economy, and restructuring and privatization of the financial and enterprise sectors.
- The AAA has subsequently diversified its functions to due diligence for the Bank (macro-monitoring, poverty profiling and monitoring, Country Procurement Assessment Reports (CPARs), etc.), and the 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 preaccession period (2006–07). At that time, Romania was interested in the Bank helping to identify the next generation of critical policies and issues, such as the Challenges of EU Accession in Romania and the policy note Implementation of Regional Development and Integration with Other EU Operational Programs.
- Under the CPS 2009–13, 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 public budget expenditure categories, including education, health, transport, and agriculture. Later, a Public Expenditure Review (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 a 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 (FBS) agreement with Romania for a series of functional reviews (FRs) for 12 ministries or sectors involved with public administration in Romania, financed jointly from EU structural funds and Government funds, and supporting reforms for improved fiscal sustainability and operability in line with EC requirements.
- The FY11 AAA included, in addition to the FRs, 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 copayment 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 the development of a student loan scheme; a newly added Accounting and Audit Strengthening TA, and a series of policy notes on Growth and Competitiveness.
- Phase 1 of the FBS FRs was completed in November 2010 (reports were discussed and accepted by the Government). The FBS Phase 2 FRs (Environment and Forestry, Ministry of Economy and Energy, Health, Labor and Social Protection, Regional Development, Higher Education and Research and Development) is completed.
- For FY12–13, in addition to the series of FBS TAs on the modernization of the administration program, the following activities are planned: a Public Expenditure Framework Assessment, the continuation of the policy notes on Growth and Competitiveness, a Citizens Scorecard/Social Accountability, economic and sector work (ESW), and a Climate Change TA.

Evaluation of the World Bank operations in Romania after 1996